

Offshore electricity transmission – second scoping document

Feedback from NGET (GBSO)

April 2007

Summary

We welcome the opportunity to provide feedback on the second scoping document. This feedback is provided on behalf of National Grid Electricity Transmission plc (NGET) acting as onshore GB System Operator (GBSO) and designate GBSO for the offshore regime.

We believe that the Scoping Document provides a helpful indication of Ofgem's initial thoughts in a number of policy areas relating to the new arrangements that will be required for the offshore regime. The document also helps to clarify the approach Ofgem is currently considering in order to develop and implement the regime.

As designate GBSO for the offshore regime, there is a role for NGET to play in assisting to develop these new arrangements, and we look forward to working with Ofgem and the industry to achieve this. We also believe that there is work to do to ensure that the new offshore regime works appropriately with the existing onshore regime. Therefore we believe that a fourth policy principle should be added to the three highlighted in Chapter 1, namely to 'design a commercial framework to govern the ongoing operation of the offshore networks in conjunction with the onshore arrangements'. We believe that this additional principle should be applied to ensure that the regime that is implemented can be operated in an enduring manner that ensures the safe, economic and efficient operation of the overall GB transmission system. Enshrining this as a principle of the project now will minimise the risk that, post-implementation, unintended consequences could arise leading to sub-optimal operation of the overall GB transmission system.

In our response to the Ofgem/DTI consultation on TO licensing options, we highlighted our view that the common tender, non-exclusive approach would deliver the most competitive approach, but could also result in significant practical challenges. We believe that a significant amount of work will be required to overcome these challenges. This is necessary to ensure that the most efficient processes to facilitate the timely connection of offshore generation are developed.

In order to develop and implement the regime we agree that full industry engagement is essential to develop detailed proposals and processes for the offshore regime and its integration with the onshore regime. Given the interdependence of many of the issues that need to be considered, this engagement needs to be carefully managed in a structured manner. Given our role as offshore GBSO designate we have taken the opportunity, via this response, to set out some of the key questions to be answered and our proposals for how the work should be taken forward. We hope that these proposals are helpful.

We note the extremely challenging timescales associated with the development of the regime, and that there is considerable work required to deliver all of the intended policy options. In particular we note the intended publication of a Policy Document in

July 2007. It is our view that it may not be possible to develop all of the policy (at the necessary level of detail) required to implement the offshore regulatory regime by this time. Therefore, there needs to be the option to manage policy assumptions and possibly consult further on policy post July 2007.

We provide our comments on each of the chapters in turn below and for each area we put forward our views on how the work should be progressed with the industry in order to develop the policy required to create new processes for offshore and integrate into existing codes to deliver an enduring commercial framework. In a number of cases we propose the creation of industry groups to debate issues. We believe that this debate is required to develop the high level policy that has been outlined in the Scoping Document, and deliver mutually acceptable solutions to implement the policy. Experience on the project so far has demonstrated the value of industry meetings to tackle the challenges that the offshore project presents.

1. Introduction

The document highlights three key policy principles with which we broadly agree. The second principle could be expanded to indicate that the offshore processes will, as far as is practicable, utilise the documentation associated with the existing onshore regime. This would provide the mandate to go forward and review the existing suite of documentation associated with the onshore regime.

However, as indicated above, we believe that there is a 4th important principle that should be added, namely to ‘design a commercial framework to govern the ongoing operation of the offshore networks in conjunction with the onshore arrangements’. We believe that this additional principle should be applied to ensure that the regime that is implemented can be operated in an enduring manner that ensures the safe, economic and efficient operation of the overall GB transmission system. Enshrining this as a principle of the project now will minimise the risk that, post-implementation, unintended consequences could arise leading to sub-optimal operation of the overall GB transmission system.

2. Overview of the competitive transmission process

Please see our comments on chapter 3.

3. Connection application process

We believe that significant work is required to develop the offshore generator connection process to ensure that it is efficient, timely, and does not unduly discriminate either in favour of or against offshore generators. One area for consideration is the amount of information about applications that is in the public domain. Currently, onshore connection applications are only made public once an offer has been signed by the applicant. The publication of tendering information at the time of application of an offshore user will mean that information is in the public domain at a much earlier stage, and before the applicant has made any commitment.

The overall connection offer is likely to consist of offshore transmission works, onshore transmissions works, and depending upon the particular application, onshore

DNO works. All of these are inter-dependent and the most efficient sequencing of the work required to develop all of the separate activities will need to be developed.

