Warwick Energy Limited

Comments on Ofgem / DECC Consultation Document Offshore Electricity Transmission: Implementing Further Refinements to the Enduring Regime 8th November 2010

Scope

This document summarises Warwick Energy Limited's (Warwick's) early response on the Ofgem / DECC Consultation Document Ofgem Ref: 137/10 and DECC URN: 10D/977 and associated Appendices and Annexes.

The present response should be considered along with the associated covering letter and comments already submitted by Warwick in response to earlier Ofgem consultations on Offshore Transmission.

Detailed Comments

Comments are detailed below as per the structure of the consultation document.

Summary:
Warwick welcomes the intention to introduce a generator build option into the enduring regime. This should greatly improve the flexibility of the regime and help provide fit for purpose connections for generators in a timely and cost effective manner

Chapter 2:
Items 2.10-2.12
The Ofgem / DECC document proposes introducing license obligations on the generator to meet industry codes. Warwick does not agree that lack of default arrangements would result in networks that are non-compliant with rules for a number of reasons:

- The generator already has sufficient incentive to meet reasonable industry requirements without a license / code obligation. This is because any non-compliance issue could introduce a risk of additional cost, or risk of generator stranding due to failure to appoint an OFTO;
- There have been a number of derogations sought for many of the transitional projects. However these projects have all been designed according to reasonable industry standards. Warwick therefore believes that certain aspects of the industry framework are already overly prescriptive and are likely to stifle innovation and add costs. This issue should be addressed as it is the underlying reason for derogations sought under the transitional regime;
- The detailed industry codes giving rise to many of the derogations are driven by specific NETSO requirements which in some cases are overly prescriptive – in Warwick's view some of these requirements should be subject to wider industry scrutiny, review and revision. Such a review could start with the issues raised by derogations being sought for the transitional regime – many of which are common to a number of projects and as a result of specific NGET policies;
- A number of existing projects are likely to pre-date finalisation of OFTO arrangements and therefore will have NGET connection offers based on existing arrangements. Suitable arrangements need to be developed to allow such projects to migrate to the

offshore regime whether early, late OFTO or generator build options are chosen by the generators;

- Modification is needed to the way that STC agreement data and generator User Data Library data is submitted to and treated by NETSO. As it stands there is significant duplication of data requests made by NETSO to the OFTO and generator.

Under the generator build option the cleanest solution is for the generator to be responsible for construction and commissioning including compliance testing requirements. This minimises risk to the OFTO that issues of compliance arise after the transfer. As such the generator will necessarily be required to own, operate and maintain the future transmission assets for some time – indeed for a staged project reliant upon generation to meet Grid Code / STC requirements at the onshore boundary this could be for some prolonged period. It is not clear to Warwick that such necessary operation of assets defined as transmission by their design voltage is permissible under the Electricity Act. Clarification or revision of the wording of the relevant statutory instruments / codes appears necessary to address this issue.

Items 2.24-2.42

The inclusion of OFTO of Last Resort is also a valuable revision in comparison to previous proposals. This includes wider provisions for generators to take forward construction in the event of a failed OFTO build tender. Item 2.39 states that priority will be given to OFTOs over onshore TOs. Warwick does not believe that such priority should be specified in advance since it should be the company best placed to take on the role in an economic and efficient manner that is selected as OFTO of last resort. In many cases this could be existing OFTOs – however there may be cases (such as where TOs already OFTO licensed in the area of the failed OFTO) that selection of an onshore TO may be preferable. Warwick sees no merit in pre-judging the best solution in advance but supports the inclusion of all transmission licensees as potential OFTO of last resort on an equal basis.

Items 2.43-2.49

Warwick notes that there is no intention to include the 75% ex-ante cost guarantee. This is contrary to the view of the majority of respondents to the previous consultation. Warwick would request that information be published on the 75% ex-ante figures compared to final agreed transfer values for the transitional round projects. It appears unlikely that there is any cost risk falling against consumers since the 75% level is probably less than 100% efficient out turn cost in all cases. As stated in previous responses the lack of the 75% ex-ante guarantee is likely to add to project risk, make projects less appealing to investors and thence increase overall costs.

