Minutes of the Offshore Transmission Coordination Group (OTCG)

Co-hosted by DECC and Ofgem at BIS Conference Centre, 1 Victoria Street, London SW1H 0ET
Meeting 3: 24 May 2011, 10:30 – 12:30

Attendees

Co-chairs

Ofgem	Robert Hull	Ofgem E-Serve
Government	Jonathan Brearley	DECC

Coordinators

Ofgem	Colin Green	Ofgem E-Serve
Government	Duncan Stone	DECC

Members

Devolved administration	Michael McElhinney	Scottish Government
Generators	Allan Kelly	ScottishPower Renewables (OWDF sub-group nominee) [by phone]
Generators	Fiona Navesey	Centrica Energy
Generators	Richard Sandford	RWE
OFTO	Chris Veal	Transmission Capital Partners
OFTO	Sean McLachlan	Balfour Beatty
Supply chain	Tsunenori Kato	Mitsubishi
Supply chain	Eoin Nolan	Alstom Grid
Supply chain	Matthew Knight	Siemens Transmission and Distribution Ltd
NETSO	Richard Smith	National Grid
Licensing authority	Chuan Zhang	The Crown Estate
Devolved administration	Paul Harrington (for Ron Loveland)	Welsh Assembly Government [by phone]
Licensing authority	Ashley Holt	Marine Management Organisation
Government	Mark Thomas	Infrastructure UK
Generators	Guy Nicholson	RenewableUK

Apologies

Environmental NGO	Nick Molho	WWF
Europe	Christophe Schramm	European Commission (attending on needs basis)
Devolved administration	Peter Hughes	Department of Enterprise, Trade & Investment, Northern Ireland Executive
Transmission owners	Colin Bayfield	Scottish Power Energy Networks

Also in attendance

Government	Kristina Dahlstrom	DECC
Government	Ben Cattermole	DECC
Government	Tom Luff	DECC
Government	Teresa Abu	DECC
Ofgem	Elaine Yong	Ofgem E-Serve
Ofgem	Sam Cope	Ofgem E-Serve
Ofgem	Hazel Gulliver	Ofgem E-Serve
Consultant	Ilesh Patel	Redpoint

1. Welcome and introductions

The chair welcomed members of the group to the third meeting of the OTCG.

2. General Update

The chair invited Duncan Stone to provide a general update on the project. Members were referred to the slides accompanying the meeting. It was noted that consultants have been appointed by Ofgem: TNEI/PPA for analysis on the asset delivery workstream and Redpoint for support on commercial/regulatory issues. Members asked if they could see the consultants' terms of reference.

A summary note from the first expert workshop is now available on the Ofgem website. The second expert workshop had been held on 6 May and included a presentation by TNEI and PPA Energy on the approach to be taken to work on asset delivery. NETSO had also given a useful presentation on their work on the Offshore Development Information Statement (ODIS) and related work. The workshop focused on identifying the steps in project delivery and identifying the most critical elements to enable co-ordinated action. A more detailed update would be provided under agenda item 4.

The next workshop on 17 June 2011 will continue the work on asset delivery, with a possible focus on consenting issues.

Action 1: Ofgem to share the consultants' scope of work with the Group.

3. Parallel related work

The Chair invited Tom Luff, DECC, to provide an update on work that is being undertaken by the Electricity Networks Strategy Group (ENSG).

The ENSG has reconvened to update the report of 2009 which had reviewed network developments likely to be needed to meet 2020 renewable energy targets. There are three strands to the work:

1) Updating the ENSG 2020 Vision on where anticipatory investment might be required for onshore grid reinforcements

2) Monitoring of major onshore network delivery to 2020, including a review of the status of developments identified as part of the 2009 report

3) Scoping of post-2020 scenarios impacting on pre-2020 transmission network investment needs and on post-2020 investment and other transmission network solutions.

Timelines for delivery of the work are yet to be finalised, though the final report for the ENSG's third workstream is expected in 2012. The intention is that the ENSG work takes into account and builds on related work, such as the development of RIIO-T1 business plans. It was acknowledged that there were interlinkages between the work being undertaken by the OTCG and the ENSG, as well as an overlap in membership. It is envisaged that the ENSG may utilise analytical inputs from the OTCG to inform its work.

