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Offshore Electricity Transmission – A Joint Ofgem/BERR Policy Statement

E.ON UK Response

E.ON UK welcomes the opportunity to respond to the joint Policy Statement. E.ON UK has interests as both an offshore developer and potential OFTO. Our offshore generation interests that could be subject to the offshore transmission regime include the Robin Rigg, London Array and Humber Gateway developments, representing a combined interest in the region of 1000MW offshore, in addition to our round one projects.

Before turning to the specific questions from the relevant chapters of the Policy Statement, we have the following high level comments in summary of our more detailed response that follows below:

- We continue to support the regulated approach and competitive appointment of OFTO's. We believe competitive appointment is necessary to ensure sufficient players are established in the market to ensure overall delivery. We do however have growing concerns, now that some of the detail is emerging, that the enduring process of appointment of an OFTO and the enduring connection application processes may take too long and therefore delay the delivery of projects and contribution to Government targets.

- We would like to understand why a twenty year income stream has been chosen as opposed to leaving the period within the flexibility of the OFTO's bid. We do not think that feedback from industry has been sufficient to suggest that twenty year financing periods is the market standard. Variation in revenue period could be an important

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element of competition based on what financial backing a potential OFTO can obtain from the market. By limiting this Ofgem is restricting an avenue of competition.

- It is not yet clear how a number of risks arising from the competitive appointment process will be managed, such as failure to appoint an OFTO. The prospect of re-tendering to appoint an OFTO could be inefficient and result in further delays, we would suggest licence extension to more traditional onshore equivalent forms of control could be contemplated.

- We are concerned that the framework for the form of control envisaged by Ofgem may be less attractive to potential OFTO's and their financial backers. This may limit the amount of competition. In our view it is important to the regime in order to promote the opportunity and enable competition that;

    - a bidder retains control and flexibility in as many areas of its bid as possible;
    - is able to retain revenue; and
    - benefit from cost savings.

  At present Ofgem is proposing a regime that seeks to offer opportunity and reward but recover any benefits that it thinks are excessive. This uncertainty diminishes the attractiveness of the prospect and undermines the credibility of the competitive tender. If administered well the tender should derive the most competitive bid, which should negate the need to more than a light handed level of regulation.

- We welcome recognition that existing projects are at different stages and support the pragmatic approach for the transition of projects currently in development. We remain concerned by the regulatory risk that the 75% ex ante valuation that Ofgem is prepared to guarantee. It remains our view that where Financial Investment Decision (FID) has been achieved, the contract prices constitute the best prices that could have been obtained in the market. Therefore 100% ex-ante guarantee of investment is appropriate in these cases. This level of regulatory risk does have very real material implications in the confidence of investing in projects currently in development. At the very least, if the valuation is not commensurate with our expectation we would not be expecting to pay more in transmission charges. We agree with the

need for an ex-post review of any difference between the contract price and final outturn cost following completion, to ensure that any difference has been economically and efficiently incurred.

- We are concerned about the potential implications to existing licence exempt projects that will become offshore transmission connections yet connect in to onshore distribution networks. The introduction of transmission arrangements for these projects is eroding the embedded benefits, which could have significant detrimental implications affecting the confidence in these projects. We believe further consideration by Ofgem/BERR of the impacts in this area need to be understood in order to determine appropriate regulatory treatment.

We look forward to continuing to work with Ofgem/BERR to develop the detailed rules for the offshore transmission regime and hope that you find our response helpful. We would be happy to discuss any aspect of our response with you further. If you would like to discuss any aspect of your proposals to develop the offshore transmission regime we would be happy to provide you with any feedback.

Yours sincerely

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Appendix
E.ON UK Detailed Response on Ofgem/BERR Offshore Transmission Policy Statement by Chapter

Chapter 1 & 2 – Introduction and Overview of the offshore transmission regulatory framework

No additional comments to those made previously above.

