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Dear Sam

Offshore Electricity Transmission - A further Joint Ofgem/DECC Regulatory Policy Update

E.ON UK welcomes the opportunity to respond to the latest consultation document on the offshore transmission regime. Whilst we comment on the latest draft codes and licences, our ability to review these documents has been limited by the time given to respond.

We continue to support the competitive tender process in principle. We do, however, have continued reservations with the complexity of the process. Whilst we welcome the inherent flexibility that Ofgem is building in to the process, we are concerned about the uncertainty associated with the arrangements this leaves and how the tender process will be managed in practice.

The uncertainty as to whether a project will qualify as a transitional project or not, this close to the proposed Go Active date, must be resolved clearly and quickly. This continues to have a material affect on ongoing project assumptions and decisions, particularly for those projects that will just fall short of the transitional criteria at present. We would welcome more clarity from Ofgem in this area.

We are also concerned about the level of interest there may be in the OFTO opportunity, given the current conditions in the financial markets, and thus the level of competition likely to emerge.

As stated in our material issues response of 18 December 2008, we remain concerned about the implications of National Grid's charging proposals for the treatment of offshore platforms and Ofgem's position in respect of Licence Exempt Embedded Transmission connected generators.

We address each of the chapter's questions in turn below:

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Chapter 2 – Implications of European Union Unbundling Requirements

We support in principle the revised OFTO of last resort arrangements proposed in light of the forthcoming European legislation. In some respects this will help to remove an area of uncertainty associated with the transitional arrangements. This may, however, have implications as to the level and effectiveness of competition. The conditions in NGET's Special Licence Conditions C2 and C3 are appropriate protection to mitigate against this.

We welcome understanding how the mechanism will work in practice once Ofgem has developed its thinking further on this point.

We would support extension of the OFTO of last resort mechanism to the abandonment scenario under the enduring arrangements. It may also be necessary to consider the use of Standard Licence Condition B18 in the event that an OFTO fails to be appointed under the enduring tender process.

Chapter 3 – Regulatory Regime

We are generally supportive of the proposals with regard to the regulatory regime. We have comments in respect of the OFTO operation incentive arrangements and the practical issues associated with completion of the offshore network for transitional schemes and the point when the OFTO licensee becomes responsible for the regulated assets.

Upon further consideration it is not clear to us that the OFTO operational incentive arrangements provide a sufficient incentive for the OFTO to rectify faults as quickly as possible. In the extreme scenario, of a long term fault curtailing generation, the OFTO's exposure is capped to 10% of its annual revenue. This in effect caps the level of compensation entitled to an eligible offshore generator.

There needs to be a strong enough incentive on the OFTO to rectify catastrophic failures as quickly as possible. In these cases the generator's losses are far greater than the OFTO's. With the banking mechanism under the extreme scenario, the OFTO's 10% cap could quickly be reached for a number of subsequent years, thereby capping its overall loss without being incentivised to rectify the fault quickly. We note that the permit mechanism to reward good performance means that the incentive arrangement is no longer asymmetric.

We would suggest that an alternative form of target availability be considered that is not linked to network availability but a target GWh value based on the load factor of the wind farm. This would incentivise the OFTO to co-ordinate outage related maintenance work.

To overcome the catastrophic failure risk, the OFTO's revenue cap should be removed and it should be required to take out sufficient business continuity insurance to cover this risk. Licence revocation will not help to rectify a catastrophic failure. The permit mechanism for rewarding performance in excess of target may be more appropriate if a greater percentage of the OFTO's revenue is exposed. The generator should also be allowed to cover the cost of any acceleration it seeks of the rectification works, where the costs exceeds the OFTO's regulated revenue and/ or insurance cover.

With regard to transitional projects that will not have completed construction by Go Live, it is not yet clear at what point the OFTO will take responsibility for the regulated assets. Commissioning of the windfarm may take place over an extended period, as turbines are added to the array, particularly for larger windfarms. First export however will occur once the first turbines are installed and the offshore transmission network energised. We would welcome clarity with regard to the point the OFTO will become responsible for the regulated assets, particularly if an independent engineers audit report on the regulated assets is required prior to transfer of the assets.

Chapter 4 – Standard Industry Framework

Our comments are limited to the Grid Code, STC and BSC. Although we made a substantive response to the June 2008 consultation on the offshore SQSS, we note that Ofgem has not revised the SQSS requirements and therefore we have no further comments to make with respect to the SQSS at this time.

Grid Code

CC.6.3.15 Fault Ride Through

The text states that an offshore power park module connected via HVDC transmission will be subjected to a load rejection in the event of an onshore fault or voltage dip. However, one likely solution to fault ride through for wind farms connected via HVDC links is to install a dump resistor in the offshore transmission system (in the DC link). This dump resistor will dissipate the output power of the wind farm for the duration of the onshore grid disturbance and hence the wind farm will not be subjected to a load rejection.

Hence, the text needs to be flexible to permit a variety of fault ride through solutions, whether installed in the offshore transmission system or in the offshore power park module (or a combination of both) so that the most economical and effective solution can be selected for each project. It would be preferable if the fault ride through requirements were combined with those placed on the offshore transmission owner via the STC so that Generators and OFTOs can develop and agree the most appropriate solution in each case.

CC.6.3.15.2 (b) Fault Ride Through (Option 2, long duration disturbances)

In this option, the same voltage-time profile as used in option 1 on the onshore Supergrid system (i.e. Figure 5), is also applied at the LV side of the Offshore Platform (i.e. Figure 7) (e.g. 33kV). We have identified that this characteristic may be more onerous than the withstand capability of one typical wind turbine, which can withstand a retained voltage of 80% to less than 90% for up to approximately 10s, whereas Grid Code Figure 7 requires 85% for 3minutes. We therefore have doubts that the characteristic of Figure 5 can be moved from the onshore Supergrid system and be directly applied without modification to the offshore platform LV side grid entry points. We suggest that NGET review Figure 7 against both system needs and product capability.

STC

Section K

The fault ride through requirements in this code ought to be revised to permit solutions in which the OFTO and Generator agree that the solution can be provided and facilitated by the OFTO e.g. as in the case of a dump resistor installed in the offshore transmission system to dissipate the power output from the power park module. Such a solution would be technically efficient and compatible with most types of generating unit technology.

BSC

Please see attached appendix with regard to changes we consider as essential for the appropriate treatment of Licence Exempt Embedded Transmission connected generators. This intends to ensure that these connections can continue to be settled through SMRS, as we do not believe transitional projects will be able to satisfy the CMRS requirements and operate effectively under those requirements.

We hope you find our response helpful. We would be happy to discuss our response with you further.

Yours sincerely

Guy Phillips
Senior Project Developer