

Fourth Expert Workshop: Commercial, regulatory and incentive issues

21 July 2011 - Meeting Note

Introduction

The expert workshop held on 21 June 2011 was the fourth in a series of workshops hosted by Ofgem and DECC to support the Offshore Transmission Coordination project.

The workshop was held to support work being undertaken as part of work stream 3, focused on commercial and regulatory issues. Work stream 3 is being undertaken to consider a range of potential regulatory/commercial measures that may be needed to optimise co-ordinated outcomes.

Workshop Overview

The workshop was hosted by Ofgem's appointed consultants, Redpoint, who have been engaged to provide analysis to support work stream 3. The format of the workshop was as follows:

Part A –Issues and Evidence

- Redpoint presentation: review of current regime, potential problems and evidence requirements
- Table based group discussion and report back

Part B –Assessment Criteria

- Redpoint presentation: overview of proposed assessment criteria and how they fit into the evaluation framework.
- Table based group discussion and report back

Part C –Potential Measures

- Redpoint presentation: possible policy measures and how they address potential problems
- Table based group discussion and report back on potential measures and how they fare against the assessment criteria.

Outputs

This note reflects the Secretariat's summary of the views expressed at the workshop should not be considered to reflect either DECC or Ofgem's views. Appendix 1 lists the organisations that participated in the workshop.

Part A –Issues and Evidence

Introduction

Redpoint gave a presentation on their work to date on work stream 3 to review the current regime and collate and identify potential barriers to coordination and integration. They are also considering a range of potential measures to address those barriers, as well as the current risk-reward balance and how this may affect different coordination outcomes. It was explained that their work builds on work stream 1, lead by TNEI and PPA energy (on asset delivery), the findings of which will be taken into account when developing their cost benefit analysis and the appropriateness of any measures. This will have both qualitative and quantitative elements. Redpoint explained that they were keen to leverage the experience of the workshop participants and so are seeking feedback on their potential solutions and proposed assessment criteria.

Redpoint introduced a draft problem statement, which is based on discussion at previous workshops and a review of the existing regime.¹ Workshop participants were asked to discuss a number of questions:

1. Do you agree with the potential problem statement? Are there any other problems affecting coordination
2. What is the evidence on these problems – what supporting examples can be provided?
3. What are the priority issues?

Summary of Discussion

Do you agree with the potential problem statement? Are there any other problems affecting coordination?

Most participants agreed with the draft list of problems. Participants also provided comments on the problems identified. These included the following:

- The lack of vision statement – it was added that a vision statement might need to be subjected to a cost-benefit analysis and officially ‘sanctioned’. There was a question as to how detailed this vision statement should be.
- It was felt that there should be a recognition of onshore impacts and a recognition that one network approach does not fit all projects – there are varying degrees of integration possible.
- Many of the problems/barriers raised interact and are not mutually exclusive.
- There is a need for a consistent approach across all offshore developments (e.g. Scottish Isles).
- It was noted that a developer would be more inclined to undertake anticipatory investment within a zone than between zones due to the additional risks of third party delivery and linking projects.

¹ Presentations are available on the Offshore Coordination website:
<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=12&refer=Networks/offtrans/pdc/pwg/OTCP>

- There is a need to consider whether the technology to support coordination is available and deliverable for projects being planned and built now.

What is the evidence on these problems –what supporting examples can be provided?

In general, there was little evidence offered by participants to support the view of these issues as potential problems, though developers' inability to sign connection offers because of the uncertainty around coordination, and the difficulty in securing funding were mentioned. Ofgem and DECC again asked that any evidence be submitted to them.

What are the priority issues?

- Anticipatory investment was seen as a key issue, with a number of related issues e.g. charging, transfers, securitisation, and the ability to secure funding closely related to this. Risk allocation with regard to anticipatory investment was raised.
- There was no consensus on the priority of interoperability/technology issues, with some participants viewing interoperability and other issues as important second tier problems, with others regarding this as a priority.
- There is a need to establish a time frame and method to maintain the momentum for initial radial developments, as well as a way to interface current projects with those to be developed in future.
- There is a need for greater communication on onshore-offshore interactions, i.e. how is the whole network developing.