Chapter 3 – Design of regulatory regime

Question 1: Do you agree with our proposals for the design of the regulatory regime as outlined in this chapter? In particular, we would welcome your views on
- the role of the OFTO and the obligations that it would undertake;
- the regulatory and contractual framework, including the duration of (and what happens at the end of) the revenue stream, predefined adjustment mechanisms, transfer arrangements, and business separation requirements;
- the form and quantum of performance incentives;
- dealing with changes to generator requirements; and
- the allocation of risk.

Question 2: Do you feel that there is any aspect of the design of the regulatory regime that we have not considered sufficiently?

We continue to support the regulated approach and competitive appointment of OFTO's. We believe competitive appointment is necessary to ensure sufficient players are established in the market to ensure overall delivery. In our view, however, a balance needs to be struck between the level of regulation and the ability of the competitive market to deliver to ensure investment in the offshore transmission regime. The market should be regulated in the context that the GBSO operates the offshore transmission network and the requirements of the industry codes apply, including the obligation to pay charges. The bids to design, build, own and maintain assets should be consistent with the competitive bids submitted.

<u>The Role of the OFTO</u>

We support the high level obligations that will be placed upon an OFTO (ref. paragraph 3.4) and would support the development of generic standards in order to create an equitable position for all prospective OFTO's. We agree that special Licence Conditions could take in to account local differences such as weather patterns, sea conditions, local difficulties with access to site and other items of difference arising from items included in an OFTO's individual bid. The performance obligations and the sanctions on an OFTO for failure to meet these will need to be understood, licence breach in of itself may not be a sufficient incentive.

Regulatory and contractual framework

We would like to understand why a twenty year income stream has been chosen as opposed to leaving the period within the flexibility of the OFTO's bid. We do not think that feedback from industry has been sufficient to suggest that twenty year financing periods is the market standard. Variation in revenue period could be an important element of competition based on what financial backing a potential OFTO can obtain from the market. By limiting this Ofgem is restricting an avenue of competition. It is also more consistent with onshore equivalents and allows for re-planting of generation or life extension.

We are concerned that the framework for the form of control envisaged by Ofgem may be less attractive to potential OFTO's and their financial backers. This may limit the amount of competition. In our view it is important to the regime in order to promote the opportunity and enable competition that a bidder retains control and flexibility in as many areas of its bid as possible, is able to retain revenue and benefit from cost savings.

At present Ofgem is proposing a regime that seeks to offer opportunity and reward but recover any benefits that it thinks are excessive. This uncertainty diminishes the attractiveness of the prospect and undermines the credibility of the competitive tender.

If administered well the competitive tender should derive the most competitive bid, which should negate the need to more than a light handed level of regulation. This is the natural consequence of a long term competitive tender approach, which should balance out costs, risks and return in order to be competitive. It will be the responsibility of the tender panel to choose the best bid that balances the OFTO's return against the interest of the offshore generators and consumers.

If there is to be any ability for the Authority to recover earnings from

OFTO's then the mechanism for achieving this will need to be clearly understood at the outset so that it can be properly priced in to a prospective OFTO's bid.

We note Ofgem's preference for the OFTO party to be a separate legal entity. We would support this view to the extent that it does not impose or result in additional unnecessary costs. In our view an OFTO party could still be subject to a generator affiliated parent company, as this practice is already established for onshore generation with affiliated onshore transmission owners.

In cases where competition is demonstrated to be demonstrably ineffective, we would welcome further information on the basis on which competition will be determined to be ineffective. Where only a single bid is submitted but this is a genuine bid, consistent with other comparative bids, we do not see why the proposed framework should not apply in these cases. This potentially undermines the point of a competitive bid, if the bid is determined to be uncompetitive and owing to a perceived lack of competition the single party bidding is offered a more traditional periodic form of control. If the more traditional form of control is less attractive to that party, it may walk away leaving the issue of appointing an OFTO in order for the offshore developer to progress and have certainty for its project.

We support extensions of licences as opposed to re-tendering at the end of the licence period, providing performance has been acceptable. Re-tendering should only be contemplated when new assets are proposed and required.

