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Dear Colin

Offshore Electricity Transmission – A Joint Ofgem/BERR Policy Statement

Scottish and Southern Energy welcomes the opportunity to comment on the Ofgem/BERR joint policy statement on the development of the competitive regime for the ownership of offshore transmission network assets.

The policy statement covers many areas of work at varying levels of development. In our opinion, the critical issue is how to reach a clear understanding of the investment proposition for both offshore windfarm developers and prospective offshore transmission asset owners (OFTOs). The key elements necessary to achieve that understanding are:

- the allocation of risks between parties (prospective windfarm developers, network owners including the prospective OFTOs, the GBSO and the generality of customers); and
- the charging regime for offshore windfarms.

Clarity on the former is essential if the proposed competitive approach to awarding multiple OFTO licences is to realise meaningful bids, and clarity on the latter is necessary to establish

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the economic viability of large scale offshore windfarm developments. We set out some of our thoughts on this below.

We believe that the key issue for both developers of offshore wind stations and prospective OFTOs is a clear understanding of the allocation of risk in this new and complex regulatory process. For example additional risks, when compared with the existing regulatory regime, are incurred during the application and tendering process where:

- the windfarm developer faces the risk that no OFTO can be competitively determined; and
- the prospective OFTOs face the risk that a generator may not accept the connection offer (i.e. the power station is never actually built).

It is clear from the policy statement that generators will incur a "substantial" application fee and that prospective OFTOs will carry the costs of submitting a tender. However, for this process to work, how the risks are allocated between the three possible parties (the generator, the prospective OFTO and the GB consumer) need to be clearly defined. For example:

- Does the "substantial" application fee cover all the costs of the stage 1 offer including the pre-feasibility study?
- What are generators' underwriting obligations between acceptance of a stage 1 offer and the stage 2 offer?
- Is the generator liable for a cancellation fee? And, if so, what and when is this incurred?
- When an OFTO becomes a preferred bidder, does it remain liable for all its bid costs?
- Where are the administrative costs of the tendering process recovered?

Clearly, the risk matrix will be significantly more complex with the inclusion of a DNO.

We believe that a key piece of work for the tendering group (for the application process) and the licensing group (for the enduring regime) should be to map out the allocation of risks. The provision of process timetables, gantt charts, sample licences and sample stage 1 and stage 2 offers are, in our opinion, all necessary for the understanding of risk allocation.

In addition to gaining a clear understanding of the allocation of risks (as described above), developers of offshore windfarms also require some certainty over the network charging methodologies (connection, use of system, transmission and distribution) that will be used. Without these methodologies, it is impossible for a developer to forecast its liabilities for connection and use of system charges and, hence, assess the viability of its development.

We understand that NGET is progressing the TNUoS methodology for offshore generators and the publication of its early pre-consultation paper is welcome. However, with an aspirational 'go

active' date of October 2008, further effort is required and this issue should be progressed by NGET and the distribution working group.

However we note that with the prospect of wholesale change following the Transmission Access Review (TAR) the level of uncertainty over charges for transmission access remain high. Further there will clearly be wider interactions between this process and the *Call for Evidence for a Review of Transmission Access* published last month by DBERR and Ofgem. The TAR considers access to the onshore grid only and, while noting this interaction with the offshore regime, does not explicitly seek views on the implications. The models proposed in the TAR document, if implemented, may have significant impact on this offshore regime and it is clear that this work cannot proceed in isolation from the TAR.

This additional uncertainty, particularly in relation to charging, only compounds that associated with the appointment and licensing of OFTOs which has prevailed since the “Future Offshore” consultation in 2002. Any progress that can be made in reducing overall uncertainty can therefore only be welcomed.

Subject to our comments about TAR above, we agree that the workstreams that are planned are appropriate to progress the development of the regime. We look forward to receiving the terms of reference and timetable for the workgroups, and participating in the next stage of work.

I hope these comments are helpful, and if you would like to discuss this further then please give me a call.

Yours sincerely

Malcolm Burns
Regulation Manager