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Offshore Electricity Transmission Consultation Response

Dear Sam,

Response to consultation on the Enduring Regime by Siemens Transmission and Distribution Ltd.

This response to the Ofgem consultation Ref: 157/09 is on behalf of Siemens Transmission and Distribution Ltd. We have also contributed to the BWEA response and support the points made therein.

Why is Siemens Transmission and Distribution Ltd responding?

Siemens is the market leading design build contractor for offshore grid connections. To date we have delivered 1.2GW of offshore connections and are contracted for 2.1GW, most of this in the UK. We therefore have a unique and detailed understanding of the assets covered by the OFTO regime and the technical and commercial processes involved in creating and servicing them.

Delivering the UK's offshore wind targets is an urgent and vital part of the response to climate change. The UK offshore regime has to support efficient delivery as early as possible and the development of a local supply chain and skills base to meet UK needs and take advantage of international demand.

We want to see the UK achieve its offshore wind plans and take full advantage of the industrial opportunities. We have made suggestions for clarification or improvement of the OFTO regime, either directly or via the BWEA, in response to the previous consultations by Ofgem and the Government.

As an informed and active participant in this market we wish to continue to work with Ofgem, DECC and industry partners to create a supportive and workable regime that will deliver efficient and timely wind farm developments with their connections. We seek a workable regime rather than a perfect one.

Key principles informing Siemens approach to this issue

We strongly support the benefits of competition and the use of genuine market solutions but, regardless of ownership, an offshore wind farm and its grid connection are fundamentally linked. Together they are a single engineered system, each part is useless without the other, their financing is mutually dependent and there are many technical and economic trade-offs between them to make the whole efficient. The regime should support this process to avoid inefficient solutions and encourage innovation by all parties, generators, transmission owners and especially by their supply chain. The regime should support timely and effective engagement of all these parties.

The scale of the UK offshore wind plans represents an unprecedented challenge to the global supply chain, requiring huge and simultaneous investments to be made by many parties. Lead times for these investments mean that unless the supply chain commits to invest in the next months, capacity will not be available by mid decade to deliver the number of connections agreed with the Crown Estates.

The ability of the supply chain to ramp up in this way depends critically on a steady and visible pipeline of projects to underpin the investment, particularly in the shorter term. Job creation in the UK therefore depends more on the number of early projects than on the potential medium to long term size of the UK market.

Recognising that the issues for regulating offshore transmission are complex, we believe that a workshop should be held urgently, as suggested by the BWEA in 2006, to run through the engineering and commercial aspects of the enduring process. This would involve expertise from all parts of the industry to highlight issues and allow them to be dealt with in advance of implementation.

Our concerns

Based on the above we remain concerned that the enduring OFTO regime as currently proposed would not achieve its stated objectives of timely and cost effective connections and that the associated delay would damage the UK's ability to benefit from investment in new jobs as well as delivery of cost reduction.

We are particularly concerned at the creation of an 'OFTO gap' in the market which means that no new contracts can be awarded for a UK grid connection for the next 2 years.

This gap is already hitting the offshore grid connection supply chain – there have been no new invitations to tender since mid 2009 – and coincides with the very time that suppliers need to make investment decisions that will affect our collective ability to deliver Round 3. Urgent action by DECC and Ofgem is required to minimise this impact.

We are further concerned that the enduring regime will prevent Round 2.5 projects delivering within their time limit – i.e. the lead times involved mean grid connections cannot be delivered for these projects by end 2015.

Our proposed solution to the OFTO gap and round 2.5 issues

We propose that under the enduring regime the time envelope within which a wind farm developer can trigger the appointment a late appointment OFTO should be extended to allow the *option* for the developer to design and build its own grid connection and transfer it to an OFTO on completion. This would not require any change to legislation but would be a technical change to the tender process. It is of course the way all grid connections have been built to date.

We note that this proposal was made specifically by almost all of the respondents to the [Ofgem open letter](#) and is also the first item in the [Renewable UK manifesto](#).

Ofgem states in the consultation that it is outside the scope as it has already been decided by DECC. We urge Ofgem to reconsider its ability to make this change or use its influence with DECC.

We believe that this option would only be used by developers where necessary to ensure timely delivery of their projects, as it requires them to raise additional capital for the grid connection and to manage the construction process. In our view, DC connected Round 3 zones are likely to opt for earlier OFTO appointment but the late appointment (developer build) option is likely to be attractive to some Round 3 projects that are close to the shore and AC connected. Both options should therefore be open to developers in perpetuity. The option for developers to build their own grid connections would also allow Round 2.5 projects to deliver within their time limit.

