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Offshore Transmission Final Consultation
Department of Energy and Climate Change
1 Victoria St
London
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E.ON UK response to the Offshore Electricity Transmission - A further Joint Ofgem/DECC Regulatory Policy Update - Final Consultation Document

Dear Sirs,

E.ON UK welcomes the opportunity to respond to the final consultation document on the offshore transmission regime. E.ON through its Climate and Renewables division is a developer of offshore windfarms with a strong commitment to their through life operation. We have successfully deployed a number of offshore windfarms, including the two Robin Rigg windfarms, which are nearing completion of construction. We are also a joint developer with our partners in the London Array project and are separately developing the Round 2 Humber Gateway project. We also have significant aspirations for Round 3.

E.ON has been a proponent for the development of the non-exclusive competitive award of Offshore Transmission licences throughout the consultation on the development of the new regime. We welcome the commitment to its introduction and look forward to working with Ofgem and DECC going forward both on our projects and the development of the regime, as lessons are learnt through the transitional tender process that may be applied to the enduring tender process.

We address each of the questions in the final consultation document further below. Before doing so however we must reiterate our continuing concerns with respect to the treatment of licence exempt embedded transmission connected generators within the offshore transmission regime.

Licence Exempt Embedded Transmission

We continue to believe that embedded transmission should be treated in the same way as embedded onshore generation as the quality of access rights it receives is equivalent.

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We note that the document states that Ofgem/DECC do not consider that there is justification as part of the offshore transmission proposals to introduce different treatment within the category of transmission connected generation. However, we would urge you to reconsider this position as we believe that otherwise you will be introducing a regime which unduly discriminates against licence exempt generation connected to embedded transmission assets.

It is not correct to consider embedded transmission as being in an equivalent position as 132kV transmission in Scotland. An embedded transmission connected generator or an embedded generator does not receive the same quality of access rights as those directly connected to the integrated transmission system. This is because the access rights of these generators are directly affected by constraints and outages on the distribution system to which they are connected. These systems are not subject to the same standards as transmission assets and do not provide compensation for outages and constraints in the same manner either. In contrast in Scotland, generators connected at 132kV obtain access to the wider transmission system in the same manner as any other transmission connected generator as there is no distribution network in between.

Current proposals

Essentially, the current suite of proposals for licence exempt generators connected to embedded transmission assets can be summarised as follows:

Charges: the generator will be exposed to the charges levied on onshore embedded generators (distribution charges) and transmission connected generators (BSUoS, local and wider TNUoS charges and losses). Therefore it will be exposed to more costs than any equivalent onshore class of generator. Our response on GB-ECM 08 contains a table which clearly illustrates this.

Access rights: these are a mixture of those for an embedded generator and those for a transmission connected generator. In theory, the embedded transmission generator will be compensated under the CUSC for loss of availability of the wider transmission system. However, more importantly, if there is a fault on the distribution system linking the offshore transmission assets with the wider transmission system, there will be no compensation to the generator. The loss of the distribution system is the more immediate risk to the generator than a loss to the wider system beyond these assets. Therefore, the access rights of the generator are much more closely aligned to those of an embedded onshore generator than a transmission connected generator onshore.

Registration: the generator would be required to register in the same manner as a transmission connected generator onshore (ie. in CVA). It would be required to provide

physical and contract notifications and be exposed directly to settlement and imbalance charges.

Therefore, the obligations on the licence exempt generator connected to embedded transmission assets will be greater than those for an equivalent embedded onshore generator, whilst its access rights and routes for compensation will be largely the same. Conversely, its obligations will also be greater than those for an equivalent onshore transmission connected generator, whilst its access rights will be worse. Therefore differences in obligations do not reflect difference in the underlying nature of rights provided. An onshore generator with equivalent rights (embedded) is charged less, as is one with better rights (transmission connected). Therefore, this represents undue discrimination.