Further work is required on the arrangements for subleasing the sea bed and Crown Estate leases and other related consents. This needs to be clarified in order for developers to understand the mechanism by which the relevant interests can be granted or divested.

<u>Performance obligations, incentives and penalties</u>

We support in principle an incentive and penalties regime for the criteria listed in the policy statement (ref paragraph 3.25) built around a set of performance obligations. We do not think losses should be included, as these should be treated in accordance with the existing established UK market arrangements. The level of difference in standard of performance could be an area of variation between bids depending on each bidders assessment of risk and reward.

We support a form of generic re-opener for exceptional, unforeseeable risks on a case by case basis. This could be initially a discretional exercise, with the Authority assessing whether the OFTO undertook all reasonable steps to mitigate/resolve the situation. A materiality threshold could be applied until the risks of the regime are better understood, whereupon a more realistic performance regime could be introduced.

This initial re-opener model could be combined with the performance incentive such that consistent underperformance/unavailability could result in an income adjustment or fine which is passed through to the offshore generator. Whilst the materiality threshold might be the minimum level of revenue recovery, the level of revenue adjustment or fine should also be clear to understand the cap and therefore level of risk.

In any event the incentive/penalty on OFTO's may not ultimately be proportional to the offshore generators loss, but must at least be consistent with CAP048 transmission access principles, although this may be too low given the lower level of connection security envisaged for offshore connections. See our later comments on chapter eight. We would support the transfer of monies via the GBSO.

Generator requirements

It is not clear how individual generator requirements would be taken in to account other than as part of the application to the GBSO, which would then form part of the ITT package. In any event we do not support any ability for a developer to vary its requirements outside of the direct relationship between generator and GBSO. Other than asset transfer under transition and interface agreements there should be no direct relationship between the generator and the OFTO.

We would question where there is an additional request, such as capacity increases, whether this should be tendered or whether the incumbent OFTO is given the opportunity to grow its existing infrastructure. Tendering should only be contemplated where significant new assets are required.

We do not support the twenty percent cap on additional incremental investment as we believe this is arbitrary and reduces an area of competition and potential for co-ordination of investment. In our view each bid should be treated on a case by case basis with appropriate justification for any additional investment, such as anticipation of new

users, increases in capacity etc. Any incremental investment could still effectively require regulatory approval if it formed part of the proposed infrastructure within the initial bid.

Allocation of risk

We would welcome clarity on treatment of stranding risk between generators and consumers. We assume this is a developer's User Commitment pre construction completion and via TNUoS charges following completion. There is a potential mismatch between the assumed assets and revenue stream to the extent that one is longer than the other, such as in the case of replanting generation assets.

With regard to the treatment of bid costs we support justified higher application fees, as a threshold to ensure seriousness of intent, but do not believe the developer should be used to offset failed bid costs.

We would support the generator indemnifying a single generic tender/bid cost upon acceptance of the Stage 1 indicative connection offer, but that this would fall away upon acceptance of firm Stage 2 connection offer. The developer must retain right to terminate or withdraw at any time, as per onshore but with the associated indemnity and User Commitment/Final Sums implications.

Chapter 4 – Enduring Competitive Framework

Question 1: Do you agree with our proposals for the enduring competitive process as outlined in this chapter? In particular, we would welcome your views on:
- the use of an annual tender application window;
- the design of the tender process, and the stages we have outlined;
- recovery of tender costs; and
- running the tender process.

Question 2: Do you feel that there is any aspect of the enduring tender process that we have not considered sufficiently?

The tender process is a sub-section of the overall connection process and the two must be combined to consider the end to end process. The use of standard documentation for the tender process is sensible.

We do not support the lack of an OFTO of last resort in the enduring

regime. This is important as if there is no OFTO there is no certainty for the offshore generation project. We do not support re-advertising where insufficient interest is expressed as this builds in unnecessary delay. The OFTO opportunity should be attractive enough in the first place to remove this possibility.

Given the legal implications of business separation requirements we do not believe that Generator affiliated OFTO's should be treated any differently to a pure OFTO. To do so would diminish the attractiveness of the genuine opportunity; this may be restrictive to competition.