Part B –Assessment Criteria

Introduction

Redpoint outlined a list of initial assessment criteria that have been developed from high level DECC and Ofgem objectives. Participants were asked to consider:

1. Do the criteria for assessment follow appropriately from the overall project objectives?
2. Are there any gaps in the criteria?
3. Should priority be attached to specific criteria?

Summary of Discussion

The need for clarity on the baseline to be used for comparison was raised, stressing the importance of knowing where business as usual will take us. Other key points raised included the view of some participants that there is a greater need to consider the risks and costs to generators on the whole development, such as the increased cost of capital due to increased risk, since the cost weighting of generation is ten times the cost of transmission. It was felt that timely and economic offshore generation is key. Participants also felt there is a need to consider the onshore benefits of coordination, though some felt the link with onshore interactions (and trans-boundary interconnections) was important but of a lower order. Some questioned whether the overall objective was the achievement of renewable energy targets or economic benefits (cost savings).

Other comments included the following:

- Some participants questioned whether the list needed to be expanded and some criteria elaborated on (e.g. re climate change impacts, cumulative environmental impacts).
- Build out of transmission assets was not seen to be a good indicator of progress, as there is a need for earlier indicators of progress.
- Reliability/security felt to be a secondary issue, and should come as a consequence of addressing aspects such as the SQSS.
- Need to be able to test against criteria, both qualitatively and quantitatively.
- More thinking needed on tradeoffs between flexibility and certainty.

Part C –Potential Measures

Introduction

Redpoint outlined an initial matrix they had prepared mapping potential problems with potential solutions. These measures reflect preliminary thinking.

The solutions shown in the matrix sit along a graduated spectrum, ranging from less change in risk allocation to more change in risk allocation.

Summary of Discussion

Some general comments were as follows:

- Certain initiatives strongly interact with others, or have a natural fit with certain other measures.
- There was agreement on the general principle that risk best sits with the party best able to bear those risks.
- There was a suggestion for an additional column in the matrix showing risks that could be borne by government – not just developers and consumers.
- There is a need to consider the potential solutions in relation to how they might affect project delivery timescales. Even a year's delay is very costly to the rate of return for a project.

Several participants raised the point that it is not clear how developers could progress anticipatory investments under current arrangements and questioned whether a new process for anticipatory investment was needed.

It was felt that more information was needed on possible types of no-regrets or low regrets investments that will allow future flexibility. There may be value in drawing together existing statements such as the ODIS and ENSG work.

Some participants raised the importance of specified property rights for individual generators so that they can extract value from doing something beyond what they immediately need.

On the potential measure of a regional OFTO providing a coordinated solution, some participants felt that a key problem might be holding OFTOs to account, related to the difficulty of specifying what they are specifically bidding for at an early stage. There is also a question of how to keep costs down as

interim network is re-optimised over time. It was also pointed out that an appointed regional OFTO may have difficulty raising the necessary finance.

On charging and user commitment, generators want less cost and less risk than if they were to go with radial links, if they are to adopt a coordinated approach. One participant suggested that the enhanced transmission incentives discussion between Ofgem and National Grid demonstrated that it is difficult to find a way of rewarding anticipatory investment.

Appendix 1: List of participating organisations

1. Alstom Grid
2. Burges Salmon LLP
3. Centrica
4. CG Power
5. DONG energy
6. EDF Energy
7. Forewind
8. JNCC
9. MMO
10. Mott Macdonald
11. Nabarro
12. National Grid Electricity Transmission (2 representatives on behalf of TO and NETSO)
13. National Grid Offshore Ltd
14. Suffolk and Essex coalition of amenity groups
15. RenewableUK
16. RES Offshore
17. ScottishPower Renewables
18. SeaEnergy
19. Shepherd and Wedderburn
20. Siemens
21. SSE
22. Statkraft
23. Suffolk County Council
24. The Crown Estate
25. Transmission Capital
26. Xero Energy