Centrica Plc
Millstream
Maidenhead Rd
Windsor
Berkshire SL4 5GD
www.centrica.com

By email
Yvonne Naughton
Ofgem
107 West Regent Street
Glasgow, G2 2BA

Kristina Dahlström
Department of Energy and Climate Change
4th floor area D
3 Whitehall Place London SW1A 2AW

22 November 2010

Dear Yvonne and Kristina

Offshore Electricity Transmission – Implementing further refinements to the Enduring Regime

Centrica welcomes the opportunity to provide comments on the above OFTO enduring regime consultation which seeks to implement the generator build option. This non-confidential response is on behalf of the Centrica group of companies excluding Centrica Storage Ltd.

We strongly support the inclusion of the generator build option and for this to be implemented in December 2010.

A key area of concern, which we discuss further below, is whether there is enough flexibility in the definition of what constitutes material change for the triggering of a modification application.

We have undertaken a preliminary review of the proposed changes to the Grid Code and CUSC. Given the length of the consultation period and detail of the consultation, we have not been able to give this the level of scrutiny we would usually wish to. However, our initial view is that we believe that the proposed changes broadly reflect the policy intent. If minor (typographical type) errors become clear post implementation, and where these do not have policy implications, we would suggest they be addressed as “housekeeping” modifications.

We suggest that, in order to ensure consistency between the build options, a change is also required to the Balancing and Settlement Code (BSC). Additionally, we look forward to viewing proposed changes to the STC.

We note that, given the timescales for implementation, there is potential for unintended consequences to arise, but we believe that rectifications for these could be captured under normal industry process and this should not be a reason to delay implementation.

Chapter 2: The enduring regulatory regime for offshore electricity transmission

Consistency between build options

We support the principle that a consistent set of principles and processes should apply as far as possible to all build options.

In this regard, we believe that given that OFTO build options would mean that bidders would include a premium for risk management, it would ensure a level playing field between the different build approaches for an element of risk management pricing to be incorporated as a legitimate expense in the economic and efficient assessment of developer costs.

We have also suggested an area below where a change to the BSC is required to ensure this consistency across the build options.

Likelihood of non-compliant offshore infrastructure

While we support the need for robust standard industry frameworks, we note the comments in 2.10 that a lack of default arrangements would be 'likely to result in non-compliant offshore infrastructure that is not fit for purpose'. As acknowledged in 2.11, generator developers have a natural incentive to ensure that an economic and efficient OFTO is appointed. The ability to attain this would be enhanced by the generator ensuring compliant offshore infrastructure so that projects are attractive to potential bidders. There is a natural and strong incentive for developers to ensure that the infrastructure critical to transporting its power to the transmission system is built to be fit for purpose. Therefore, we do not consider a non-compliant outcome to be 'likely'.

Property transfer scheme

We welcome that DECC is seeking to make changes to allow property transfer powers until 2025. We see this as a valuable backstop to ensure the generator has a degree of leverage in ensuring that key contracts and consents can be transferred to the OFTO for fair value so that the generator can recoup its cost of construction. To assist this we would like to see a scheme which can be initiated by either party as well as by Ofgem.

OFTO of Last Resort

We welcome the inclusion of an OFTO of last resort mechanism under the generator build option as well as the potential for the generator to move from a failed OFTO build tender to a generator build process. We note that having no OFTO of last resort mechanism under the OFTO build option would provide less incentive for a generator to choose OFTO build as the process to project completion (potentially including an OFTO build tender, constructing the assets and an additional generator build tender) is potentially more onerous.

Ringfencing of costs

We agree that there should be requirements to demonstrate where costs should be apportioned (to transmission or generation assets). However, circumstances in which formal ringfencing would result in higher costs to consumers should be avoided.

For areas where there is potential for genuine savings to be made in combining services or contracts related to the construction of generation and transmission assets or services, then the value of the asset(s) or service(s) should be divided proportionally by an appropriate and auditable mechanism.