Designing the process

We suggest that the tender process could be further refined. The pre-qualification criteria should be clearly defined at the outsent. A simple commitment to being able to achieve these should be given in the expression of interest. Evidence of meeting the pre-qualification criteria would then be submitted as part of the bid. If the bid did not satisfactorily meet the pre-qualification criteria then the bid is discounted. This may help to reduce the length of time required for the tender process.

It is unclear at this stage what real advantages are given from the Best and Final Offer stage. The bids submitted should be as clear as possible from the outset. Whilst the Tender Panel may have additional questions or requirements from bidders, which could then be priced in, the ability to drive down the price and improve guarantees of service should come over the course of discussions with the preferred bidders, which should naturally resolve in to a best and final offer. There should not be a requirement to bid and subsequently re-bid at a later stage, a restatement of the final negotiated bid would aid clarity for the Tender Panel to make its decision.

We recognise the benefits a tender window could bring in terms of coordination, however we are concerned by the length of delay this could bring in to the process. If an application is submitted shortly after the deadline it could be held up by up to two years, before that project has certainty of its OFTO and associated works. We would suggest this is unreasonable and counter-productive to delivery. Combined tenders should only be contemplated where there is an opportunity to do so. The nature of the bids and potential for development of incremental capacity for later projects could still bring advantages of coordination and economies of scale, as noted in the policy statement (ref. paragraph 4.20).

In submitting its application an offshore generation developer should not

be prejudiced from obtaining onshore capacity compared with onshore projects because of the length of the OFTO appointment process. Robust and transparent queue management rules could help to overcome this.

The CUSC connection application forms may need to change for offshore generation applications to account for provision of additional required tender information from the developer.

Associated costs and recovery

Whilst we note and agree with the remuneration of the developer for any preliminary transmission related works undertaken, the roles and responsibilities of each of these parties should not be blurred. The developer should not need to progress transmission related activities because the OFTO is not appointed or does not have insufficient capability.

Running the Process

We support the Authority as the Tender Panel, providing it relies on sufficient support to advise on technical issues.

With regard to the treatment of bid costs we support justified higher application fees, as a threshold to ensure seriousness of intent, but do not believe the developer should be used to offset failed bid costs.

We would support the generator indemnifying a single generic tender/bid cost upon acceptance of the Stage 1 indicative connection offer, but that this would fall away upon acceptance of firm Stage 2 connection offer. The developer must retain right to terminate or withdraw at any time, as per onshore but with the associated indemnity and User Commitment/Final Sums implications.

With respect to suitable funding for Ofgem's role in the tender process, we would support a suitable bid fee forming part of the tender requirements to reflect these costs. A total figure could be stated that is then shared on an equal basis depending on the number of bidders.

Chapter 5 – Transitional Arrangements

Question 1: Do you agree with our proposals for the transitional arrangements as outlined in this chapter? In particular, we would welcome your views on:
- the pre-conditions for qualifying transitional projects;

- the tender process for transitional projects, and whether they capture the potential projects that will require adoption;
- the transfer of assets; and
- interaction with the enduring regime.

Question 2: Do you feel that there is any aspect of the transitional arrangements that we have not considered sufficiently?

With reference to the links with the enduring regime, we welcome recognition that existing projects are at different stages. We support this pragmatic approach for the transition of projects currently in development. Consequently we support a developer's ability to commence the tender process at either Go Active or Go Live depending on requirements of the project. This will help to ensure existing project programmes are maintained.

Pre-conditions

Although we broadly appreciate the recognition of differing definitions and stages of Financial Investment Decision (FID)/Financial Close, we would welcome further information on how this will be interpreted by Ofgem on a project specific basis.

RAV determination

We remain concerned by the regulatory risk arising from the 75% ex ante valuation guarantee. It remains our view that where Financial Investment Decision (FID) has been achieved, the contract prices constitute the best prices that could have been obtained in the market. Therefore 100% ex-ante guarantee of investment is appropriate in these cases.

