

Minutes of the Offshore Transmission Coordination Group (OTCG)

Co-hosted by DECC and Ofgem at Ofgem, 9 Millbank, London, SW1P 3GE

Meeting 1: 1st March 2011, 9:00 – 11:00

Attendees

Co-chairs

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| <i>Government</i> | Jonathan Brearley ¹ | Director of Energy Strategy & Futures, DECC |
| <i>Ofgem</i> | Robert Hull | Managing Director – Commercial, Ofgem E-Serve |

Co-Coordiators

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|-------------------|--------------|------|
| <i>Government</i> | Duncan Stone | DECC |
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Members

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| <i>Government</i> | Mark Thomas | Infrastructure UK |
| <i>Devolved administration</i> | Peter Hughes | Department of Enterprise, Trade & Investment, Northern Ireland Executive |
| <i>Devolved administration</i> | Michael McElhinney | Scottish Government |
| <i>Generators</i> | Guy Nicholson | RenewableUK |
| <i>Generators</i> | Allan Kelly | ScottishPower Renewables (OWDF grid sub-group nominee) |
| <i>OFTO</i> | Chris Veal | Transmission Capital Partners |
| <i>OFTO</i> | Sean McLachlan | Balfour Beatty |
| <i>Supply chain</i> | Tsunenori Kato | Mitsubishi |
| <i>Supply chain</i> | Eoin Nolan | Alstom Grid |
| <i>Supply chain</i> | Matthew Knight | Siemens Transmission and Distribution Ltd |
| <i>NETSO</i> | Richard Smith | National Grid |
| <i>Transmission owners</i> | Colin Bayfield | Scottish Power Energy Networks |
| <i>Licensing authority</i> | Chuan Zhang | The Crown Estate |
| <i>Licensing authority</i> | Ashley Holt | Marine Management Organisation |
| <i>Environmental NGO</i> | Jenny Banks (for Nick Molho) | WWF |

Also in attendance

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| <i>Government</i> | Charles Hendry MP | Minister of State for Energy |
| <i>Government</i> | Kristina Dahlstrom | DECC |
| <i>Ofgem</i> | Sam Cope | Ofgem E-Serve |
| <i>Ofgem</i> | Stephanie McGregor | Ofgem E-Serve |
| <i>Ofgem</i> | Mark Cox | Ofgem E-Serve |
| <i>Ofgem</i> | Elaine Yong | Ofgem E-Serve |

¹ Chaired the meeting

Apologies

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| <i>Devolved administration</i> | Ron Loveland | Welsh Assembly Government |
| <i>Europe</i> | Christophe Schramm | European Commission (attending on needs basis) |
| <i>Ofgem</i> | Colin Green | Ofgem E-Serve (Co-Coordinator) |

1. Welcome

The chair welcomed participants and noted the importance of delivering offshore wind for 2050 pathways and the significance of providing fit for purpose transmission assets to connect offshore wind to the national grid.

It was explained that the OTCG would play an important role in supporting Government and Ofgem through the offshore coordination project. It was noted that various measures had already been included within the offshore transmission regulatory regime with the aim of ensuring the co-ordinated development of offshore networks. Nevertheless, Ofgem and DECC would be considering whether any further enhancements to the existing regime might be required to maximise the benefits of coordination.

To this end, Ofgem and DECC would be seeking the working group's expertise and ideas on how to ensure that an optimal network can develop.

The Chair invited any initial comments from the group. Comments included:

- One member suggested that the government and Ofgem use the project as an opportunity to provide certainty, reduce the cost of the overall grid, reduce the environmental impact of the grid, and to speed up connection of renewable generation. Another member added future proofing the grid to this list, particularly to avoid route sterilisation and to accommodate future European developments, such as interconnection.
- Whatever results from this work, it shouldn't undermine certainty for generators or adversely affect or delay existing projects.
- Enabling coordinated networks could create an asset stranding risk. The fundamental question is who will bear that risk, as separate developers cannot bear the risk. What level of risk can be socialised? There will be a trade-off between coordination and asset stranding risk.
- Coordination should take into account the timescales for consenting and building offshore networks which are significant. i.e. consenting needs to start 5-6 years before energisation and detailed design and construction 3 years before energisation.

2. Offshore Transmission - recent developments

The Chair invited Stephanie McGregor to give an update on recent developments with regards to offshore transmission. Members were referred to information on recent developments in the slides accompanying the meeting². It was noted that good progress was being made on granting the first transitional licences and that

² The slide pack is available to download at:

<http://www.ofgem.gov.uk/Networks/offtrans/pdc/pwg/OTCP/Documents1/OCTG%20slides%201%20Mar.pdf>

the second transitional tender round was now well under way. It was noted that Ofgem have recently published an open letter inviting discussion with developers on Round 3 zone developments.

3. Terms of Reference (ToR)

Robert Hull explained the Terms of Reference for the group which Ofgem and DECC had proposed. He then invited comments from the group on the scope of the Terms of Reference as drafted.

The group made the following comments:

- There was a desire for the ToR to include reference to the North Seas Countries' Offshore Grid Initiative, the Electricity Networks Strategy Group (ENSG) and the interface between the onshore and offshore grids .
- As well as meeting the 2020 renewable energy targets, the ToR should recognise the need to contribute to longer term renewable energy aspirations beyond 2020. It was suggested that the time-horizon for this project should be 2030.
- Government should seek to ensure that this project aligns with the onshore transmission regime and outcomes from the energy market reform work.
- Some members questioned whether the ToR should note how the group should go about assessing the merits of different options identified in its work (i.e. specify criteria to assess options against).
- Care needs to be taken with terminology to define the meaning of "grid configuration".