E.ON's model

E.ON's model is for the licence exempt embedded transmission connected generator to be exposed to a regime closer to the onshore licence exempt embedded generator. This would entail:

Charges: the generator will be exposed to the charges levied on onshore embedded generators (distribution charges) and also a charge to cover the offshore transmission assets. Therefore, its treatment is not directly the same as for an onshore embedded transmission connected generator. However, the charge for the offshore transmission assets can be thought of as equivalent to the assets a generator would have to fund to transfer power from its generating station to the connection with the distribution system.

Access rights: these would be similar to those for an embedded generator onshore. The embedded transmission generator would not be compensated under the CUSC for loss of availability of the wider transmission system which is fair as it would not be paying for it. If there is a fault on the distribution system linking the offshore transmission assets with the wider transmission system, there would be no compensation to the generator.

Registration: the generator would be required to register in the same manner as for an embedded generator onshore (ie. in SVA). It would not be required to provide physical and contract notifications or be exposed directly to settlement and imbalance charges. Instead it would be treated as negative demand and netted from local demand in the GSP Group like the onshore equivalent embedded generator.

Therefore, we have proposed a solution to the licence exempt embedded transmission issue which means that generators are exposed to a fair range of obligations which reflects the nature of the access rights acquired. It should be noted that our proposal

does not entail any free riding of costs. We believe that the generator should be exposed to the costs of the offshore assets and the assets of the DNO to which these offshore assets connect. However, we do not believe that it is appropriate to levy wider transmission charges such as TNUoS and BSUoS when the level of access generators will receive is the same as generators who are not exposed to these charges.

Our model could be implemented with minimal effort to the offshore project. The charging implications were outlined as part of the consultation for charging methodology change GB-ECM 08. We included proposed drafting for the required BSC changes as part of our response to the November 2008 consultation. This drafting is attached again for your information (see response to question 6 below).

Ofgem has been particularly concerned about discrimination recently, such as in respect of liabilities for generators under CUSC Amendment Proposal CAP131 or in connection with the derogation against the SQSS granted under BETTA. We would therefore urge you to reconsider this element of the proposals. However, should you disagree with our assessment that the proposed arrangements would unduly discriminate against exempt generators on embedded transmission assets, we would ask that the detailed reasons for this are contained in your response. We do not believe that it is sufficient to simply state that the arguments made are unconvincing.

Response to questions in the final consultation

Question 1.

It is very helpful that Government is considering the supply chain and skills capacity of the OFTO's in order to meet the UK longer term investment requirements in offshore transmission capacity.

In this regard as we have maintained throughout it is important that OFTO's not only have the financial capability but also the skills to deliver a quality service when discharging their obligations. The bidder selection criteria under the tender regulations score the financial capability at 60% of the marks, with technical competency at 40%. It may be more appropriate to give equal weight to the criteria. As a present owner of offshore networks we would expect a level of service commensurate with our own minimum standards.

Question 2.

We are broadly supportive of the known unknown adjustment mechanisms. We have previously stated that the 20% threshold for capacity increases is arbitrary. With the

prospect of potential expansion of round 1 and 2 sites and the strategic network investment needed offshore, an OFTO bidder should be able to bid on the basis of anticipatory investment to accommodate future generation and provide the overall most economic and efficient solution.

Turning to the OFTO of last resort, clearly an OFTO will need to be in place for relevant projects at Go Live. Given the tender process for the first transitional tender is expected to commence shortly Ofgem will need to give thought to which point it considers the OFTO of last resort mechanism to allow sufficient time to appoint the OFTO in time for Go Live. In absence of any OFTO's for the first transitional tender this will have to be an existing onshore TO.

With regard to business separation requirements, we support robust requirements to ensure that competition for the OFTO opportunity is effective.

Question 3.

As is stated in the consultation document, the OFTO special conditions will need to be acceptable to all stakeholders in offshore transmission, in particular the developer will need to be satisfied that the right level of service will be provided. There will need to be a mechanism through the tender process of obtaining the developer as well as the OFTO agreement to the final conditions.

One particular aspect that may need to be addressed on a project by project basis is where the developer provides an O&M service as a contractor to the OFTO, the budget for this activity and process for decision making will need to be set out.

Question 4.

The offshore implementation plan is a helpful document, which we will be reviewing further, but we have no comments to make at this time.

Question 5.