This level of regulatory risk does have very real material implications in the confidence of investing in projects currently in development. At the very least, if the valuation is not commensurate with our expectation we would not be expecting to pay more in transmission charges. We agree with the need for an ex-post review of any difference between the contract price and final outturn cost following completion, to ensure that any difference has been economically and efficiently incurred.

Notwithstanding the historic experience of assessing onshore transmission assets, we would therefore like to know more about the process and criteria by which Ofgem will determine efficient offshore costs, given the level of expertise available and the limited worldwide experience with

offshore transmission development.

Technical compliance

Technical compliance may currently be onshore but we understand that the requirements for the offshore point of connection and onshore OFTO network point of connection could differ. Consequently we would support developments to ensure onshore compliance could be satisfied by additional equipment offshore.

A higher level of security of connection should be charged to the generator in accordance with the Charging Methodology and should be via the GBSO and not outside these arrangements.

Pre-conditions for comfort on funding

With regard to the criteria for transition, we would welcome further explanation and clarification of the requirement to demonstrate full unconditional financial close. As noted earlier this has a different interpretation between organisations. Provision of parent company support needs to be understood in this context also.

We note that the treatment of phased developments is to be clarified. We would suggest that subsequent phases post Go Live, requiring additional investment, should be subject to the enduring process, possibly giving the incumbent OFTO the ability to grow its existing network prior to tendering.

With reference to paragraph 5.17, the potential OFTO would also have to fund the asset transfer valuation in addition to the ongoing maintenance costs.

Provision of financial modelling information should only be for the offshore transmission assets. We would like more information on how Ofgem will carry out the efficiency review and against what criteria.

We welcome recovery of the development costs for projects that are not at financial close. We would like to understand how Ofgem will determine what an efficient level of costs are in this respect? We welcome the OFTO adopting a developer's cable route and electrical design where projects are sufficiently advanced but not yet at Financial close in order to prevent delays to these projects.

Pre-conditions for the tender process

More information is required on data for the data room and appropriate fees to cover tender costs (see earlier indemnity suggestion). We are not sure why the developer is paying any fees in this case.

Clarity is required on what is needed from an engineering audit report on functioning and performance, this should only be for the offshore transmission assets and not include the offshore generation. Is demonstration of a Grid Code and GBSQSS compliant design, with derogations where appropriate, not sufficient for this?

Expressions of Interest and prequalification

An assessment of a potential OFTO based purely on financial strength is not enough, capability and experience to carry out the role is also important, at minimum ability to manage sub-contractors with the relevant expertise.

Invitation to Tender and evaluation of bids

Collation of tender information could be by the GBSO as it will receive some of the information via the connection application. However, competition concerns over affiliated TO would need to be addressed. Alternatively, we would support an Authority appointed third party, given the Tender Panel will be constituted by the Authority. This maintains complete independence during the process.

Transfer of assets

Further consideration of design and construction risk staying with developer is required. We are not sure why the potential OFTO could not build in any post completion issues arising from design or construction issues in to its bid as a priced in risk.

OFTO of last resort

We welcome the restatement of Governments intention (ref. paragraph 5.8).
The reason for an OFTO of last resort is no different, however, than the enduring arrangements. Therefore in our view a generator affiliated OFTO should be treated in the same way as a pure OFTO, when taking in to account business separation requirements. This is in order to ensure the attractiveness of the role as a genuine business opportunity. We do not

support re-advertising if insufficient interest is expressed, once should be enough as this otherwise adds unnecessary delay.

Other transitional considerations

We have identified a number of other areas where we believe further work is required going forward in order to understand the practical steps that will have to be taken for existing projects under the transitional process.

From a technical perspective whilst the OFTO will be taking ownership of the offshore transmission assets, these assets offshore reside on a substation platform which serves both the generator and transmission assets. Division of ownership for access and maintenance arrangements will need to be determined.

The design of the electrical system, the protection arrangements etc, is currently considered as a system as a whole. Sanctioned designs will not have taken in to account the need to separate out ownership and more specifically control of the system and the turbines at an intermediate point in the system. The technical compliance and operational implications to these site specific issues will need to resolved.

