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## Offshore Electricity Transmission: An Open Letter on the Enduring Regime November 2009

Dear Sam,

We welcome opportunity to comment on this Initial Impact Assessment. This response is provided on behalf of the RWE group of companies, including RWE npower and RWE npower renewables, a fully owned subsidiary of RWE Innogy.

Given that the focus to date has been the transitional regime, we agree with Ofgem that it is timely to develop the detailed approach for the enduring tenders. Generators, developers and investors will require an early understanding of the form of the enduring regulatory regime for offshore transmission. We do have a concern that, given the scope of the forthcoming consultation and the issues that remain to be finalised, summer 2010 for the enduring tender may be hard to achieve.

Ofgem has identified a number of key themes and recent developments that will impact upon the design of the enduring tender framework and the scope appears to be comprehensive. Although Ofgem's intention is only to update the previously stated approach where there is a demonstrable need for change, it is important that the arrangements reflect the significant additional complexity of enduring Round 2 and Round 3 projects when compared to the transitional projects. The appointment of an OFTO must not introduce a delay (perceived or actual) into the development process and it is appropriate that the tender framework is reviewed. Whilst retaining a competitive framework for the enduring regime, we believe that Ofgem should consider potential alternative approaches. These could include retaining the transitional arrangements where the generator builds the transmission assets, with a tender process to allocate the assets once completed. There may also be some merit in reconsidering the option to appoint a zonal OFTO by competitive tender and making it responsible for all connections in its zone, which would help coordination if the OFTO zones are aligned with the Crown Estate zones.

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If the current tender process is retained, then it will need to be streamlined to reflect the fact that consideration of multiple designs and potentially technologies for each development would extend the assessment processes. Revisiting the proposal to pre-licence potential bidders may help in this regard, as this would avoid the requirement to pre-qualify on a project by project basis.

The key issues from the generator's perspective include how they interface with the tender process, given that it is a critical element of the overall connection application process; consistency with the connection application timings; co-ordination between the onshore and offshore elements of the bid and assurance of non-discriminatory access to the onshore transmission network; clarity of bid assessment criteria; and information provision obligations. More specifically:

- We welcome Ofgem's intention to use the consultation to clarify the scope of the pre-construction works that may be undertaken by the generator. However, the consultation should also address the timing of such works in relation to the OFTO tender round. For example, to maintain project program the generator may wish to progress the OFTO asset consenting works throughout the OFTO tender period (and perhaps even post OFTO election, i.e. may be better for generator to finalise any unsecured consents). The consultation should seek to clarify both scope, timing and process of hand-over of these works.
- The consultation should also address or clarify the arrangement by which the onshore transmission works required to facilitate an offshore connection can progress in advance of the OFTO being elected and second stage offer issued by NGET being signed in order to meet the construction programme, if so required by the generator;
- Technology risk - whilst the availability incentives placed on the OFTO should go some way helping manage technology risk, it is noted that the generator (who is not compensated for unavailability of offshore transmission system) would be the biggest loser if a new technology proves unreliable. As such, the generator, who will ultimately have to meet the greater part of the OFTO's costs, should be consulted and have some means of influencing or challenging the chosen solution, particularly when newer technology is employed;
- The rights and extent to which a generator can express preferences for network design (i.e. outwith GBSQSS) should be clarified along with the mechanism for reconciliation of resulting cost savings / increases;
- Our initial preference would be for a late OFTO appointment provided this still enables connection dates to be retained since, as an offshore generator, we would prefer to progress outline design and associated consenting for the OFTO assets in advance of the OFTO tender round. The consultation should clarify the conflict that may exist between the generator undertaking pre-construction works (design and consenting) versus the desire for facilitating latter OFTO innovation and the extent to which stranding of pre-construction costs and time is a risk;

The open letter also addresses transitional projects and we still require clarity on how adoption will work when projects are phased over a number of years. It is still unclear how phased adoption by the OFTO of assets being constructed by the generator will work to enable generation export from the early phases prior to completion of all the OFTO assets for the whole project. This issue is also relevant to enduring projects which are likely to be built out over a number of building seasons.

We hope these views are helpful and would be happy to discuss them further.

Yours sincerely,

By email so unsigned

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Economic Regulation