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Dear Giles

Offshore electricity transmission - second scoping document

energywatch welcomes the opportunity to respond to the issues raised in this document. This response is non-confidential and we are happy for it to be published on the Ofgem website.

Consumers expect that transmission networks will deliver safe, secure and reliable supplies of electricity in an efficient and economic manner. These expectations should be fulfilled whether the networks are located onshore or offshore. We believe that using an open competitive framework for connecting offshore generation to the onshore transmission grid, if effectively delivered, provides a real opportunity to enhance security of supply and keep costs low to end consumers, particularly the vulnerable. However, it will require the development of a fair, transparent, stable and coordinated regime, allowing all potential providers and operators to obtain equal and parallel access to the bidding process for offshore networks to ensure that it will operate successfully. This approach will also enhance the ability to develop and deliver sustainable energy markets to consumers.

We agree with Ofgem that there may be aspects of regulating offshore transmission which provide an opportunity to develop an effective regime which may mean that some of the characteristics of onshore transmission are not necessarily replicated offshore. However, this approach must not compromise the effectiveness of either regime or the interaction between them, and must limit the potential costs which could be passed through to end consumers. National Grid in particular, as the GB System Operator (GBSO), has a critical role in providing initial feasibility advice to prospective developers. It should also provide ongoing liaison with them and those transmission operators who have successfully bid for connections to ensure that there is efficient coordination between offshore and onshore grids as projects develop. This approach is required whether projects connect to the onshore transmission or distribution grids.

We agree that an open competitive tender process for offshore transmission connections will help to reduce costs to consumers. This must be run independently to provide arm's length scrutiny of bids and the adjudicating authority must be

sufficiently expert, operate under transparent rules, and must place the interests of consumers in an efficiently and economically run network at the heart of the assessment of bids.

Ofgem must ensure that there remains scope for regulatory action should an open and effective competitive process fail in any particular respect. We strongly believe that a degree of upfront user commitment will limit the number of speculative applications for offshore generation, enhancing security of supply and ensuring the efficient operation of coordinated networks, lowering costs to consumers. We believe that any incentives for connection providers must provide them with an appropriate risk/reward balance so that consumers do not pay over the odds for additional generation and connections. Adequate performance standards must be applied to providers to give comfort to consumers that those who deliver projects late are penalised and pay for any resulting adverse impacts on consumers from less reliable supply.

Transitional arrangements and adoption rules must provide regulatory certainty where offshore projects are already underway, avoiding the costs of inefficiency if an incompatible regime is adopted, as those costs will ultimately fall on consumers.

While we agree that charging and access principles may be translatable from onshore to offshore transmission, Ofgem must ensure that this results in consistency to avoid unnecessary costs falling on consumers, and that the best use is made of existing capacity. This approach limits the potential for building more capacity than necessary.

The security standards adopted for offshore transmission must ensure that safe, secure and reliable supplies to consumers are not adversely impacted. A coordinated approach is necessary involving all interested parties.

The use of licensing and existing industry codes to deliver competitive offshore transmission is a low cost approach to implementation but there need to be safeguards to prevent ill-coordinated impacts on the onshore regime. We await the details of proposed changes before commenting further.

Going forward, we will continue to keep these issues under review as and when they are raised, always considering the possible impact on consumers.

We would appreciate being kept informed of the progress of the consultation and any related issues to enable us to comment as the need arises.

If you do wish to discuss our response further please do not hesitate to contact me on 0191 2212072.

Yours sincerely

Carole Pitkeathley
Head of Regulatory Affairs