Careful consideration needs to be given to the roles and responsibilities of different players, the amount of information that is available at each stage of the process, and how firm this information is. In particular it will be important to understand the timescales associated with the process, and the levels of contractual certainty that will be offered to the generator at each stage of the offer process.

Another area for consideration is how the overall connection design will be finalised to ensure that it is the most economic and efficient solution all round. For an offshore connection, it is likely that the GBSO, an offshore TO, possibly existing offshore TOs, at least one onshore TO, and potentially a DNO will be involved in assessing the impact of that connection application. It is also the case that during the early stages of the offer, the offshore TO will not yet have been identified. It is highly likely that there will be more than one design that could be used to connect and close working between all the impacted parties will be required. The present onshore process (when required) is for the TOs to co-ordinate with input from the GBSO and it will be necessary to assess whether this will be sufficient for the more complex arrangements offshore.

The co-ordination activities between the GBSO and TOs in dealing with a connection application are currently contained within the SO-TO Code (STC) and its procedures. It will be important to consider how DNOs are integrated into these processes when the connection is via a DNO network. (See our comments on Chapter 4 below).

We note the proposal to introduce application ‘windows’ to allow opportunities to realise efficiencies from combining offshore transmission infrastructure design or procurement across different generation projects. Whilst we recognise the potential benefits of this approach, we have questions about how it would work in practice. In particular we believe that this proposal could be discriminatory against potential offshore users as they would not be free to apply to connect to the transmission system at any time which is a fundamental right for potential onshore users. Additionally this approach may provide perverse incentives for potential onshore users to apply to connect at certain onshore connection points ahead of the window opening, to ensure that they secure transmission capacity ahead of any subsequent applications from potential offshore users.

We have been developing our thoughts about the detail of the offshore connection application process and currently have more questions than answers. We look forward to working with Ofgem and the industry in this area.

Way forward

In order to finalise the policy for the offshore connection application process we propose that a series of meetings/workshops are held to:

- develop the high level process that is described within the Scoping Document;
- understand the interaction with the tender process;

- understand the roles and obligations of all participants at different stages of the process;
- understand the requirements of the different participants at the different stages of the process; and
- deliver a robust recommendation for the connection application process.

4. Connection via distribution networks

We believe that this will be a particularly complex area to address as it involves extending processes currently used to manage SO/TO interfaces to include DNOs. We have been involved in work associated with this issue previously, and believe that the issues raised at that stage that require resolution are all still valid.

A major consideration will be the management of flows across the interface between the offshore network and the distribution network which will on occasions be constrained by restrictions within the distribution network. Furthermore the current arrangements for liaison between the DNO and GBSO will need to be amended to recognise the direct effect of distribution faults on the output of offshore generation and to allow liaison relating to outages etc.

A connection via a distribution network may only involve a very small section of DNO system, with effectively, the whole of the offshore generator's output spilling directly onto the onshore transmission system. This will exacerbate the current issue of 'exporting GSPs'. We note that this issue is currently being debated as part of the ongoing development of the GB regime, and it is important that the potential impact of the offshore regime is recognised.

One additional issue that will require consideration is how transitional issues for existing offshore generators that connect via distribution networks are managed. It is likely that existing generator connections to DNOs will need to be 'adopted' by the GBSO.

Way forward

In order to finalise the policy for dealing with connection via distribution networks we propose that a group of interested parties is established to:

- develop the high-level model that is described within the Scoping Document;
- assess any other models and determine the optimum solution;
- consider the contractual requirements to facilitate the preferred model;
- consider the operational requirements arising from connection via DNOs; and
- deliver a robust model to deal with offshore transmission systems connecting to distribution networks.

5. Design of tender process

We are pleased to note that Ofgem and the Government believe it would be inappropriate for the GBSO to run the tender process, but we are keen to understand and develop the detail of the role that we will undoubtedly need to undertake to support it.

It is important that the interfaces between the tender process and the connection application process are carefully designed to ensure the efficient flow of information from one to the other, and to ensure appropriate co-ordination.

One area for consideration is how much flexibility is allowed for in the tender i.e. will the tender be to simply connect point A to point B, or will it just be to connect a particular offshore generator to an unspecified location onshore? Clearly there is a trade-off between how prescriptive the tender is, and how much scope for innovation there is from the tendering TOs. If the tender does allow for multiple options to be provided by potential offshore TOs, then the outcome of the tender may well impact significantly on the onshore elements of the overall connection offer. We assume that the remit of an independent tender assessment panel will only extend to assessing the offshore TO bids, and (as highlighted in our comments on Chapter 3) there will need to be an overall assessment to ensure that the combined impact of offshore and onshore works is most efficient and it is not clear at this stage who would undertake this assessment.