In order to minimise the duration and impact of the OFTO gap, (which has already started), it is important that DECC and Ofgem make a clear and immediate statement that this option will be allowed and that details will follow within the timescale for finalising the enduring. This would allow affected projects to start engaging with the supply chain now, rather than waiting for the full detail.

Other issues

The above issues are the most urgent and critical, but there are many other potential areas for improvement that we have raised through previous responses by the BWEA. As this is planned to be the final consultation we would like to remind Ofgem of the list of points raised by the BWEA over the last 5 years and as yet unanswered in the proposed regime. We also support and reiterate all the points made in the [BWEA response](#) to the Ofgem's open letter and ask that they be considered alongside responses to this consultation.

We thank Ofgem for allowing Siemens the opportunity of a bilateral meeting on 4th February, where we made the above points in more detail. We continue to seek a meeting with Ofgem senior management in order to highlight the urgent need to address the OFTO gap issue.

For further clarification of the issues raised in this response please contact:

Matthew Knight

Siemens Transmission and Distribution Ltd.

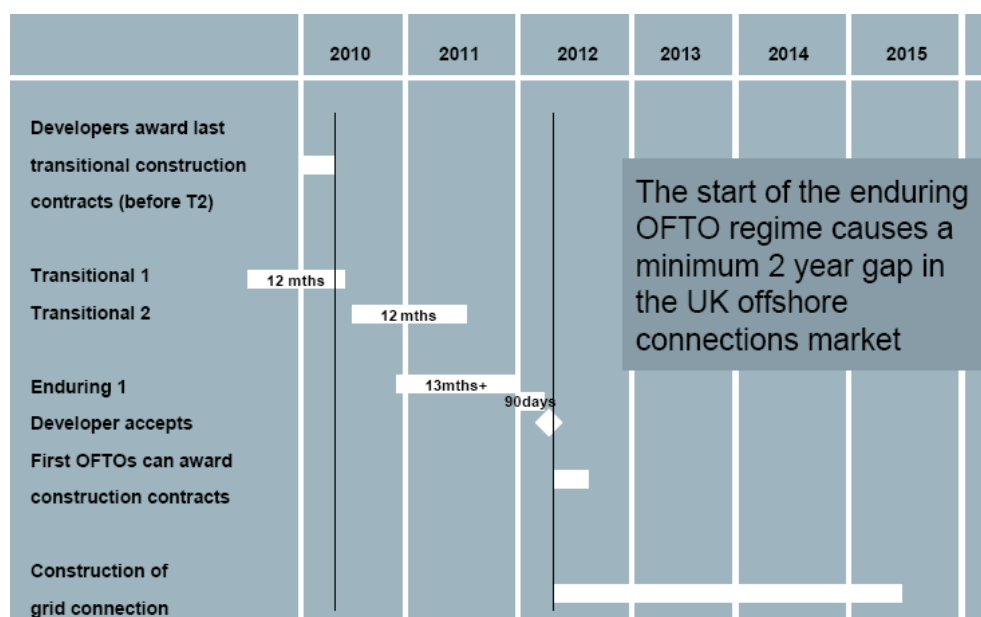
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Appendix - What causes the OFTO gap?

The second and final Transitional OFTO tender process is due to start in June 2010. To qualify for this round a wind developer must have awarded construction contracts at least 1 month before.

The first Enduring OFTO tender process is proposed to start in the latter half of 2010 (Ofgem has suggested this is likely to be at the end of the year). The process timeline is under consultation, but Ofgem's "minded to" position is that it will last 13 months with a possible BAFO extension of a further month at Ofgem's discretion. A wind developer then has 90 days to accept or reject the resulting connection offer at which point the OFTO is appointed.

Even if the OFTO were ready to award contracts the day after appointment (unlikely) no UK offshore transmission connection contracts would have been placed for at least 2 years.



Why would an un-amended enduring regime stop Round 2.5?

Round 2.5 projects will sign agreements for leases (AFL) in spring 2010 and must be operating by 2016. This requires a grid connection to be energised no later than 2015. With a 3 year lead time from contract award to energisation this means an OFTO would have to be in place and able to award contracts by the end of 2012. This means triggering an OFTO selection in the summer of 2011.

R2.5 projects will require 2 years of environmental data to seek planning consent. If surveys start immediately after AFL and consent takes no more than 9 months, consent would not be granted until the end of 2012. This is 18 months too late to enable a developer to make a financial commitment to the OFTO process but is just early enough if the developer can engage directly with the supply chain.