

Joint Ofgem/DECC Offshore Transmission Coordination Project

OTCG Meeting:
24 January 2012

Agenda

- Welcome and introduction
- Asset Delivery workstream
 - Key implications arising from TNEI/PPA Energy's findings
 - Group discussion/feedback session
- Regulatory framework workstream
 - Key implications for the regulatory framework arising from Redpoint Energy's findings
 - Discussion of appropriate actions required to address the 6 key barriers highlighted by Redpoint Energy
 - Group discussion/feedback session
- Wrap-up/next steps

Asset Delivery workstream: TNEI/PPA Energy's findings

- ‘The **potential [cost] savings** from integrated development [8-15%*] are most significant under the most ambitious generation developmental scenarios, with the corollary that anticipatory investment and stranding risk is also greatest in absolute terms’
- ‘Should [**2GW links**] fail to be commercially developed, the costs of the integrated approach would increase by approximately £2.4 billion under Scenario D. This would effectively eliminate the apparent cost advantage of integrated development.’
- ‘Such a simplistic comparison, however, fails to value the **other benefits** of integrated planning including deliverability and reliability of the network, and opportunities for reinforcement of the onshore network, and integration of international interconnectors. Integrated development does, however, need to consider **security requirements** throughout the whole period of zonal build out.’
- ‘When assessing such benefits, consideration needs to be given to the additional design **complexity** and overall project coordination which may be required.’

** Redpoint Energy's total cost saving figures based on TNEI data.*

Asset Delivery workstream: TNEI/PPA Energy's findings (continued)

- 'It is vital that offshore networks are **considered in conjunction** with onshore networks in order to achieve a co-ordinated national transmission system that efficiently integrates all generation sources, both onshore and offshore.'
- 'The issue of **anticipatory capital investment** needs to be addressed. Where such expenditure is within a single zone, this might be manageable by the developer of the zone, provided that a suitable mechanism for remuneration exists and is transparent from the outset of the process.'
- 'A robust and consistent process is required to evaluate the options for AI at **each decision point**.'
- '**Each zone** has to be considered on its merits and timing of decision points.'
- 'In order to achieve coordination, there may be a need for up to £30M additional anticipatory or **pre-construction investment**, but these costs are relatively minor to potential future savings.'

Do you agree with TNEI's analysis?

Regulatory framework workstream: key implications

Problem	Commentary
Anticipatory investment process uncertainty	Lack of clarity on process and adequacy of existing tools to give certainty on funding for anticipatory investment to keep open desirable coordinated outcomes
Network optimisation	An optimised network would allow a given volume of generation and demand to be connected efficiently and economically including a coordinated approach where this is beneficial (taking into account current and future consumers)
Risk–reward profile of coordinated investments	Even if there is an adequate anticipatory investment structure, it is not clear whether the risk–reward profile (given TNUoS charging and user commitment rules) for coordinated investments will be acceptable for generators
Interconnector-OFTO regulatory interface	Uncertain/possibly inadequate regulatory framework for interconnector-OFTO connections
Planning and consenting barriers to anticipatory investment	Planning/wider consenting process for anticipatory investment needed to facilitate coordination can be unclear (CLG guidance could prevent consenting beyond firm need) or can involve multiple applications
Technology risks and asset incompatibility	There could be a need for some standardisation to help ensure interoperability and extendibility, particularly if many players and manufacturers are involved. Some of the technology that is key to unlocking cost savings (and means coordination becomes beneficial) is not yet available and the supply chain is relatively small

Regulatory framework workstream: addressing the barriers

Potential barrier	Appropriate actions required to address barriers
Anticipatory investment process	Need for a process to give certainty on who can identify AI, who would undertake it, how it would be funded and at what stage Ofgem approval will be needed. Existing framework (connection agreement process, user commitment and TNUoS charging, OFTO tender process) could provide architecture for much of this.
Planning an efficient network	Redpoint analysis suggests the possible need for an enhanced central planner role, and improvements to ODIS. Building to a blueprint not seen as desirable unless there is a high degree of certainty on generation build-out.
Charging and user commitment	Clarification needed on how charging and user commitment will work for coordinated networks, and ensure that generator's exposures are fair and cost-reflective. CMP192 is currently with Ofgem for approval, and NGET have begun thinking about possible TNUoS revisions. Any changes need to support the AI process, ensuring that consumers get a fair deal.
Regulatory interfaces	A need for Government and Ofgem to clarify regulatory arrangements as appropriate/necessary for potential future projects that could sit across different regimes (e.g. connection for offshore generation and interconnection). This covers the need for clarity for generation elements as well.
Consenting	Need for CLG guidance on associated development to allow for consideration of consenting for potential uses beyond the immediate project.
Technology	Continued industry-led consideration of possible standards to allow interoperability as the offshore network becomes more integrated. Innovation and supply chain issues may need further consideration.

Do you agree with the 6 barriers identified by Redpoint and the suggested actions to address them?

Wrap up / Next steps

Coordination Project Plan

Workstream 1: Problem Definition

Workstream 2: Asset Delivery

Workstream 3: Policy and regulatory options

Coordination Group meetings & stakeholder workshops

Consultants' reports published – Dec 2011

Ofgem consultation published – February 2012

Stakeholder engagement

- 6 OTCG meetings
- 5 expert workshops
- Formal consultation in February 2012
- Always open to further ideas and bilateral meetings: offshore.coordination@ofgem.gov.uk

Joint DECC / Ofgem project conclusions published – February 2012

Ofgem consultation response

Formal Consultation

Spring 2011

Summer 2011

Autumn 2011

Winter 2011

Spring 2012

Summer 2012