

Sam Cope (Ofgem) and Paul Hawker (DECC)
Response sent by email.

Renewable Energy House
1 Aztec Row, Berners Road
London, N1 0PW, UK

T +44 (0)20 7689 1960
F +44 (0)20 7689 1969
info@bwea.com
www.bwea.com

Dear Sam and Paul

BWEA response to the Joint Ofgem/DECC consultation on the Offshore Transmission Regime – published 20 November 2008

BWEA welcomes the opportunity to make a response on the latest joint policy statement regarding the offshore transmission regime.

Representing 458 corporate members, BWEA is the UK's leading representative for the wind, wave and tidal energy industry. Further information on the work and membership of our organisation can be found on our website, www.bwea.com.

Material Issues – as submitted on 18th December

Timing of the regime

A further delay to the Go-Active and Go-Live dates has been announced in the current consultation. While the need to ensure the regime is fit for purpose is important, this delay also creates a degree of uncertainty for developers who predict they are on the edge of entering the transitional or enduring regimes. This has significant impact on development assumptions and decisions for these projects. It is also a concern for potential OFTO companies considering the regime and manufacturers who must try to predict how many projects will come forward.

We would ask that you confirm that no further delay will be necessary. If a further delay is required then it may be preferable to delay by a sizable period, such as two years, and so give clarity to all parties, than to propose another series of shorter delays.

Whilst we welcome the implied flexibility of the regime, this is not sufficiently certain within the published documents against which participants can make

informed business decisions. As a general principle, if areas of the proposed regime deviate from the objectives of the regime then it is better to amend or remove them than to increase flexibility.

The need for a strategic approach to offshore transmission

As stated in previous responses, collaboration between projects and planning for an offshore transmission network will be important for the delivery of Round 3. We continue to support this position and will elaborate further in our full response.

We expect the work by Crown Estates and ENSG to clearly show that coordination of onshore and offshore connections between zones and projects results in a more efficient overall network. It is in the economic interests of Great Britain that the offshore regime assists rather than prevents this coordinated approach.

Third Package Unbundling requirements

The decision that companies must divest either their generation and supply or transmission assets has serious implications for the regime.

Firstly, BWEA consider that this interpretation of the model means that a developer could not be an OFTO. Further explanation as the interpretation of the directive develops would be appreciated and a further explanation the practical implications of the ISO and ITO models would be helpful.

On the OFTO of last resort, it is appreciated that Ofgem and DECC have tried to give comfort that an OFTO will be made available should the tender process fail. This does however represent a major change to the proposed regime and so will introduce uncertainty. The contract for the OFTO of last resort will be crucial. A developer will wish to understand the terms and agreements that the OFTO of last resort will be subject to in advance and ensure they know what terms they will receive should the tender fail. The potential OFTO of last resort will wish to know more about how it will be regulated by the standard license condition.

The potential for the extension of the OFTO of last resort mechanism to the enduring regime has not been made clear. Whilst reference is made in the consultation to a process akin to the supplier of last resort mechanism, more detail is sought. There may be a role for the OFTO of last resort in the event of abandonment, in either the transitional or enduring regimes.

The pool of OFTOs available will now undoubtedly be restricted. BWEA would request confirmation of the number of potential OFTOs available. It would be helpful to know whether these are able to bring both finances and expertise.

Availability and performance obligations

BWEA would like to explore the possibility that an incentive is developed based on annual GWh availability of the wind farm rather than based on the period of availability. This new target would be based on annual energy output taking into

consideration of the intermittent nature of the generation. We will include further detail in our full response.

Charging and Socialisation

In response to the June consultation, we raised a concern that the review of the charging proposals put forward by National Grid represented a reduction in the socialisation of costs. BWEA has made a separate response to the National Grid Consultation. There, we raised concerns that a change to charging at this stage in many projects' development was harmful to the ability of these projects to deliver. Projects have made assumptions on the equivalence of the on and offshore charging regimes and altering this equivalence means that projects must reassess their financial viability. These additional costs should be reconsidered in the wider framework of costs and incentives across the whole offshore wind industry.

The need for review

The members of BWEA are committed to meeting the UK's share of the 2020 targets and securing greater UK energy independence by delivering a quality and fit for purpose offshore generation and transmission system.

The changes put forward, and in particular those referred to above, represent a major change from the previous consultation. A significant amount of uncertainty is attached to these changes. It is vital that more work is done to resolve these issues and give greater clarity to the regime between now and Go-Active/Go-Live. BWEA offers its resources to support the development of this process.

We previously stated that an assessment of the performance of the regime should be made once the first transitional and enduring projects have been completed. We now feel that a review and changes must be made before the regime is ready for implementation.

Comments further to the material issues

Progress since June 08 Policy Statement

Some of the issues raised by BWEA and Scottish Renewables to the June consultation have been addressed in the last 6 months. For example the joint BWEA and National Grid workshop on the 1st of December has allowed industry to work through some of the issues around the regime and identified some new approaches to aspects of the regime. The workshop did not cover the tender process in depth and a follow up workshop could address this and would give opportunity to discuss the implementation of the regime further.

