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Mr Colin Green
Ofgem
9 Millbank
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5 September 2007

Dear Sir

Offshore Electricity Transmission - Joint Ofgem/BERR Policy Statement

Please find attached Airtricity's response to above Consultation.

Airtricity is a world leading renewable energy company developing and operating wind farms across Europe and North America. The Group currently has 455MW of generating capacity in operation across four countries, with a further 636MW in construction and expected to be operational by early 2008. In addition to projects in operation and in construction, the Group has a development pipeline in excess of 10,000MW.

Airtricity are developing wind farms throughout the UK. There are a total of 6 projects amounting to almost 200MW in operation or construction in the UK, with a further development pipeline in excess of 2000MW. Airtricity gained its first offshore development consent in early 2007 for a 500MW site off the coast of Suffolk, known as Greater Gabbard.

We are actively seeking to develop opportunities throughout the UK and are currently both developing and evaluating a number of potential projects. We believe that the progress in developing the Offshore regime, represented by the Joint Policy Statement, needs to be maintained. We look forward to BERR/Ofgem's update of proposals in October, together with the opportunity to contribute towards the development of final proposals, as rapidly as possible.

I hope that you find this submission useful. Please do not hesitate to contact me if you require further information or clarification.

Yours faithfully

Robert Longden
UK Regulatory Affairs Manager

Encl.

Offshore Electricity Transmission
Joint Ofgem/BERR Policy Statement – Airtricity Response

1. Introduction

Offshore electricity transmission is a key building block of the Government's overall renewables policy. Up to 8GW of offshore renewable generation (principally wind) will be seeking to connect to the GB transmission system from Round 2 and, we hope, significantly more from future rounds by 2020. This generation will make a major contribution towards the Government's targets for increasing the amount of available renewable generation capacity. The Round 2 generation will largely be sited in three strategic areas – off the North West coast of England, in the Greater Wash and in the Thames Estuary. Future Rounds are likely to focus on the East coast of England.

The Consultation document is a major step forward in the definition of the Offshore regime. We acknowledge the considerable effort and amount of work that has gone into its preparation. BERR/Ofgem are to be congratulated not only on the level of detail contained in the document, but also the integrated nature of its proposals across a wide spectrum of issues. Given this level of commitment, it is important to maintain the pace of progress and ensure that the proposals contained in the document are translated into detailed processes and procedures as rapidly as possible, in order to provide certainty to the industry.

Further re-examination of core principles should be avoided. This would only lead to unnecessary delay in the implementation of the final Offshore Framework and consequent detrimental impact on investment and commissioning of capacity.

We support the three key policy principles set out in the Consultation:

- Developing an effective competition for the appointment of OFTOs which will facilitate the delivery of fit for purpose infrastructure at the least cost to consumers
- Designing an offshore regulatory regime that can provide an appropriate balance of risk and certainty, which should in turn provide an attractive environment for prospective OFTOs
- Ensuring that industry processes operate effectively to support the proposed regulatory framework.

We note that it is the intention of BERR/Ofgem to ensure that the connection process is closely integrated with the requirements of the OFTO tendering process. This is an essential to ensure consistency and efficiency in both processes.

2. Consultation Issues

Whilst there are merits in both the exclusive and non exclusive approaches to OFTO licencing and either regime could be made to work, the decision to proceed with the non-exclusive approach was made in March. Following the decision, consideration has been confined to ensuring that this option delivers the maximum potential benefits for stakeholders. Airtricity fully supports the non-exclusive approach as we believe that it will provide the opportunity to inject real competition and

innovation into the process. Properly managed, this should bring a lower cost of capital for offshore transmission and enhanced implementation. Efficient cost and timeliness are major objectives for the regime and we look forward to BERR/Ofgem's proposals for ensuring that the process delivers them.

2.1. Specific Issues

- OFTO role: greater clarity is required on the role of the OFTO under the enduring framework. e.g. will it have the sole responsibility for selection of the onshore connection point for the offshore grid, where there is more than one connection option? Will it be responsible for gaining all consents and licences (including property rights) necessary to build the offshore transmission? How will the interface with the generator be handled where there are common consent issues? Will there be performance criteria for the OFTO associated with this activity and, if so, how will they be enforced?

- Transition: the proposed processes and timescales appear to be reasonable and are well thought through.

- Enduring regime – charging, access and compensation: We note that the proposals for the offshore SQSS do not envisage full redundancy being required for the offshore transmission network. However, it is important to ensure that the connecting generator has the ability to fully reflect its requirements [where they vary from the minimum standard], via the tender process. These requirements will not be limited solely to variations in physical assets provided, but will also need to encompass contractual arrangements. e.g. a generator may wish to achieve a financially firm connection standard. This could be achieved by the generator requesting the OFTO to take out an extension to its insurance policy to give Business Interruption coverage to loss of generator profits/revenues in the event of an insurable event affecting the OFTO's assets. Non-insurable events would need to be addressed via other mechanisms. This should be included as an option in the original OFTO tender process.

  It is important to ensure that offshore generators are treated equitably where loss of access is due to issues regarding the *onshore* network. Where this is the case, we would expect the offshore generator to be awarded compensation equivalent to that of a GBSQSS compliant onshore connection.

- We note that Ofgem has confirmed that the GBSQSS applies where the offshore transmission system is connected to a distribution network [embedded transmission]. Offshore users will be charged for the standards which apply to transmission systems. From an offshore generator's perspective, it will be connecting to a transmission network. If the distribution system is incapable of providing the required security or availability consistent with the *onshore* standard, then either it should be upgraded [as deep transmission reinforcement] or the offshore generator should be kept fully financially neutral to the effect of any shortfalls of the distribution network, relative to the required transmission standards.

This has a bearing on the OFTO role in selecting the appropriate onshore connection point [referred to above], as the *overall* minimum standard of connection for an offshore generator will require proper consideration of embedded transmission issues.

- The recovery of offshore transmission costs over 20 years raises some fundamental questions with regard to equity and intergenerational issues. If the initial generator life is greater than 20 years, then there must be a mechanism in place to review the appropriate transmission charges. If the assets are re-used for a second [new] generator after 20 years, what would be the charging regime? Would it include an element of recovery from generator [2] to refund generator [1] for its previous overpayment? Unless this issue is addressed, it would effectively result in generator [1] being discriminated against by providing a subsidy to generator [2] – Ofgem need to develop proposals to satisfactorily resolve the generation/transmission asset life/charging interaction.

- We welcome the work being done by National Grid, in developing an appropriate charging regime for offshore. We agree that the existing charging consultation and development processes are the appropriate route to manage this issue.