The cost guarantee should apply equally to the different OFTO options from early OFTO to generator build. There is no substantive case presented to remove the 75% cost guarantee and it is clear that extra uncertainty for investors will serve to drive up the cost of capital and thence costs to generators and consumers alike.

Items 2.53

Warwick supports the view that costs between generation and OFTO elements of projects should be segregated to ensure cross-subsidy does not occur. However this ring fencing should not require separate contracts for the work elements - since this will inevitably introduce additional and unnecessary costs in some cases. It should an any case be possible to ring fence / allocate costs correctly between the main work elements. This type of exercise is already being carried out as part of the transitional tender exercise so there is no reason why similar arrangements cannot be applied for the enduring regime.

Item 2.57
As per previous responses Warwick supports greater involvement of the generator in the bid process and evaluation of tenders for OFTO license under all OFTO appointment options.

Item 2.62
The impact of the EU Third Energy Package and unbundling requirements remain unclear. This is understood to be subject to separate work by DECC as explained in the consultation document.

Warwick would emphasis the importance under generator build that the generator is allowed to own and operate the assets until the construction and compliance processes are complete. If the OFTO tender / take over process takes place before compliance is complete then there will be substantive additional risk and uncertainty for the OFTO. This will lead to additional cost to generator and wider consumers alike.

Any implementation of unbundling must allow the generator to own and operate the assets to avoid OFTO tender under generator build taking place while assets are under construction.

Chapter 3

Question 3.1
Do you consider that the scope of the proposed changes to the Codes achieves our policy intent?

Answer 3.1
As noted elsewhere and in reply to the previous consultation, the general approach and changes appear in general overly prescriptive and unnecessary. Warwick does not believe that codifying everything adds any incentive to generators. Indeed in most cases the requirements for design are already set out in the various codes. There is also a risk of additional or different requirements being introduced against generator build assets compared to OFTO build assets. Since the OFTO conditions will apply on an enduring basis the logic of the approach adopted is fundamentally flawed.

The fact that requirements on the OFTO are already contained in the STC means that the generator already has the specific OFTO network requirements that will need to be met. This means that any design conditions can already be specified and included in the tender / design process under generator build in the identical way that they are under OFTO build. It makes no sense to duplicate wording across the STC and Grid Code to take account of generator build option for this reason. For the approach adopted there is a risk that there will be different interpretations or even requirements between the two codes and this will cause problems when the network is sold to the OFTO – i.e. the Grid Code compliant network may not comply with STC requirements.

Question 3.2
Do you consider that there are areas of the Codes where you consider that further amendments are required to deliver our proposals?

Answer 3.2
As noted in 3.1 Warwick does not believe that the overall approach is correct. The majority of the changes are therefore not required.

Question 3.3
Do the proposed changes to the Codes create unintended barriers to phased development of offshore projects?

Answer 3.3
Yes the changes create a fundamental barrier. As noted above the approach adopted means there will be different codes governing generator build and OFTO build approaches. This introduces extra risk to generator build option where on adoption the STC will prevail over any Grid Code conditions applying to generator build.

Question 3.4
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?

Answer 3.4
The 28 day period in the main text of Clause 17 is far too short a time period for the extent of programme and design data concerned. While the clause does contain the rider "*or such later date as The Company shall agree*" this is a one sided mitigation over which the User has no control. The time should be at least 6 months and the caveat should specifically allow the User to agree a longer timescale with The Company. The agreement of the Company should also not be unreasonably withheld and this should also be stated in the text.

Warwick also notes that Clause 17 is not included in the index of Exhibit 3A and this appears to be a drafting error.

Question 3.5
Do you consider that Clause CC.6.3.2 in the Connection Conditions in the Grid Code accurately reflects the system design at the Interface Point?

Answer 3.5
It appears at first sight to do so – however the period for this consultation is very short and it is not possible to review requirements or give proper consideration to the drafting in the available time.

Warwick is also concerned that there has been a very short timescale to develop the proposals and there is therefore a risk that drafting is incorrect/ incomplete in a number of places. While Warwick understands the time constraints and effort to reach a conclusion some means of mitigating the risk of inaccuracies should be included in the overall process.
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Question 3.6
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 its transmission assets. Do you consider that this requirement is applicable to an offshore transmission system constructed by an offshore generator?