Way forward

In order to finalise the policy for the tender process we propose that a series of meetings/workshops are held to:

- develop the high level process that is described within the Scoping Document;
- understand the interaction with the connection application process;
- understand the roles and obligations of all participants at different stages of the process;
- understand the requirements of the different participants at the different stages of the process; and
- deliver a robust recommendation for the tender process.

6. Design of regulatory regime

We note that the design of the regulatory regime will need to consider the arrangements for the GBSO. We are assuming that the current onshore arrangements will apply whereby the GBSO recovers costs from transmission system users on behalf of TOs. The TO then charges the GBSO in accordance with a charging methodology agreed by Ofgem. Consideration will need to be given to the commitment provided by different parties, for example who bears the risks of funding stranded assets?

A complex element of the BETTA development was the establishment of the licensing arrangements to deal with these cashflows to ensure that no party was exposed to an inappropriate level of risk. Similar consideration will need to be undertaken in the offshore project.

Way forward

It will be essential that the roles of the GBSO and all other players in the offshore regime are defined very clearly and precisely. We believe that the role of the TO needs to be set out as a matter of urgency such that the assessment of the policy in the

codes for the connection and operational processes can commence. We note that Ofgem proposes performance requirements for TOs and are keen to contribute to the debate associated with the development of these.

7. Interim arrangements

We note the importance of the adoption issue, and the uncertainty that is currently arising for the early developers.

We believe it is important that the enduring arrangements that are being developed apply to all users once they have been adopted. It may be necessary to develop transitional provisions in the codes to deal with existing networks or those in the design or construction phase at Go-active/Go-live. Similar types of arrangements were required for BETTA with the introduction of Section 12 in the CUSC and Section I in the STC.

8. Charging, access and compensation

Overall, for the Charging, access and compensation area, we note the amount of work that needs to be done ahead of the publication of the July document. We believe that, for this area, further policy consultations will be required after July 2007.

Transmission Charging

We are pleased to note that Ofgem considers NGET the most appropriate party to develop open and non-discriminatory charging methodologies that apply to the connection to, and use of, the resultant GB transmission system and the proposed connection of generation in offshore waters to the onshore grid.

We believe it is appropriate that the charging methodology for offshore users is consistent with the prevailing relevant objectives within the transmission licence.

The Statement of the Use of System Charging Methodology is the key document to be revised to establish offshore charging. We believe the established industry process of using regular forums, such as the Transmission Charging Methodology Forum (TCMF), and formal consultations is a suitable mechanism to gain industry consensus on the correct basis for establishing offshore charging arrangements.

In previous discussions about offshore charging arrangements, it had been assumed that the onshore charging methodology would already contain provisions for discounts to apply to charges to generators connecting via single circuits (the Design Variation discount). We note that the changes to introduce the design variation discount were vetoed by Ofgem, and NGET is currently considering the way forward in conjunction with the TCMF. It is now clear that these deliberations will need to progress in parallel with the consideration of the specific changes required for offshore.

In the case of generators connecting via DNOs, consideration will need to be given to how any charges levied on the GBSO by a DNO will be passed through to the appropriate party (there is an interaction here with the work described in chapter 4)

Way forward

We intend to progress the development of the offshore charging methodology via the TCMF.

Transmission Access

It is expected that the rights and obligations for offshore users will be described within the CUSC.

It is our view that a product similar to TEC may be appropriate for offshore users, although alternative supplementary products should be considered and that these products may be equally applicable onshore. We note Ofgem's suggestion that the existing governance processes should be used to develop access products for onshore and offshore users.

National Grid believes that full industry engagement through established forums and formal consultations is a possible way forward for developing offshore arrangements. We note the timescales of the established arrangements within the CUSC are inconsistent with the proposed programme within the scoping document. This way forward is appropriate on the assumption that the existing CUSC amendment arrangements are robust to an offshore network and we would be interested to understand Ofgem's views on this.

Arrangements to deal with the access rights associated with single circuit connections onshore already exist, however, since there are relatively few examples they are handled in bilateral agreements. If most or all offshore connections are to be achieved with single circuits it would be more appropriate to make the arrangements generic by codifying them.

Way forward

In order to finalise the policy for the offshore transmission access products we propose that a series of meetings/workshops are held to:

- review the appropriateness of the current onshore access products (both TEC and other short-term products);
- consider the access product that is appropriate given the proposals for the offshore security standards;
- consider specific offshore characteristics that may impact on the design of an offshore access product; and
- deliver recommendations for an appropriate offshore product.

