Project Discovery: Options for delivering secure and sustainable energy supplies consultation document

Ref: 16/10

Response from The Crown Estate

March, 2010

Summary

- The Crown Estate welcomes the consultation paper and in particular the discussion it opens about security of supply and how the market will deliver the various strands of government policy within the set target timescale.

- The Crown Estate is committed to working with Government and all stakeholders to help ensure that the aspirations of the UK for the energy mix of renewable energy (wind, wave and tidal), offshore gas storage and Carbon, Capture & Storage are realised. These are the areas that primarily affect our ownership rights given that nuclear projects typically only require outfalls from their sites.

- The Crown Estate is the major seabed (territorial waters) and foreshore owner (1961 Crown Estate Act), with rights extending out to 200 nautical miles, which include renewable energy and storage for gas and carbon dioxide, in the area encompassed. We need to be fully involved in any site award (leasing) process. The extension of these rights was set out in the 2004 Energy Act (Renewable Energy Zone [REZ]) and the 2008 Energy Act (Gas Storage Importation Zone [GISZ]).

- Given our responsibility in delivering leases for offshore energy sites we are concentrating resources for the strategic planning and delivery of suitable areas which can be made available for development. Each activity may have separate considerations when designing efficient processes of site allocation. For example offshore gas storage needs to take into account existing petroleum licensed rights. In all cases a strategic environmental assessment (SEA) is required and we take account of its results.

- The Crown Estate brings to bear a high level of knowledge and expertise on issues relating to management of the territorial seabed and continental shelf. This knowledge includes marine resource management (e.g. marine aggregate extraction, marine renewable energy installations, seabed infrastructure, aquaculture and newer activities such as gas storage and carbon capture and storage) and its interplay with other marine activities.

- There is excellent potential within UK waters for offshore energy deployment to help mitigate the effects of climate change and assist in the security of UK energy supply.

- The Crown Estate has seen Project Discovery as a high level report highlighting various options for dealing with future energy supply matters and has concentrated our response in trying to make sure that no undue barriers exist, whatever regime ultimately prevails.

1.0 The Crown Estate

The diverse portfolio of The Crown Estate comprises marine, rural and urban properties across the whole of the United Kingdom valued in total at over £6 billion (2008/09 figures). Under the 1961 Crown Estate Act, The Crown Estate is charged with maintaining and enhancing both the value of the property and the revenue from it consistent with the requirements of good management. We are a commercial organisation guided by our core values of commercialism, integrity and stewardship.

The Crown Estate's entire revenue surplus is paid directly to HM Treasury; in 2008/09 this amounted to around £226 million.

1.1 The Marine Estate

Our Marine Estate comprises virtually the entire UK seabed out to the 12 nautical mile territorial limit, in addition to the sovereign rights to explore and make use of the natural resources of the UK continental shelf, with the exception of oil, coal and gas.

In recent years the Energy Acts of 2004 and 2008 respectively have created the Renewable Energy Zone and Gas Storage Importation Zones, and the (proprietary) rights have been vested in us.

We own approximately 55 per cent of the foreshore and around half the beds of estuaries and tidal rivers in the United Kingdom.

The Crown Estate manages its marine assets on a commercial basis, guided by the principles of sustainable development and social responsibility. We take a consistent approach to the management of our activities around the UK, whilst retaining flexibility to take local factors into account whenever necessary. The Crown Estate can bring to bear an unparalleled level of knowledge and expertise on issues relating to management of the foreshore, the territorial seabed and continental shelf. We have a strong understanding of the needs of a broad range of sea users, as commercial partners, customers and stakeholders.

2.0 Introduction and context

The Crown Estate welcomes Ofgem's Project Discovery consultation. This response is informed by The Crown Estate's extensive experience of managing activities within the marine

environment and, within its core remit, of balancing economic activity with stewardship of natural resources for future generations to use and enjoy.

We are committed to working with government departments, stakeholders and industry in helping to manage the marine environment and in realising energy targets and will look to explain how we will assist rather than be a barrier to any of the options.

The Crown Estate can bring to bear its knowledge and expertise on issues relating to management of the foreshore, the territorial seabed and continental shelf. This knowledge includes marine resource management (e.g. marine aggregate extraction, marine renewable energy installations, seabed infrastructure, aquaculture and new activities such as gas storage and carbon capture and storage) and its interplay with other marine activities such as defence, energy, navigation and marine safety. We have a strong understanding of the needs of a broad range of sea users, as commercial partners, customers and stakeholders.

3.0 The Crown Estate response to the consultation

In responding to the many issues discussed in the consultation document we wish the following comments to be taken into consideration:

- The role of The Crown Estate within the offshore energy debate will concentrate on the delivery of renewable energy and storage related issues & we feel that we have a strong involvement in the process, with the aims of not only assisting the delivery of projects but also within delivering the strategic plans in some sectors e.g. wind energy.

- The Crown has been strongly supportive of the development of the various phases in energy policy such as a demonstrator phase for CCS, the massive expansion of wind energy, the development of wave and tidal projects and the aims of increased gas storage.

- We agree that various 'models' or options can be used to deliver these projects but in all cases (offshore) the involvement and consent of The Crown Estate is required. So far we have been a driver offshore in enabling developers to gain relevant site options in order to develop and build wind farms in Rounds 1 & 2 and more recently the Round 3 programme.