Government and Ofgem noted that the objectives of any policy proposals they develop would need to feed into higher level government objectives relating to cost, security of supply and decarbonisation as well as Ofgem's statutory duties.

Action 1: Ofgem and DECC to consider OTCG feedback and finalise the ToR.

4. Scope of work

The Chair invited Sam Cope to describe Ofgem and DECC's view of the scope of their joint co-ordination project and the OTCG's work. Members were referred to information on the proposed scope of work in the slides accompanying the meeting.

A) The joint project. Ofgem and DECC will be undertaking to collect evidence and undertake an analysis of that evidence so as to develop a conclusions report which is expected to be published in the Winter 2011/12. The conclusions report may present options for public consultation should Ofgem and DECC deem this necessary. It was noted that any options which emerge will be assessed in terms of how they perform against Ofgem and Government objectives and statutory obligations.

B) The OTCG's work. It was explained that the OTCG would be a key source of evidence which Ofgem and DECC would consider in their review of the regulatory arrangements and the development of their conclusions report.

It was proposed that the OTCG should focus 3 areas of work:

1. **A review of business as usual** – consideration of what current incentives will deliver in the way of development of a coordinated offshore grid in 2030.
2. **Asset Delivery** – consideration of the types of grid configuration model government's policy incentives should be designed to encourage.
3. **Commercial and Regulatory Issues** - consideration of whether changes are needed to offshore transmission regulation or the competitive tender process to help incentivise the configuration model/s from area 2.

Comments were invited from the group. The discussion on the scope of work included the following points:

- It was generally agreed that the ultimate conclusion reached by the group on asset delivery should not be a very detailed network design. The aim was not central planning, rather to come to a shared appreciation of the costs and feasibility of different styles of network development (i.e. network scenarios).
- It was agreed that timescales to be considered in evaluation should go beyond 2020.
- It was noted that the issues inhibiting coordination result from the combined effects of many pieces of industry regulation, not just the OFTO regime itself – for instance, charging and commitment as well as the OFTO licensing process.

5. Approach to work

Duncan Stone explained Ofgem and DECC's proposed approach for working. Members were referred to the proposed approach to work in the slides accompanying the meeting.

It was proposed that the OTCG should meet on a 6 weekly basis. In addition a series of workshops would be run to consider specific issues in more detail. Some of these workshops will involve interested members of the wider stakeholder community. A high level overview of the project timings was presented.

Comments on the approach and timetable were invited from the group.

Some members expressed a preference to undertake earlier consideration of area 3 – perhaps in parallel with areas 1 and 2. Any early indication of the types of incentives that could be implemented may be of benefit. Others felt that it was important to complete work areas 1 and 2 first. This will be given further consideration.

Some members from industry suggested that technology is not the issue, and that the process for managing coordination should be able to work with whatever technology is available. There might be merit in reviewing technology and likely future developments in order to provide a common understanding. However this was not a precursor to tackling the issue of coordination. Hence area 3 could start independently of 1 and 2. This was also countered by a view that it is useful to know what is technologically possible and how it may evolve. There may be a risk of finding solutions that are only fit for a particular design.

Given resource constraints, it was also noted that much will be expected from contributions by group members and reviews of existing material.

Action 2: DECC and Ofgem to consider the interaction between work area 2 and 3 and opportunities to overlap timings or undertake some workshop activity on work area 3 before the conclusions of work area 2.

Action 3: DECC and Ofgem to consider any further requirements for evidence gathering, such as through a wider call for evidence.

Action 4: DECC and Ofgem to confirm approach to work with working group members. This includes scheduling future technical workshops.

6. Charles Hendry – Ministerial remarks

The Minister of State outlined the challenge and opportunity presented by the development of a marine renewable energy sector. He spoke on the importance of the group's contribution which will feed into the development of coordinated networks, and stressed the need to think strategically while addressing the existing practical issues associated with the development of the offshore grid. This is important to the challenge of achieving Government's vision for offshore wind and its renewable energy and decarbonisation targets.

It will be important to develop a grid structure that is fit for purpose – for investment and for consumers, and in doing so, address regulatory and commercial issues driving investment, rather than trying to find configurations of the 'perfect grid'. In this regard he also noted the success of the first competitive offshore transmission tender processes in securing an estimated £350 million of savings on the first £1.1 billion of assets put out to tender.

The Chair invited comments and questions from the membership. Some topics of discussion with the group included:

- The Government's renewable energy aspirations beyond 2020. The Minister agreed that a vision beyond 2020 is highly relevant and important to underpin investment certainty.
- The challenge of balancing anticipatory investment with keeping energy bills affordable. The Minister noted the need to rebuild our energy infrastructure in any case. We should be taking advantage of wind, which is a free source of energy. The Minister noted that the cost of gaining energy security through this rebuild is less than the cost of energy insecurity through continued reliance on carbon intensive energy sources.

7. Planning for next meeting

The group discussed plans for the next meeting and technical workshops. Suggestions for initial workshop subjects included:

- early consideration of current commercial and regulatory incentives regarding choice of transmission infrastructure;
- review of existing studies, such as the Isles Study, ODIS scenarios, Crown Estate work and any other information provided by members; and
- an initial brainstorm of potential solutions.

Action 5: Working group members to email offshore.coordination@ofgem.gov.uk with their availability for future meetings and the names of technical experts within their organisations for invitation to workshops.

8. Close

The chair thanked the members for their attendance and input and closed the meeting.