



## **Offshore Electricity Transmission - Consultation**

### **London Array Response**

#### **Introduction**

1. London Array welcomes the opportunity to respond to the statutory consultation on the Offshore Electricity Transmission.
2. London Array Limited is a joint venture comprising E.ON London Array Limited, Shell WindEnergy Limited and DONG London Array Limited. The 1000MW London Array project has long been the most advanced of the Round 2 offshore projects and, with the granting of the offshore consents on 18 December, 2006 became jointly the first Round 2 windfarm to be granted offshore consent. London Array Limited received permission for the onshore substation and associated works required for the connection to the national grid transmission system on 21 August 2007.
3. London Array has a connection agreement with NGET, with a connection completion date for the full 1000MW of 31 October 2010. The financial investment decision for the project, including the offshore electricity transmission, is expected to take place in autumn 2008, close to the "Go Active" date of October 2008, which makes London Array a prime candidate for the transitional arrangements.
4. The consultation document asks some rather specific questions about the details of the proposed approach. Having attended the external communication event on 10 August, we are concerned that some fundamental issues may have been obscured by the drive to resolve more detailed issues required to make the proposed approach work. This response sets out, from a developer's perspective, what we see as key issues with the proposed approach, as it is presently envisaged.

#### **General Comments**

5. We have in the past supported the regulated, non-exclusive approach for licensing offshore electricity transmission and the principle that the offshore regime should wherever possible, mirror the onshore regime. This support was based on the expectation that:
  - The timescale to obtain a suitable connection under the proposed arrangements would be consistent with the developer's realistic timescale for obtaining consents, contracting and constructing the wind farm.
  - The longer asset lifetimes and regulated rates of return that applied to the onshore transmission system would be reflected in the level of charges levied by GBSO on behalf of itself and the OFTO, and make the passing of responsibility for the transmission to an OFTO an economically attractive option.
6. Without such positive factors, the net effect of the proposed approach to the licensing of offshore transmission is likely to be a disincentive to the development of offshore renewables and a further cause for delay in the deployment of offshore renewables.
7. In designing the proposed approach, the focus to date seems to have been on regulatory matters, including the form of licensing to be adopted for OFTOs, customer and Ofgem

non-discrimination obligations and on the anticipated EU requirement to separate generation from transmission.

8. Little attention appears to have been paid to the programme or cost implications of the proposals on wind farm developers. This seemed to be confirmed by the action taken from the workshop on 10 August to develop scenarios to look at the programme and risk implications of the proposed approach on OFTOs and developers.
9. The regulatory impact assessment (RIA) of the proposed arrangements does not appear to have assessed either the financial implications on the offshore renewables industry or the impact of the proposed process on the timetable for deployment of offshore renewables to meet the government's targets.

### **Financial Implications**

10. The anticipated lack of competition amongst potential offshore transmission owners will lead to higher risk premiums than wind farm developers would include if they remained responsible for provision of the transmission system. This will apply to both the transitional and enduring arrangements.
11. One of the key benefits to developers, when the separation of offshore generation and transmission assets was first floated, was the use of 40 year asset lifetimes at regulated rates of return, consistent with NGET onshore practice. The effective reduction of the asset lifetime to 20 years, to give OFTOs a 20 year licence term, removes this benefit.
12. NGET is considering specific and generic approaches to circuit expansion factors for offshore connections. The specific approach to circuit expansion factors will be set to precisely recover OFTO allowed revenue. Unless NGET adopt the generic approach, using best available data to establish generic circuit expansion factors, the financial position of offshore wind will surely be further reduced.
13. The consultation document notes that OFTOs will be required to hold the relevant seabed lease or licence granted by the Crown Estate but does not consider the potential level of that rental fee and its equitable relationship to that for the wind farm including the offshore transmission, as is presently the case.
14. SQSS regulations require cables to be rated for the nominal maximum capacity of the wind farm. This does not allow the rating of cables to maximise utilization, which might be the economically rational approach at certain sites.

### **Timescale Implications**

15. The tendering and appointment process for OFTOs in the proposed approach will take up to 12 months from the date the developer makes a connection application to the GBSO, and possibly longer if there is an annual competition.
16. The consultation document envisages a pre-application process involving the developer and GBSO, to select an onshore grid connection point and identify a cable route through a desktop study before making the connection application. This will be followed by up to 6 months of inaction, or potentially more if there is an annual competition.
17. The sub-sea survey is proposed for Stage 2 of the OFTO competition. When would the preparatory work take place? The timing of sub-sea surveys is dictated by weather conditions and the availability of suitable vessels. There will be no certainty that the

cable route is viable, and no detailed design work will be possible, until consent is granted.

18. The introduction of additional stages and players into the process of obtaining consent for a viable offshore cable route under the enduring arrangements is likely to result in a significantly longer process than if it was left to the developer under the transitional arrangements.

## **Conclusion**

19. The RIA states that “The proposals being consulted upon will have significant economic benefits for all participants across the offshore renewable sector – generators, OFTOs, suppliers, users and consumers – in that they will allow the development of offshore renewable generation projects.”
20. We note that the Government intends to undertake a review after the first round of tenders following the implementation of the regulatory regime. This review will consider the impact of the regime on the offshore wind industry and will specifically address, among other things, the costs and benefits experienced by offshore developers and OFTOs in relation to overall costs of the offshore transmission regime and the effect on the Government’s renewable energy targets.
21. We are surprised that no risk assessment of the cost and time implications of the proposals on generators appears to have been undertaken during the development of the proposed approach, and await with interest the results of the programme and risk scenario testing initiated at the workshop on 10 August.
22. If, as we suspect, the proposed approach to offshore electricity transmission will have both cost and time implications for developers of offshore wind projects, these will need to be set against the revised RO in determining the economic viability of offshore wind.

5 Sep 07