As a developer of offshore windfarms and mindful of forthcoming EU transmission ownership unbundling requirements, we have not expressed an interest in the OFTO opportunity. We do think it is appropriate that qualified OFTO representation is part of the Grid Code Review Panel capability going forward. Until OFTO parties are formally identified we cannot make a recommendation for an appropriate representative.

Question 6.

We have participated in a number of the offshore transmission working groups and industry meetings to develop the codes and licences, as well as providing detailed comments on code drafting in response to previous consultations. A key point that remains to be addressed is what we consider to be necessary changes to the BSC to reflect appropriate treatment of Exemptable Generation connected to Embedded Transmission, as referenced in the initial part of our response:

Proposed BSC for treatment of Exemptable Generation connected to Embedded Transmission

E.ON's proposed arrangements for Exemptable Generation connected to an embedded offshore transmission network requires a number of changes to the present wording of Section K as well as definition changes in Section X Annex X-1. As there will potentially be two cases, one where the generation is not Exemptable and one where it is not, it is cleaner to introduce two sets of definitions for each instance.

Case 1, Exemptable Generator connected to Offshore network. Where the generator connected to the offshore transmission system is Exemptable it is proposed that the connection between the Offshore transmission network and the distribution network is treated as a Boundary Point (the commercial boundary where Exports are measured). In this instance, the Offshore network is a means to convey the output of the generator to the commercial boundary, in the same manner as a power station's private network.

Case 2, Licensable Generator connected to Offshore network. For the case where the generator is licensable, the connection between the Offshore transmission network and the distribution network is treated as a System Connection Point (a point between networks). In this instance, the connection point is simply part of the Total System and is a point where flows onto the distribution system from the wider transmission system are measured (for example for the purpose of calculating transmission losses).

Various definitional changes are required in addition to those already proposed for Offshore Transmission:

For Case 1 the connection point between the offshore network and the distribution system needs to be defined.

Exemptable Offshore Transmission Network	means any discrete part of the Offshore Transmission System that is used solely to connect an Exemptable Generating Plant to a Distribution System

Exemptable Offshore Transmission Connection Point	means a Boundary Point at which an Exemptable Offshore Transmission Network is connected to a Distribution System

For Case 2 a similar connection point definition is required and it is suggested that this is the same as proposed in the consultation paper. However, additional text is required to ensure that this definition excludes an Exemptable Offshore Transmission Connection Point.

Offshore Transmission Connection Point	means a Systems Connection Point at which the Offshore Transmission System is connected to a Distribution System, but does not include an Exemptable Offshore Transmission Connection Point

This definition of Grid Supply Point below has already been proposed and should be maintained.

Grid Supply Point	means a System Connection Point at which the Transmission System is connected to a Distribution System and includes an Offshore Transmission Connection Point;

Settlement metering is required at Boundary Points where Exports and Imports take place. Exports and Imports occur where electricity flows to or from the Total System. Therefore, to allow Exports and Imports to take place at the Exemptable Offshore Transmission Connection Point the Exemptable Offshore Transmission Network has to be excluded from the definition of Total System.

The following definition change is proposed.

Total System	means the Transmission System (excluding any Exemptable Offshore Transmission Network) and each Distribution System;

Changes to Section K

Another condition for an Export of Import to take place is that it should flow from the Plant or Apparatus of a Party to or from the Total System. Therefore, the Exemptable Offshore Transmission Network has to be added to the list of such Plant or Apparatus. This is contained in Section K 1.1.4, which also contains the definitions of Import and Export.

1.1.4 For the purposes of the Code:

(a) in relation to the terms Export and Import, references to the Plant or Apparatus of a Party shall be treated as including:

(i) the premises of a Customer supplied by that Party;

(ii) Plant and Apparatus of a Third Party Generator for whose Exports that Party has elected to be responsible in accordance with paragraph 1.2.2(a)(ii)(2);

(iii) Plant or Apparatus (whether or not owned or operated by that Party), not forming part of the Total System, by which electricity is transported from the Total System to premises supplied by the Total System or (as the case may be) to the Total System from Generating Plant providing electricity to the Total System;

(iv) an Interconnector in relation to which that Party is an Interconnector User~~;~~

(v) in relation to an Exemptable Offshore Transmission Connection Point, the Exemptable Offshore Transmission System connected at that Boundary Point.