Ben Cattermole, DECC, was also invited to provide an update on work being undertaken as part of the North Seas Countries' Offshore Grid Initiative (NSCOGI). NSCOGI is a government-led initiative but is closely supported by Transmission Owners and regulators in the relevant EU member states and Norway. There has been keen Ministerial interest in the work.

NSCOGI includes three working groups focusing on the following areas:

1) Grid configuration and integration, led by the Netherlands and Denmark. This includes identification of baseline generation and demand scenarios. The PRIMES scenarios are being used as a starting point. This work also includes a review of technology that is available over the period to 2030.

2) Market and regulatory issues, led by the UK and Ireland. As part of this working group, detailed information on applicable market and regulatory arrangements has been sought from Initiative countries and work undertaken to ensure key issues have been identified (including cost allocation).

3) Planning and authorisation, led by Germany and France. Detailed information on procedures in each member country has been sought.

It is expected that final recommendations from NSCOGI will be produced by December 2012. It was clarified that these recommendations will not be binding on any states, and they will be developed by consensus.

In terms of overlap between work by the OTCG and NSCOGI, DECC expect that work being undertaken by the OTCG will help to inform NSCOGI on the UK position, and the NSCOGI work is not expected to delay any OTCG work. In terms of scenarios, it was noted that consistency with UK scenarios is important, and that a range of scenarios will need to take into account variability in renewable energy generation. As with the ENSG work, it is important for there to be two way communications between NSCOGI and the OTCG.

4. Feedback on second expert workshop

The chair invited Colin Green to provide an overview of the discussion from the second OTCG Expert Group meeting. Members were referred to the information in the slides accompanying the meeting.

The workshop had identified the high level process steps required to deliver a project and then discussed which elements of the development process were critical to keeping the option of delivery of a range of network development scenarios. These are summarised in the accompanying slides.

The first two stages, 'Project Definition' and 'Functional Requirements' have a critical impact on what assets are delivered. If the project definition is initially narrow, constraints may be created which impact on the later stages of the project. The workshop discussion highlighted the difficulties involved in unpacking technical issues in isolation to regulatory and commercial questions.

It was noted that workshop participants appeared to have reached a level of consensus on a number of concerns, specifically the need for focus on the consenting process. There is a desire for clarity on what is to be delivered at the earliest possible stage, as well as a desire to maintain flexibility for as long as possible. The working group also suggested that technology standardisation and control systems integration were key issues. The working group started to explore these issues, but no consensus has yet been reached on the appropriate way forward. DECC and Ofgem are therefore considering how the next workshop may consider consenting issues in more detail.

The second expert workshop highlighted that there are different understandings around what is meant by coordination. Workshop participants noted that there are potentially different levels of co-ordination in developing the system:

1) Technology choices to anticipate future demands
2) Co-ordinating between on and offshore grids requirements (reducing onshore constraints)
3) Interconnection within a 'zone'
4) Interconnection between separate 'zones'
5) Interconnection with other countries

One OTCG member suggested that coordination could involve 'any combination of the above'.

OTCG members were invited to provide suggestions on areas that may have been missed that needed to be addressed as part of workstream 2 on asset delivery. Discussion focused around questions of where risk, incentives and responsibility might lie at each stage of the process and how this might influence likelihood of coordination. It was also noted that future-proofing assets can be very significant and costly, depending on how much scope for extra connections are accommodated and the uncertainty of demand for the assets.

Another OTCG member suggested that it is important to understand the commercial drivers facing different parties to understand where the key enablers and barriers to coordination lie. In order to unpack the development process, it was suggested that mapping the commercial drivers with different roles and responsibilities at different stages of the delivery process would aid the debate. The time horizons for the different development stages should be highlighted in this.

It was suggested that a clear understanding of what "coordination" means and the related commercial drivers would be helped by having a clearer idea of what a range of different network outcomes look like, perhaps using the scenarios being developed by TNEI or case studies being developed by Redpoint.

Action 2: Ofgem and DECC to update the meeting note summarising the second expert workshop, documenting key concerns, and circulate prior to the third workshop.