Where the metering is intended or is on the onshore point of connection, if the connection boundary is to move offshore there may be insufficient space available for it to be located. The market and technical implications of this point will need to be considered.

In the case of an onshore distribution connection point, arrangements will need to be considered whereby the present distribution connection arrangements are replaced with the appropriate CUSC agreements. Where capital payments have been made to a distribution company these will need to be refunded to the developer and subsequently the capital cost of the distribution connection will need to be recovered over the asset life through TNUoS charges.

As previously highlighted, land easements for the offshore transmission assets will need to be transferable. This may not be simple to achieve in practice. Similarly the Crown Estate lease will need to be capable of being divided between the offshore generation and transmission assets, including the relevant lease payments.

Where consents have been obtained with associated conditions, the relevant offshore transmission conditions will need to be transferred.

Again this may be complicated to implement and should not be underestimated. By way of an example this could include ongoing monitoring actions associated with the substation and cables that are required under the S36 consent, which would presumably need to become equivalent S37 related consent conditions.

Chapter 6 – Connection Application Process

Question 1: Do you agree with our proposals for the connection application process as outlined in this chapter? In particular, we would welcome your views on:
- the pre-application process;
- the indicative offer process (stage 1);
- the final offer process (stage 2); and
- the roles of the generator, the GBSO, and the OFTO in this process.

Question 2: Do you feel that there is any aspect of the connection application process that we have not considered sufficiently?

Question 3: We outline two options for annual tender application windows. Which of the following options do you think are appropriate?
- Option 1: A mandatory annual tender application window, to be incorporated into the offshore connection application and tender process; or
- Option 2: To rule out an annual tender application window and allow generators to realise cooperation benefits independently and optionally.

Our comments on this chapter should be read in conjunction with our previous comments on the enduring tender process and design of the regulatory regime.

Adapting existing processes

In principle we support the two stage GBSO connection offer and support justified higher application fees, as a threshold to ensure seriousness of intent.

We would support the generator indemnifying a single generic tender/bid cost upon acceptance of the Stage 1 indicative connection offer, but that this would fall away upon acceptance of firm Stage 2 connection offer. The

developer must retain right to terminate or withdraw at any time, as per onshore but with the associated indemnity and User Commitment/Final Sums implications.

Pre-application process

We do not support a mandatory pre-application feasibility stage. We do not believe that this will add any benefit, which could add unnecessary cost and delay. As with the existing onshore process, a feasibility study should be an optional element that a developer can request.

In our view publication by the GBSO of onshore connection corridor information in the SYS is important information that can be made available as part of the offshore connection process. This can be based on existing and future strategic areas as these become known. Identification of onshore connection point should be part of the Stage 1 offer.

Tender application windows

We recognise the benefits a tender window could bring in terms of coordination, however we are concerned by the length of delay this could bring in to the process. If an application is submitted shortly after the deadline it could be up to two years before that project has certainty of its OFTO and associated works. We would suggest this is unreasonable and counter-productive to delivery.

Combined tenders should only be contemplated where there is an opportunity to do so. The nature of the bids and potential for development of incremental capacity for later projects could still bring advantages of coordination and economies of scale

If future Crown Estate developments are sufficiently known, OFTO bids could take in to account future projects, further driving co-ordination, innovation and ultimately competition.

Offshore developers should not be disadvantaged from competing for onshore capacity with onshore projects however. Would need to understand how the onshore capacity and offshore delivery timescales will be co-ordinated. Robust queue management rules could help this, on the basis of prioritising the party able to use the system the soonest.

Chapter 7 – Connection via distribution networks

Question 1: Do you agree with our proposals for connection via distribution networks as outlined in this chapter? In particular, we would welcome your views on:
- comparable types of connection;
- charging arrangements; and
- connection application processes.

Question 2: Do you feel that there is any aspect of connection via distribution networks that we have not considered sufficiently?