(b) subject to paragraphs (c) (d) and (e), unless otherwise provided:

(i) "**Export**" means, in relation to a Party, a flow of electricity at any instant in time from any Plant or Apparatus (not comprising part of the Total System) of that Party to the Plant or Apparatus (comprising part of the Total System) of a Party;

Once the conditions have been established so that an Export or an Import can take place at an Exemptable Offshore Transmission Connection Point, the responsibilities associated with those Exports and Imports are outlined in paragraph 1.2 of Section K. The Party responsible for the Export in each of these instances is defined in paragraph 1.2.2. It is

proposed that the provisions relating to onshore Exemptable Generating Plant are extended offshore.

1.2.2 For the purposes of the Code:

(a) the Party "**responsible**" for an Export:

(i) in the case of an Export from a Generating Plant, subject to paragraph (ii), shall be the Party which generates electricity at that Generating Plant;

(ii) in the case of an Export from Exemptable Generating Plant (including an Export from an Exemptable Offshore Transmission Network) :

(1) where the person which generates electricity at that Generating Plant is a Party and has elected (by applying to register Metering System(s) for that Generating Plant in accordance with paragraph 2) to be responsible for such Export, shall be that Party;

(2) subject to paragraph 2.5, where the person (whether or not a Party) which generates electricity at that Generating Plant has for the time being authorised a Party to accept responsibility for that Export, and that Party has elected (by applying to register Metering System(s) for that Generating Plant in accordance with paragraph 2) to be so responsible, shall be that Party;

provided that no Party shall be so responsible unless it has so elected;

(iii) in the case of an Export from an Interconnector, shall be determined in accordance with paragraph 5;

(iv) in any other case, shall be determined by the Panel after consultation with the Authority, on application of any Party;

A similar responsibility for Case 2 (licensable generation) has to be established as per the drafting in the consultation paper in paragraph 1.3.

1.3 **Obligations of Parties in relation to Systems Connection Points**

1.3.2 For the purposes of paragraph 1.3.1, the Party responsible for a Systems Connection Point shall be:

(a) in the case of a Grid Supply Point other than an Offshore Transmission Connection Point, the Distribution System Operator whose System is directly connected to the Transmission System at that point;

(b) in the case of a Distribution Systems Connection Point, the Distribution System Operator nominated in accordance with paragraph 1.3.3; and

(c) in the case of an Offshore Transmission Connection Point, the Transmission Company.

Then it is important to ensure that Exemptable Generation connected to the distribution system onshore are treated the same as those embedded onshore. Therefore, they should be permitted to be registered in SMRS and not be compelled to register in CMRS. The present provisions require all generation connected to the Transmission System (which includes Exemptable Offshore Transmission Networks) to be registered in CMRS. The following change to paragraph 2.1.1 of Section K would rectify this:

2.1 Registration in CMRS

2.1.1 A Boundary Point Metering System shall be registered in CMRS where:

(a) the Metering Equipment measures quantities of Imports to or Exports from Plant or Apparatus which is directly connected to the Transmission System (except where such Imports and Exports arise at an Exemptable Offshore Transmission Connection Point); or

(b) the Metering Equipment measures quantities of Imports to or Exports from a Licensable Generating Plant; or

(c) the Metering Equipment measures quantities of Imports to or Exports from an Interconnector; or

(d) the Panel has determined, upon the application of any Party, that there are special circumstances by reason of which such Metering System should be registered in CMRS.

2.1.2 Without prejudice to paragraph 2.1.1, a Boundary Point Metering System may be registered in CMRS where the Metering Equipment measures quantities of Exports, or Exports and Imports, at the Site of an Exemptable Generating Plant.

The above suggested changes have not been subject to a stringent legal review. We assume that Elexon's lawyers would carry out such an exercise before any such drafting was accepted into the Code.

Please do not hesitate to contact me if you would like to discuss any aspect of our response further.

Yours faithfully

Guy Phillips
Senior Project Developer