

NGET Material comments on Ofgem/DECC consultation

These comments reflect NGET's initial view of the material issues arising in the latest OFGEM/DECC consultation on the offshore transmission regime. We intend to make a further response to meet the overall deadline for comments of 9 January 2009.

Overall approach

National Grid still has reservations about whether the proposed approach of competitive appointment of offshore transmission owners is the best way to meet 2020 renewable targets and intends to raise this separately with DECC .

However, we have always stated that we are committed to making the current regime work and in this regard we believe we have made progress in further developing the role of the GBSO within the regime. NGET does, though, have a number of comments on the latest consultation, some of which we believe to be material.

OFTO of Last Resort

The consultation document contains revised provisions for OFTO of last resort which represents a significant change in policy. Given the implications of the Third Package unbundling proposals and the current financial climate, there appears to be a reasonable chance that NGET may be called upon to perform the TO of last resort.

If NGET were to have OFTO of last resort provisions in its licence, then it would be necessary to understand how likely it would be that it would have to undertake the role. In the absence of this information it is difficult to envisage how we can resource up, and secure the necessary supply chain, to discharge the obligations.

Further information about the terms under which an OFTO of last resort would operate (e.g. would the TO of last resort be enacted if bids from the tender came in high than a regulated 5 year price control solution), or indeed whether the OFTO of last resort is an enduring or transitory arrangement, is required.

Initial Connection Offer

The connection application approach proposed for an offshore application envisages an initial connection offer being prepared not later than three months after the connection application. This offer will be based on a number of high level assumptions, and it needs to be stressed that significant work will need to be undertaken to finalise this offer once a preferred OFTO has been identified. The timescales associated with this will need to be recognised in the transmission licence drafting. The precise technical requirements and design of the offshore network and hence implications on the OFTO can only be finalised further to detailed technical analysis and this finalisation does have the potential to impact on the OFTO's and the offshore generator's overall costs. Consideration will need to be given as to whether the OFTO is permitted to revise its tender once the offshore network design have been finalised.

We also note that the Offshore Generator will need to provide sufficient information to the data room in order for an optimum offshore network to be designed. We would also envisage that clearly defined responsibilities between Offshore Users and OFTO's would need to be specified either at this stage or during the Tender process.

Overall co-ordination and implications for Round 3

The connection application process as envisaged will result in an incremental development of the offshore transmission system. The onus will be on offshore generators to coordinate the timing of their applications to ensure any potential benefit from co-ordination is achieved.

It should also be noted that incremental changes may be required to the codes as they have currently been drafted on the basis that the offshore networks would be radial in nature and no longer than 100km offshore. We envisage that the Round 3 projects could exceed this criteria and suggest that such changes could be managed through the normal governance process of the Codes.

Implications for network design in Scotland/DNOs

The proposed connection application process requires an overall assessment of onshore and offshore costs to derive an optimum network solution. NGET in its role as GBSO will co-ordinate this assessment and for offshore generators that connect into England and Wales will also undertake the onshore assessment.

For offshore generators that connect into Scotland, or indeed close to existing offshore transmission infrastructure, and assessment of the likely impact on that third party's transmission system will be required. This will need to consider a number of options to ensure that an optimum solution is provided. The relevant obligations need to be clear in the STC to ensure that this input is provided.

Additionally there will need to be clear obligations on DNOs when connection of an OFTO to a distribution system is being considered.

Mismatch between Transmission and Distribution Limitations of Liability

The arrangements proposed for dealing with embedded transmission envisage NGET applying to a DNO for connection. This gives rise to a mismatch in respect of limitations of liability whereby NGET will remain liable for a maximum of £5m and the DNO is only liable for a maximum of £1m. This mismatch gives rise to an unacceptable risk for NGET and will need to be addressed via bilateral arrangements between NGET and the relevant DNO.

Liquidated damages from onshore TO/DNO

The consultation envisages that an onshore TO may be liable for liquidated damages (via the STC) should late delivery of onshore assets occur. It is our view that if this proposal is implemented then it would necessitate a review of

the onshore price control arrangements for TOs as it would significantly increase the risks faced.

These arrangements will need to be considered in the light of any revisions to the transmission access arrangements.

Compliance

Clarification is required on NGET's exact role in respect of ensuring that OFTOs are compliant with the necessary codes and standards. Currently NGET has no role in respect of certifying compliance of Scottish Networks. NGET is expecting that a process of effectively self-certifying will apply to OFTOs.

Reactive

NGET notes the comments made in the consultation about the treatment of, and subsequent payment for, reactive assets and their utilisation. We are currently considering a number of options for the treatment of reactive power and the associated charging mechanisms and expect to have further discussions with Ofgem in this regard.

Transmission Access Review

The offshore transmission regime will need to be assessed against the eventual outcome of the Transmission Access Review.

Charge setting for 2010/11

Indicative charges for the charging year 2010/11 will be published at the end of December 09 and National Grid has a licence obligation to publish final tariffs 60 days before the start of the year (e.g. published at the end of Jan 2010). Under the proposed offshore charging methodology, an offshore generator's TNUoS charges are derived from the OFTO allowed revenue stream and using technical data. It can be assumed that the revenue streams will be known at the award of the contract for the successful tender and this will then be followed by a data request (under a STCP) to the successful OFTO for the technical data.

The issue arises around transitional projects where the award of the tenders for the existing offshore projects will not happen until Dec 09 at the earliest. Even if this is achieved this does not allow any time for the data request and subsequently undertaking charge setting. If estimates are used for charge setting, National Grid is exposed to any over or under recovery with punitive interest rates (Kt). Inaccurate data would not only affect offshore tariffs but onshore tariffs for both generation and demand as it would effect i) Total MAR ii) the split of generation revenue to be collected between onshore and offshore iii) total revenue to be collected from demand.

Assistance to the Tender Panel

Standard Condition C25 gives NGET obligations to provide assistance to the tender panel. The condition is non-specific in nature and it is difficult for NGET to accurately understand the nature and level of this assistance. We believe that further discussions are required with Ofgem in this regard to gain a

mutual understanding of likely requirements, and hence enable us to identify the resource required to discharge this obligation.

Funding

This consultation, and others before it, highlight the additional roles and obligations that NGET will take on under the offshore transmission regime. NGET is developing a forecast of the resources that will be required to enable us to discharge these obligations. It is essential that timely agreement of these forecasts and funding mechanisms are agreed with Ofgem to allow us to identify and recruit the resource prior to the additional obligations becoming active.