Treatment of licence exempt generation under transition

With reference to the statement in paragraph 5.22 with respect to the recognition that some generators operating offshore may be licence exempt. We have growing concerns with the financial implications for licence exempt projects that are built or at FID connecting at 132kV in to an onshore distribution network before the offshore transmission regime commences.

The removal of the embedded benefits may have significant financial implications for these projects. This is could undermine the confidence in these investments such that a form of exemption, protected grandfathered position, or dispensation within the charging methodology should be contemplated.

Type of connection

On an enduring basis we support the proposed treatment of these types of connection. As embedded transmission projects are to be analogous to distribution connected large power stations we assume that the BELLA option will be available to those projects where licence exempt status has been granted?

We welcome and support development of standardised connection arrangements within the DCUSA.

Charging arrangements

In principle we support the proposed treatment for charging arrangements, whereby the GBSO will reflect the charges for connection to and use of the distribution system.

Connection process

We do not see why the three month timescales need to increase if a DNO is involved, in many ways the relationship is comparable to the process used between the GBSO and the Transmission Owners in Scotland. This is currently achieved within the three month timescales.

Identification of connection corridors and based on size of generation should help drive whether a project will be a direct transmission connection or whether via a distribution system is more appropriate. If projects increase in size it is likely that more will become direct transmission connections. Coordination obligations between transmission and distribution licensees may help to ensure the most appropriate onshore connection arrangements are identified.

Chapter 8 – Charging, access and compensation

Question 1: Do you agree with our proposals for charging, access and compensation as outlined in this chapter? In particular, we would welcome your views on:
- the development of charging arrangements;
- access products; and
- compensation proposals, particularly whether there should be a penalty only regime in place for the OFTO.

Question 2: Do you feel that there are any aspects of charging, access and compensation that we have not considered sufficiently?

Charging proposals

We support, in principle, the extension of the onshore Charging Methodology offshore and would welcome sight of an indicative set of offshore based transmission charges at the earliest opportunity.

Access and Compensation proposals

We support, in principle, the extension of onshore access product and compensation arrangements offshore, including any restrictions that may be included in bilateral connection agreements owing to lower levels of connection security. This is a logical consequence of extending the onshore UK market arrangements offshore.

Following our comments on Performance obligations, incentives and penalties in chapter three, we would support an OFTO penalty mechanism, unless the connection has comparable security to an onshore connection.

The level of penalty will need to balance the loss that a generator may face against the potential for OFTO bids to build in a risk premium, which would be paid for via the TNUoS charges, thus becoming a form of self insurance. The CAP048 principles may be more appropriate but the incentive needs to be sufficiently strong on an OFTO to ensure that faults are rectified as quickly as practicable and availability is maximised.

Chapter 9 – Technical rules

Question 1: Do you agree with our proposals for technical rules as outlined in this chapter? In particular, we would welcome your views on:
- security standards; and
- the recommendations for developing technical rules.

Question 2: Do you feel that there is any aspect of technical rules that we have not considered sufficiently?

GBSQSS

We support, in principle, the proposal for the offshore GBSQSS and look forward to working with Ofgem and BERR on the detailed text.

Grid Code

We support Ofgem/BERR's proposals on further development of the Grid Code recommendations and re-consideration of classification issues.

STC

We support the proposed way forward on development of the STC to accommodate OFTO's.

Chapter 10 – Implementation issues

Question 1: Do you agree with our proposals for implementation as outlined in this chapter? In particular, we would welcome your

views on:
- changes to licences; and
- changes to codes.

Question 2: Do you feel that there is any aspect of implementation that we have not considered sufficiently?

We have no comments to make on this chapter.

Chapter 11 – Work Programme

Question 1: Do you agree with our proposed work programme as outlined in this chapter? In particular, we would welcome your views on our proposed approach to industry engagement.

Question 2: Do you feel that there is any aspect of our proposed work programme that we have not considered sufficiently?

We wish to see the regime introduced as quickly as possible. We note the potential complexity of within year TNUoS charging, which may have implications for supply contract pricing adjustment mechanisms, which we are exploring further.