

Richard Clay
Senior Manager, Offshore Transmission
Ofgem
9 Millbank
London
SW1P 3GE

John.Greasley@uk.ngrid.com
Direct tel +44 (0)1926 656313
Direct fax +44 (0)1926 653052

www.nationalgrid.com

16 April 2009

Dear Richard,

National Grid Electricity Transmission (NGET) is pleased to respond to the Ofgem consultation 'Offshore Electricity Transmission: Updated Proposals for the Competitive Tender Process'. As designate GBSO (Great Britain System Operator) for offshore transmission networks, NGET has a key role to play in ensuring the successful development, implementation and ongoing operation of the offshore regulatory regime.

In our response to the previous consultation on the competitive tender process (November 2008), we set out our views on the role of NGET in the offshore transmission regime, and in particular described how we saw the role of the GBSO playing out in respect of managing and co-ordinating applications from offshore users. This description highlighted our view that the offshore transmission regime as proposed would result in piecemeal development of offshore networks rather than co-ordinated strategic development.

With this, and other considerations, in mind we continue to hold reservations about whether the proposed approach of competitive appointment of offshore transmission owners (OFTOs) is the best way to meet 2020 renewable targets. However, as we have always stated, we are committed to working with Ofgem and DECC to make the current regime work and in this response we are limiting our comments to Chapter 6, Tender Process for the Enduring Regime, and in particular, how a co-ordinated and strategic approach could be delivered whilst still maintaining the principle of competitive appointment of offshore transmission owners.

We believe that the transitional tenders should continue as described elsewhere in the document and in accordance with Ofgem/DECC's final consultation on the regulatory policy for the offshore transmission regime.

Comments on Chapter 6, Tender Process for the Enduring Regime

We note that the design of the tender process for the enduring regime will be refined over the coming months, and that in part, this would be informed by the experience of the first round of tenders in the transitional regime. We agree with this approach but would expect that there will be significant differences between the transitional tenders and the enduring tenders, not least because bidding companies in an enduring tender would then be required to construct the required transmission assets. This will not be the case in the transitional tenders where assets will be built prior to transfer to the successful bidder, and caution must be exercised in drawing too many conclusions from the transitional tenders.

We note the comments in the consultation that it is Ofgem's view that the overall approach being adopted would facilitate a co-ordinated approach to network development in the enduring regime and that this conclusion is drawn from a consideration of:

- The Crown Estate's leasing programme for Round 3;
- the role of NGET;
- tender windows; and
- the remuneration of efficient pre-construction costs.

We agree that these aspects, along with close working arrangements between The Crown Estate, NGET, Ofgem and developers will help to deliver a co-ordinated approach. We believe that this would be further enhanced if an OFTO was identified early in the process to contribute to this co-ordination, and therefore we advocate an approach where an OFTO is appointed to develop all of the offshore transmission infrastructure for a particular zone. This is explored in further detail below.

The consultation document describes The Crown Estate's programme for leasing under Round 3. As preferred bidders for the Round 3 sites become known, we would expect to start working with them to consider their zonal development plans, and how best to align their offshore requirements with ongoing work to develop the onshore transmission system.

We have considered what information we, as GBSO, could publish that would assist developers and OFTOs in planning for the future development of the offshore system. We believe it is important that information is published that highlights the most appropriate onshore connection points to ensure the best alignment between onshore and offshore network developments. Our discussions with Ofgem are ongoing on this subject, but ultimately we are committed to publish information that is valuable to interested parties without consuming significant amounts of resource to produce.

We agree with the statements made in paragraph 6.18 of the consultation document that NGET should be able to make offers to offshore connections in a number of ways including:

- A connection designed for a single project between the onshore grid and the offshore connection point;
- A connection designed for a single project on a phased development basis – i.e. a phased increase in cables over a defined period; and
- A connection designed for a group of separate projects. This connection could be phased as well.

As stated above we would expect to work closely with offshore developers in order to co-ordinate their (and others) connection applications. Ultimately, however, the amount of co-ordination achievable will be dependent upon the way in which developers wish to apply for their connections and the amount of interaction that takes place between individual developers. The way that developers choose to time and phase their connection applications will impact on the individual offers that they receive, and whilst the offers that we make will, individually, represent an economic and efficient solution, the aggregate solution that is eventually delivered may not be the most optimum overall.

Given that the behaviour of developers is key to the delivery of efficient offshore networks, we believe that further clarity is required on the amount of influence an offshore developer has in respect of the detailed network design which forms the connection solution it receives. The proposal to remunerate efficient pre-construction costs may well encourage developers to undertake work prior to the tender being held.

As stated in our response to the previous consultation, any information that a developer can provide at the time of its connection application will be taken account of in making an initial connection offer. Additionally we will also take into account other information, such as the need for onshore development and the risk of sterilising strategic investment corridors through piecemeal development of offshore networks. This will result in determining, for example, the best onshore connection point. There may be circumstances when this results in initial connection offers which do not meet with offshore developer's expectations. In these cases referrals to Ofgem may be made.

As stated above, it is NGET's view that all interested offshore parties should work closely together to identify the most appropriate offshore transmission investment. Due to the zonal nature of offshore development, it is NGET's view that transmission developments should also be considered on a zonal basis. In this regard, we believe that the early competitive appointment of an OFTO who then has responsibility for delivering the offshore transmission infrastructure within that zone would allow a co-ordinated plan to be developed between the key stakeholders.

We believe that this approach could be incorporated within the framework being proposed by Ofgem and DECC, and believe it should be progressed for the later Round 2, the Scottish Territorial Waters, and the Round 3 sites.

NGET looks forward to continuing to work with Ofgem on the implementation and operation of the offshore transmission regime.

I hope that you find these comments useful, please contact me if you require any further information.

Yours sincerely

John Greasley
Future Transmission Networks