We are pleased at the greater emphasis placed on flexibility. More information would be useful on how flexibility can be used to manage the strategic connection of Round 3.

As a general principle, clear guidance on how different project scenarios are managed is preferred to a greater commitment to flexibility. Projects require sufficient certainty to make business investment decisions and this is especially true as more active projects move to financial close and the Round 3 tender process nears completion.

We are pleased that the formation of the Office of Renewables Energy Deployment is a step in the right direction on accountability for delivering renewable energy.

Finally we are pleased that Ofgem is increasing its staffing levels for its active role in the regime. The ability of Ofgem to manage potentially large numbers of claims in one tender window remains an important issue.

Embedded Generation

Ofgem's own internal review has concluded that these should be treated as directly connected generators. Whilst not unexpected, the impact is that the affected transitional generators will be required to derogate significantly from the SQSS, Grid Code and BSC such that they look like a LEEMPS generator that has to pay TNUoS but receives none of the advantages. Ofgem's conclusion should be revisited in this context.

OFTO timetable

In June we raised concerns about the ability of the OFTO to make a firm bid in the three month period suggested. We also expect difficulty for the OFTO supply chain in making bids that would remain valid over the lengthy period before an OFT is chosen and commitments are made. These timing concerns remain and we hope it will be addressed in the further tender document consultations.

Separation of transitional transmission and generation assets

We previously also requested more guidance on the separation of OFTO and Generator assets on projects that were not designed to be separated. We remain of the position that while there are contractual mechanisms available to do this, the offshore environment adds a great deal of complexity to these negotiations. The correct interpretation of standards and codes on already built or almost built assets adds further complexity. The identification of nine transitional projects should aid the resolution of these concerns, but more guidance would be appreciated.

RAV assessment

The comments made in June on the ability to independently assess value remain. We remain of the position that value for money does not always equal least cost and the assessment of the engineering process will require expertise. The assessment of RAV needs to allow for the cost of reasonable risk mitigation.

New issues concerning the current consultation

End of regulated revenue stream (pge 38-41):-

The flexibility afforded by the options is welcomed to allow licence extension or re-tender depending on the circumstances. It was felt in this context 20-22 years from now is a long time away.

BWEA members have suggested a fourth option, where the OFTO no longer wants to be involved. More guidance on this circumstance should be put forward.

Adjustments to the revenue stream (pge 41-43):-

BWEA feel that there is a third, perhaps more appropriate, indexation option in addition to the two proposed. This would be an option to index the Capex component to de-risk the firm price requirement under the tender bidding process and fix the Opex element. This would reflect the potential change in prices for raw materials for components where as O&M contracts are often for a fixed price.

Refinancing (pge 43-44):-

The proposals for recovery of refinancing benefits are generally not supported on the basis that this is considered to be a potential upside of the OFTO opportunity. It also constitutes an adjustment mechanism within the 20 year price control period despite Ofgem's intention for their to be limited ability to re-open. BWEA question whether OFTO losses would be shareable as well?

Incremental capacity increases (pge 44-45):-

The 20% threshold is not considered to be relevant on the basis that if the potential to expand the network is not designed in the first place, the costs associated with expanding the network would be likely to exceed the 20% threshold in most cases.

Construction securities (pge 52):-

BWEA feel that the construction phase security provided by an OFTO would be a useful commitment to the construction of the offshore network. A level of 20% was suggested on the basis that this equated to the incremental level of investment threshold. In the event that the OFTO walked away from the project the money could be transferred to the incoming OFTO to help it complete construction. The assumption is that the security would be held in escrow, with the balance transferred back to the OFTO upon completion. Alternative and less costly forms of security should also be considered, such as bonds etc.

Financing 120% of the construction would prove expensive, so the security should reduce as the works progress and the consequences of default reduce.

BWEA suggest that no more than 5% would be held back until the end of the defect period.

Reactive Power capability (pge65-68):-

The issues arising from reactive capability provision are noted.

GB SQSS:-

We note the wider review of GBSQSS. In general we favour an approach where the cost benefit of network designs is assessed on a project by project basis, rather than to a set of deterministic standards applied regardless of other factors. We recognise that this may cause issues for the consenting process as it would complicate the establishment of need.

An example of where this deterministic approach comes leads to inappropriate designs, is the blanket assumption of the use of double busbar connections offshore. Many of our members have criticised this as unnecessary. Other configurations can give equal or better levels of reliability and operational flexibility.

We hope that these comments are taken in the constructive manner that they are intended. BWEA sees its role as developing solutions in working with DECC, Ofgem and the wider industry. We wish to offer our assistance in any way we can to help further develop this regime.

BWEA sees its role as developing solutions in working with DECC, Ofgem and the wider industry. We wish to offer our assistance in any way we can to help further develop this regime.

Yours sincerely

Peter Madigan
Offshore Renewables Development Manager

BWEA