Answer 3.6
In general the obligations are supposed to be equivalent under both codes. There should therefore be no new obligations introduced against generator build in comparison to other OFTO development options.

Warwick does however note the following in this specific case:

- For an AC system there should be no requirement on an OFTO to control frequency since the OFTO will necessarily not provide an active power source. The OFTO is however likely to provide signalling channels to enable the generator to meet a number of obligations under the Grid Code. This needs to be recognised in the codes particularly for options other than the generator build approach;
- In the case of a DC OFTO network then the frequency at the offshore connection to the generator (assuming AC) will be decoupled from the NETS frequency. There should therefore be obligations on the OFTO to contribute to frequency control on the downstream User network. This should be included in the STC and the Grid Code. The proposed Grid Code wording does not include this obligation anyway, and this is also an existing omission from the STC. As noted above this issue is most relevant under non generator build options;
- Similarly for a DC network the active power change resulting from generator response must be reflected in the transfer from the OFTO network into the onshore transmission system.

Question 3.7
We note that the OFTO has an obligation under the STC to ensure an offshore transmission system stay connected to the NETS through faults and disturbances and that this obligation should apply to all offshore transmission systems regardless of the party that has constructed them. Do you consider that the changes being proposed in section CC6.3.15 of the Connection Conditions in the Grid Code reflect these requirements on an offshore transmission system constructed by an offshore generator?

Answer 3.7
The proposed wording of CC6.3.15(a)(ii) contains so many subordinate clauses that it is virtually unintelligible. It should be rephrased or restructured to make its meaning clear and easily understood.

It is technically not possible for OTSDUW to generate maximum reactive power as required by CC6.3.15(a)(ii) since necessarily reactive contribution from all passive network components is proportional to voltage. This point has been made in response to previous consultations and has not been addressed by Ofgem or NETSO. This issue should be resolved.

Question 3.8
Do you consider that the changes in CC.6.5 are applicable to an offshore transmission system constructed by an offshore generator? We note that the proposed changes to CC.6.5 place slightly more specific requirements on an OFTO than those placed on a TO by the STC, in that the STC requires the TO and the NETSO to agree the communications plant to be delivered (STC section D, part two, 10).

Answer 3.8
As per 3.6 above there should be no additional requirements placed on generator build via Grid Code than are placed on OFTO build under the STC. The changes should reflect the existing arrangements specifically and not reflect a NETSO wish list.
The fact that the consultation itself highlights some (but not necessarily all the) possible differences between STC and proposed Grid Code emphasises the fundamental problem with the approach adopted. Namely that two different sets of standards apply during the project life cycle for generator build – Grid Code under design/ construction and STC on take over by OFTO.

Question 3.9
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?

Answer 3.9
No comment on whether these changes should be in the Grid Code or CUSC.

The Clause PC8.3 includes a condition that "*the **User** shall plan and develop the **OTSUA**, taking into account to the extent that it is reasonable and practicable to do so the reasonable requests of **NGET** relating to the planning and development of the **National Electricity Transmission System***".

There should be a reciprocal condition on NGET otherwise NGET plans could adversely affect the generator build works.

Annex 2: Grid Code Amendments

CC6.3.3(f) and CC6.3.7(e)(viii)
The meaning of these clauses is ambiguous and both need to be revised before meaningful comment can be made.

CC6.3.8(iii)
The wording is not grammatical and does not make sense in its current form.

OC11
The requirements of OC11 are not suitable to apply to any generator (or indeed any OFTO build) assets. While it is reasonable that general industry standards should apply there are already differences in nomenclature on TO and DNO systems and these have not resulted in any safety or operational difficulties arising. The requirement also appears overly prescriptive and should be removed.

In addition Warwick notes that OC11 requires that apparatus "*shall have numbering and nomenclature in accordance with the system used from time to time by **NGET***." This means that the requirement is in fact an internal NGET policy, which may not apply all the time anyway, and which may be revised by NGET without any proper industry governance.

This means there is scope for ambiguity in requirements or change of requirements by NGET without any reference to generator, OFTO or wider industry. This situation is wholly unsatisfactory since it places obligations on a generator/ OFTO that can be changed by NGET without any reference. This introduces unnecessary project risk and cost.