Compensation

NGET notes the statement that, due to the expected lower security standards for offshore transmission, compensation will not be applicable. We agree that complementary arrangements for standards, charging, levels of access and compensation need to be developed.

Way forward

We believe that the issue of compensation should be considered alongside the consideration of the appropriate access product.

9. Technical rules

NGET, as GBSO, has already had a significant involvement in this area, via the GB SQSS subgroup and the Grid Code subgroup. We note that both of these subgroups have involved extensive detailed discussions between NGET and other industry stakeholders. These discussions have been constructive and have highlighted the amount of work that needs to be undertaken to properly review and propose amendments to complex industry documents.

We note that the Scoping Document proposes a review of sections C and D of the STC. We believe that the whole of the STC will need to be reviewed to assess its application to the offshore regime. One particular area that will need careful consideration is governance and change processes which are currently designed around the GBSO and onshore TOs. With the introduction of the offshore regime, and the potential for multiple offshore TOs, the appropriate levels of representation will need to be considered.

Way forward

We believe that the following actions are required to develop policy in the technical rules area:

- completion of the work of the Grid Code subgroup;
- Undertake a full review of each of the industry codes to assess their applicability to the offshore regime (this is mentioned briefly in Chapter 10).

10. Implementation issues

As indicated above, we believe that full reviews of each of the codes highlighted in Chapter 10 should be undertaken now. The Scoping Document proposes to identify the areas where changes to industry codes will be required in the Policy document in July. We look forward to working with Ofgem to engage with the industry to identify these changes in the period up to July 2007.

The Scoping Document identifies that there are likely to be a significant number of modifications to the standard conditions of the transmission licence to accommodate the extension of the GBSO role. We agree with this statement (see our comments on Chapter 6) and look forward to engaging with Ofgem in this area.

During the development of BETTA there was the concept of ‘Go-active’, namely the point at which the Secretary of State designated changes to licences and codes, and subsequently ‘Go-live’, when the new GB regime went live. We are assuming that the proposed October 08 date equates to a ‘Go-active’ and that the regime will be implemented (‘Go-live’) at some later point. We would expect that the period between ‘Go-active’ and ‘Go-live’ would be used for transitional activities such as

dealing with adoption issues and changing connection agreements to reflect the new offshore transmission regime.

Processes will need to be developed to ensure that the designated offshore regime ‘keeps up’ with any ongoing developments to the onshore regime during this transitional period. Under BETTA, separate consultations were undertaken to ensure that this was done successfully.

It is important that appropriate consideration is given to the ‘Go-live’ date. For instance, from a transmission charging perspective, a 1 April implementation simplifies arrangements considerably in respect of introducing new charging arrangements. There may also be the requirement to develop Go-live criteria and cut-over arrangements.

11. Work programme and next steps

We note the proposed timescales contained within this chapter.

We note the publication of the Policy direction document in July and our comments on the previous chapters have highlighted our views on the work that needs to be done between now and then with the industry to inform the content of this Policy document. In summary we believe there needs to be a significant amount of industry engagement to achieve this.

The Scoping Document highlights that external communications sessions will be held with the industry. The only other Ofgem/DTI group involving the industry at present is the Grid Code subgroup. We believe that it is essential that further groups are set up to consider issues that will impact on multiple parties across the industry (for example connection application process, connection via distribution networks, charging, compensation and access arrangements, STC/CUSC review). Ideally we believe that these groups should meet and conclude prior to the publication of the July document, as this full industry engagement is required to inform policy development. Both the GBSQSS and Grid Code subgroups have been well attended and have resulted in active and constructive dialogue, and we believe that the appetite exists in the industry to have these debates (this was further re-inforced at the first external communications session on 24 April 2007). As indicated above, the timescales are extremely challenging to achieve this.

The structure diagram in the Scoping Document indicates the volume and complexity of the work that needs to be done. A project of this nature needs to be carefully co-ordinated to ensure that the individual workstreams are progressing in a consistent manner and we are pleased to note that a Programme Management function is being established for the work. We would expect to see the traditional project assurance activities carried out by this function including:

- Project planning
- Progress monitoring
- Risk management
- Issues management
- Assumptions management
- Co-ordination between workstreams

- Communication to industry participants

Given the complexity of the project, and the timescales associated with it (in particular in the run up to the July Policy document) these activities need to be established immediately and be flexible enough to react accordingly.

As designate GBSO, NGET is expecting to contribute to the successful delivery of the project. We are currently establishing our own project structure that we believe will be required to enable us to deliver the work that we will need to do. We look forward to working closely with Ofgem and industry on the project.