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Dear Giles

Consultation on Offshore Electricity Transmission - Second Scoping Document

EDF Energy welcomes the opportunity to comment on your consultation about the offshore electricity transmission. We find your proposals generally acceptable, viz:

1. We agree with the decision that the licensing of offshore electricity transmission will be a competitive activity;
2. The 3-month GBSO offer process and the security arrangements are reasonable;
3. An OFTO tender process that is more akin to a PFI, (rather than a 5-year price control), is sensible;
4. It will be more efficient if common tender activities be shared;
5. Grouping tenders via the concept of an annual connections application window seems the most pragmatic process;
6. The OFTO should have performance incentives and be rewarded as well as penalised;
7. We are concerned by the possible implementation of the onshore 27%-73% charging method being applied to dedicated transmission assets that are not used by onshore system users;
8. HV transmission being classified as 132kV may create perverse incentives for Users to connect at voltages they would not originally intend;
9. We propose that the full cost of offshore transmission cables should be allocated to the offshore generation community, perhaps to the specific development(s) being connected.

More detailed comments follow:

EDF Energy agrees with the decision that the licensing of offshore electricity transmission will be a competitive activity, licensed on a non-exclusive approach. This seems to have the merits of speed, economy and the possibilities for innovation, as compared with an exclusive approach, which might have meant that only very large firms could tender for the exclusive licences, with far less scope for innovation.

The connection offer process for offshore outlined, including timing, with indicative initial offers from the GBSO (as primary point of contact with the developer) within 3 months and later firming-up, appears reasonable - including the security arrangements described in footnote 3.

The tender process (with 25 year assumed asset life) that is envisaged for the OFTO appears closer to a PFI package than to a 5-year price control; again, this appears reasonable, as does the general concept set out at the 24th April seminar of a guarantee to the OFTO of recovery of 75% of the ex-ante-assessed costs of the assets (the remaining 25% of costs also being reimbursed subject to a demanding ex-post economic efficiency audit). EDF Energy agrees that it would be inappropriate for the OFTO appointment tenders to be run by the GBSO; they should be independently run, with Ofgem oversight. No special appeals mechanism for rejected tenders is necessary.

EDF Energy agrees that the procurement of some common information such as a seabed survey and its provision to all potential tenderers (and the wider community who would have funded it) would be efficient, avoiding replicative activity by multiple tenderers.

EDF Energy agrees with the suggestion in paragraph 5.14, also discussed at the seminar, that connection applications be "grouped" via the concept of an annual connections application window. This would facilitate efficiency in the running of OFTO appointment tenders. If there is a delay in making a final connection offer on which user commitment will be based, subsequently delaying the commencement of more detailed survey works, then offshore generators must be fully informed and made aware, such that they can plan and manage their projects around these processes.

In terms of financial "firmness" of transmission entry capacity in the offshore regime, due to the lower security standards expected for offshore transmission, EDF Energy agree that compensation should not be available where transmission access is temporarily lost due to planned outages or faults on the transmission system. However, EDF Energy agrees that a symmetric incentive scheme would form a useful part of the package between the developer and the appointed OFTO, such that above-par performance in terms of availability and perhaps even losses can be rewarded as well as penalisation of poor performance. Demanding performance targets should be set, at a level that tenderers do take part and compete.

We do have a concern that the clarification of the planned assignment of the cost of new sub-sea cables has been slow and the matter is still unresolved and uncertain.

It has been our general understanding and expectation in the past that the cost of offshore HV ("transmission" – 132 kV and above) cables might be passed-through 27% to offshore wind developers – either individually, or as a class - and 73% to onshore demand. There would be a possibility, arising from future changes to regulations, that the costs would later be allocated 100% to demand, if the European desire for a "G=0" approach to transmission use of system charging more generally, were applied in the UK.

The net result of this, whether or not a "G=0" approach obtains in the longer term, would be to create an economically-inefficient, perverse, incentive for a developer to connect (or, size so as to be connected at, if the connection voltage is not his own direct choice) new offshore wind developments at transmission rather than distribution voltages. This is because if connected at distribution voltages, the developer would pay all of the cable costs.

We are opposed to the possible creation of this perverse incentive, which could lead to inefficient outcomes that could be unduly costly for the user community as a whole. It may force would-be LV connectees to connect instead at transmission voltages, even if this would not otherwise have been economically and technically the optimal choice.

We propose that the full cost of offshore transmission cables should be allocated to the offshore generation community – perhaps to the specific development(s) being connected, as the assets are clearly dedicated transmission assets that are not used by any onshore system users. This would ensure consistency with the approach to the funding of LV submarine cables and would avoid the creation of economic inefficiencies due to the perverse incentives that would otherwise be created to connect at a voltage that would otherwise be economically and technically sub-optimal.

Whatever the cost allocation that is decided upon, the matter of allocation of these costs remains a key uncertainty at present, and is sufficiently important that a more specific consultation document would be helpful, perhaps following some fairly rapid consideration by the transmission charging method forum (TCMF).

Yours sincerely

Denis Linford
Director of Regulation