Action 3: Ofgem and DECC analysis to include the key commercial drivers of different players at each stage of the project lifecycle.

Action 4: Ofgem and DECC to consider the use of case studies, to facilitate practical discussions around the risk (and other) issues.

5. Commercial perspectives – developer and OFTO presentations

Following on from discussions at the first two expert workshops, it was felt that a better understanding of the commercial issues facing developers and OFTOs would be a helpful input for OTCG consideration.

The chair invited Allan Kelly, ScottishPower Renewables, to speak from a developer's perspective on key commercial drivers and realities facing developers for designing regulatory options to deliver assets supporting co-ordination.

Members were referred to the information in the slides accompanying the meeting. The key points made by Allan Kelly were as follows:

- Developers and investors need certainty and confidence and existing grid arrangements must not be adversely affected.
- There should be consistency with relevant existing offshore grid and onshore grid arrangements
- The scale of offshore investment that needs underwriting is of an order that is significantly different to that onshore
- It is unclear how transmission charging would work – Allan Kelly set out that developers cannot be expected to cover the costs of anticipatory investment until subsequent users arrive.
- There is a role for some central planning, design and co-ordination, to minimise the number of parties involved and interfaces
- It may be helpful to have a small group of 'experts', apart from the OTCG and workshops, to explore issues in greater depth.

OTCG members were invited to comment on the presentation:

- One member suggested three principles, from a generator's perspective: 1), that the solution cannot cost (both upfront and ongoing) generators more than the current solution; 2) generators need certainty on timing of connection dates and delivery so that transmission and generation assets can be delivered in a similar timeframe; 3) the solution must provide the same or greater network security than that offered by radial solutions.
- Apart from commercial and regulatory issues, there are also a range of issues that will arise for assets being shared by multiple users (such as outages, commissioning) that will need to be considered.
- There is a need to consider the legal aspects of what is being developed and proposed.
- Cost efficiencies should be considered holistically – but there may be different cost implications for different parties.

The chair suggested it would be useful for members for Ofgem and DECC to set out in more detail what they will produce, and by when, over the course of this project.

The chair invited Chris Veal, Transmission Capital Partners, to give a presentation outlining the key commercial drivers facing OFTOs, to be taken into account when designing regulatory options to deliver assets that anticipate future projects - or that would be good for the grid overall. Again, members were referred to the information in the slides accompanying the meeting.

Chris Veal noted a number of issues an OFTO would need to consider. These included an understanding of the role, the risks involved and who is best placed to manage those risks. The answer differs depending on whether an OFTO is appointed at an early or late stage.

OFTOs generally favour a late OFTO appointment, as they can bid a fixed price on assets with a clear functional specification, with consents secured. In contrast, early OFTO appointment presents a large number of contingencies that would need to be built into the revenue stream.

Chris Veal also gave his views of additional regulatory measures to deliver assets, and how these could be made consistent with project investor/lender requirements. Members were referred to the information in the slides accompanying the meeting. It was noted that an OFTO is unlikely to spend more than the minimum required on, for example, increasing the base level for the cable capacity, without some clear structure to incentivise this in the bid process. It was suggested that an independent design authority could play a role in defining the functional requirements of what needs to be built. There are a number of bodies who could potentially undertake this role.

OTCG members were invited to comment on the presentation.

- There was a discussion on the extent to which current regulations allow oversizing including the up to 20% costs uplift, on which it was noted that this only applied to investment on something extra to what had already been delivered
- There are three different levels for offshore grid design – GB-wide; regional and project based. They do not all necessarily have to be performed by the same party
- Allowing for flexibility may be more costly than expected as allowing space for future cables may de-rate existing cables – ie. require more costly inter array cables to be installed than would otherwise be the case
- That most likely – space for future platform and a “T” point to existing substation
- SQSS review needed to conclude.

6. Close

The chair summarised the key points from the meeting, noting the importance of both continuing to progress the technical assessment of network coordination while not losing sight of the commercial and regulatory issues. The chair also recapped on the actions to be undertaken prior to the next workshop and OTCG meeting, thanked the members for their attendance and input and closed the meeting.

Action 5: Ofgem and DECC to circulate further information to members on the project timetable.