- In respect of 2020 targets for renewables, offshore wind will be able to deliver substantially more capacity than the 12-14 GW in baseline scenarios such as DECC's RES, if that capacity is required. This scalability is unique amongst the renewable options and provides a valuable assurance against the risk that any of the other contributors to the target (renewable/clean transport, renewable heat, onshore wind etc) falls short of their targets. This assurance option will only be available to the UK provided that appropriate signals and frameworks are provided sufficiently promptly to enable the full supply chain to invest to step up to deliver increased capacity. Discovery

is a welcome opportunity to ensure that decisions on whether this option is needed, and if they are, on providing those frameworks.

- The Crown Estate is a committed investor in offshore wind, in support of the realisation of new renewables capacity as per government intent. We have committed more than £100m capitial in Round 3 alone, and this will deliver a return only if substantial operating capacity is realised. The Crown Estate therefore has strong commercial incentives in the smooth development and success of the offshore wind industry in the UK.

- Assessing the overall risks to development of new capacity, it is clear that more intervention is needed than is currently done/possible under the current framework. In particular, there are many aspects where early planning and commitments to a new energy mix are required, otherwise failure to achieve the new mix is a foregone conclusion. The most interventionist scenarios presented within Discovery would seem to carry too much risk (investment hiatus). However, there are many supporting areas where strategic forethought and planning, and selective early commitments will go a long way to stimulating the required capital investment and enabling the realisation of the new energy mix. If these supporting front-ended commitments are chosen carefully then the burden on the consumer can be managed to stay proportionate to the risk the consumers of failure to transform the energy mix. For example, at present the way that grid capacity is secured by developers, relinquished by existing holders, allocated by the GBSO, consented and physically delivered is together not fit for purpose (given the dramatic energy mix transition that is required) and presents a major blocker.

- The Crown Estate has set out its policy to meet offshore gas storage aspirations and has agreed terms with two developers and is in discussion with others. In order to settle the commercial terms we commissioned an independent report from Ernst & Young; have offered to refer the matter of rental valuation for independent determination by the Valuation Office, or the Chairman of RICS or an energy relevant expert; when the proposal for a valuation office determination was declined, by some developers, we commissioned a further independent report from highly regarded consultants Oxera; and we have sought legal advice from energy specialist law firm Hunton & Williams. All of this is aimed at facilitating the speedy roll-out of suitable storage projects.

- More recently we have, via a tender exercise, awarded wave and tidal demonstration projects within the Pentland Firth. This is the first such development for these projects globally.

- CCS is critical to climate change mitigation. We believe that within the energy mix coal will continue to play a key role. Within the climate change programme clearly burning coal without CCS is not a good idea. Therefore coal power stations need to be more

efficient and this can be done by storage in the North Sea, primarily. The security of supply case is strong, alongside CCS, but demonstration on a commercial scale is vital to success. We are working with government to ensure that storage sites are developed to match the demonstration phase programme.

- Overall we are looking to deliver as quickly as possible projects that deliver energy supply to the UK and this is done via a mix of projects and a mix of locations and type of awards. Flexibility of approach is key and assessment of the Ofgem will be explored regularly with DECC and industry.

- The Crown Estate's marine planning tool, MaRS (Marine Resource System), will help us to input the regional energy projects and act as a guide for our decision making process. We are happy to work in partnership with these regional projects and to invite discussions regarding MaRS and its use.

- Two of the packages (D and E) discussed in 'Discovery' relate to a central procurement agent tendering for licences to build and operate gas storage facilities. This, potentially, could cut across The Crown Estate's rights to tender for leases for storage. An equivalent to this is the OFTO process, where Ofgem tender for the licence to operate. This results in a position of us being required to accept the licensee as tenant without having any direct influence on the terms of that appointment. This is less of an issue for transmission but could have implications in relation to liabilities, decommissioning etc if applied to gas storage and wouldn't necessarily benefit their development. However, we appreciate that this is only an option and we would hope that that the earlier points in relation to gas storage demonstrate that we are doing our utmost to aid site development.

- We also note that a model of capacity tendering could be extended to ballasting facilities, LNG terminals etc which may also have interesting implications for us and other landowners if the tenders are geographically specific.

- CCS isn't mentioned in the same detail as storage but I would imagine we will run into the same kind of issues if Ofgem believe that the tender should be carried out by a central agent.At any rate a clear demonstration programme by DECC is currently underway.

- Discovery does raise the option of capacity tenders for power; the consultation suggests capacity tenders for a 20 year period. This is not reflective of asset life, from our experience, and we understand the investment cases built for most power stations. It is closer to offshore wind which is currently looking at 20-25 year model for the design life in most cases. Conventional plant normally looks at 40+ years. This timeline is in any event out of sync with our offshore leases which are typically for 50 years.

We trust that you will find these comments constructive. We would be very willing to provide Ofgem with additional information on any of the points we have raised above and be very

pleased to discuss these matters with you further. All of this response may be put into the public domain and there is no part of it that should be treated as confidential.

Contact:

Dermot Grimson, Head of External Affairs
The Crown Estate
16 New Burlington Place
London, W1S 2HX.
Tel. 020 7851 5000
dermot.grimson@thecrownestate.co.uk