It is in the developers own interests, in terms of efficiency and scope for recovering capex in full, if the division is not contentious. We would therefore support a requirement to either maintain separate cost "centres" or evidence on the equitable apportionment of joint costs (and the savings made).

Chapter 3: Proposed changes to industry codes

Q3.1. Do you consider that the scope of the proposed changes to the Codes achieves our policy intent?

We believe that the proposed changes to the CUSC and the Grid Code broadly reflect the policy intent.

Q3.2. Do you consider that there are areas of the Codes where you consider that further amendments are required to deliver our proposals?

We believe that an amendment to the BSC is required to ensure that inefficient metering and Balancing Mechanism (BM) Unit registration and deregistration is not required during the commissioning phase of generator build projects. This is essential to provide consistency across all build options as such requirements would not exist under OFTO build.

Currently, the BSC requires settlement metering to meter power at the point of connection from the generator to the licensed Transmission System (i.e. the OFTO assets). A small amount of energy is required from the transmission system to commission the onshore and offshore substations, which occurs prior to transfer of the OFTO assets.

Given that it is therefore not an offshore transmission licensee that is commissioning the asset, settlement metering and the registration of a BM Unit is required at the onshore connection point for the period of commissioning to meter the demand from the transmission system. Given that this is not the enduring generator connection point to the transmission system (which will be at the offshore substation), this metering and BM Unit is only required temporarily. Under OFTO build, (or indeed for commissioning transmission assets onshore), it would not be required at all.

There is not insignificant cost and administrative burden of registering and deregistering a BM Unit which includes internal systems changes required to process the relevant data flows. This inefficient cost would only occur under the generator build option.

This inconsistency needs to be addressed in a timely manner to avoid any inefficient purchases of metering equipment required for current and upcoming projects.

Q3.3. Do the proposed changes to the Codes create unintended barriers to phased development of offshore projects?

The omission of a solution to the issue identified with the BSC above would create inefficiency for phased development.

Q3.4. Do you consider that the timescale of 28 days, being proposed in clause 17 of Schedule 2, Exhibit 3A of CUSC (the Construction Agreement), for an offshore generator to provide its programme for the construction of the OTSDUW and its proposed onshore connection point is reasonable?

The consultation appears to indicate that a modification application will be required for all material changes to the OTSDUW assumptions agreed in the post offer period, but it is unclear what this might include.

We note that the programme outlined by the generator at the point of signing a construction agreement would be preliminary given it would be a number of years prior to commissioning the assets. During this period, some details could change which may or may not impact onshore works. Additionally, some changes may be required for the purposes of coordinated development.

As the process is untested, we would initially encourage flexibility for the timescales. The expectation should therefore be that the developer will provide all information to the best of its knowledge at a certain defined point (which a period of 28 days would be the minimum time to complete an initial design based on a number of stated assumptions) and undertakes an obligation to update this as new information becomes available.

Modification applications should not be necessary where the updates do not have a material impact.

Q3.6. We note that section K does not place an obligation on an OFTO to contribute to frequency control but that a change to CC6.3.6 a) (vi) is being proposed to require this where the generator chooses to construct the assets. Do you consider that this requirement is applicable to an offshore transmission system constructed by an offshore generator?

This would not appear consistent as no justification has been provided for the different treatment. In reality, frequency response would be provided by the generator and not from the transmission assets unless there is a DC connection. Additionally, it is not clear if any provision of frequency by the OFTO would affect its availability, and if so, then its availability incentive.

Q3.9. Do you consider that the changes being proposed in section PC 8 of the Planning Code are relevant to the Grid Code, or whether these changes are more appropriate in the CUSC?

This appears appropriate and consistent with PC 7.

If you have any questions or comments relating to this response, please contact me on the number above or at chris.stewart@centrica.com

Yours sincerely

By e-mail

Chris Stewart
Commercial Manager
Business Development
Centrica Energy