

# Minutes of the Offshore Transmission Coordination Group (OTCG)

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

Meeting 6: 24 January 2012, 11:00-12:30

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## Attendees

### Co-chairs

<i>Ofgem</i>	Robert Hull	Ofgem E-Serve
<i>Government</i>	Sandy Sheard	DECC

### Coordinators

<i>Ofgem</i>	Jon Parker	Ofgem E-Serve
<i>Government</i>	Duncan Stone	DECC

### Members

<i>Supply chain</i>	Matthew Knight	Siemens Transmission and Distribution Ltd
<i>Generators</i>	Guy Nicholson	RenewableUK
<i>Supply chain</i>	Eoin Nolan	Alstom Grid
<i>Generators</i>	Richard Sandford	RWE
<i>OFTO</i>	Chris Veal	Transmission Capital Partners
<i>Licensing authority</i>	Dickon Howell (replaces Ashley Holt as alt. for Dr Shaun Nicholson)*	Marine Management Organisation
<i>Generators</i>	Allan Kelly*	ScottishPower Renewables (OWDF sub-group nominee)
<i>Licensing Authority</i>	Chuan Zhang	The Crown Estate
<i>Generators</i>	Philip Davies	Centrica Energy
<i>NETSO</i>	Richard Smith	National Grid

\*Denotes that attendee is dialling in

### Apologies

<i>DECC</i>	Jonathan Brearley	<i>DECC</i>
<i>Transmission owners</i>	David Campbell (alt. For Colin Bayfield)	Scottish Power Energy Networks
<i>Government</i>	Mark Thomas	Infrastructure UK
<i>Government</i>	Peter Hughes	Northern Ireland Government
<i>Government</i>	Michael McElhinney	Scottish Government
<i>Government</i>	Ron Loveland	Welsh Assembly
<i>OFTO</i>	Sean McLachlan	Balfour Beatty
<i>Supply Chain</i>	Tsunenori Kato	Mitsubishi
<i>Government</i>	Christophe Schramm	European Commission
<i>NGO</i>	Nick Molho	WWF

### Also in attendance

<i>Ofgem</i>	Stephanie McGregor	Ofgem E-Serve
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<i>Ofgem</i>	Philip Smith	Ofgem E-Serve
<i>Ofgem</i>	Laura Morris	Ofgem E-Serve
<i>DECC</i>	Kristina Dahlstrom	DECC

## 1. Purpose of the meeting

The meeting was held to provide a forum for OTCG members to provide feedback on the methodologies behind, and key implications of, the two consultant reports commissioned by the Offshore Transmission Coordination Project (OTCP). The meeting also brought the OTCG to a close, thanked OTCG members for their valued input into the OTCP, and informed attendees of Ofgem's and DECC's next steps.

## 2. Welcome and introduction

The Chair welcomed members of the Group to the sixth and final OTCG meeting, and reminded members that the two consultants' reports, one on asset delivery (TNEI/PPA Energy) and one on regulatory frameworks (Redpoint), were published on the Ofgem website on 15 December 2011.

## 3. Asset delivery workstream discussion

Duncan Stone (DECC) highlighted the key findings of the asset delivery workstream, as detailed on pages 3 and 4 of the accompanying presentation<sup>1</sup>. Members largely supported the conclusions of the report.

While there was agreement that technology availability was a key driver for achieving savings from coordination, some expressed concern that the figures for how cost savings could be reduced if 2GW HVDC technology were unavailable may represent a worst-case scenario of technology development. One member thought that whilst a 2GW HVDC transmission system has not yet been constructed, individual components are existing technology, and this should be reflected when communicating the figures.

Members agreed that the complex modelling assigned to TNEI/PPA was well conducted. Further comments include:

- The use of four national offshore generation scenarios was a sensible approach.
- Analysis of coordination between offshore windfarms and interconnectors was useful but was buried within the main body of the report. Members suggested further analysis on this topic could be valuable, while recognising that there is a greater level of uncertainty around future interconnector projects. In response to members' questions, DECC and Ofgem clarified that the work of the OTCP is already feeding into relevant initiatives such as the North Seas Countries' Offshore Grid Initiative (NSCOGI), which is currently undertaking a review of existing work on interconnectors.
- The inclusion of cost of capital sensitivity analysis would have been a useful addition to the report. The Chair's suggestion that Ofgem should consider the scope to make the TNEI model publically available, or alternatively providing further sensitivity analysis, was met with agreement.

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<sup>1</sup> Available on the Ofgem website.

Following the discussion, members of the OTCG provided a general endorsement of the TNEI approach and methodology, agreeing that it was both practical and set a clear and sensible way forward.

**Action: DECC/Ofgem to consider scope to publish the TNEI model OR commission further sensitivity analysis.**

**Action: DECC/Ofgem to wait for NSCOGI to report before considering whether there is need for further interconnector modelling.**

#### 4. Regulatory framework discussion

Jon Parker (Ofgem) summarised the six potential barriers to coordination identified in the Redpoint report and the appropriate actions required to address them (see slides 6 and 7 of accompanying presentation). Discussions and feedback around each barrier is summarised below.

Anticipatory investment (AI) process uncertainty: Members viewed the development of an AI process as a high priority and thought that the process should:

- include clarity on the funding mechanism
- provide clarity on whether the process relates to pre-construction AI only or includes construction AI. One member highlighted that a focus on 'pre-construction activities' that included construction/procurement activities may help bring critical paths forward
- aim to secure early generator commitment
- be resistant to gaming strategies.

When presented with several key questions surrounding the development of this process, members offered the following feedback.

*Who identifies the AI?* Members suggested that both the NETSO and the generator could play a role in identifying the AI, but that identification should not necessarily be restricted to these parties.

*Who undertakes AI activities for investment to support wider network reinforcement?* Members suggested that in general, the selection of a party to undertake AI activities should not prejudice the competitive nature of the offshore transmission tender process. Some members also suggested that there could be a role for the onshore TO to undertake AI for wider works.

*Who pays for AI?* It was acknowledged that the current mechanism is not ensuring that the right coordinated assets are being delivered, with developers not having clarity on the charging they will face for coordinated assets and therefore being unwilling to sign up to connection offers that include coordination. The fair allocation of costs is an issue that needs to be addressed, and National Grid indicated that they would shortly be publishing a discussion paper on potential reforms to the charging methodology in this regard<sup>2</sup>.

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<sup>2</sup> This note has now been published at <http://www.nationalgrid.com/NR/ronlyres/28C89919-815F-4AD9-8ACF-4CC246EA18B6/51330/Finalintegratedchargingnote.pdf>

*When should Ofgem be involved in approval process?* Members suggested that a sensible method for testing future proposals on Ofgem's role would be to work through proposals with generators/OFTOs. This would test that solutions fit with development timelines and provide the required level of confidence.

Network optimisation: Members agreed that there could potentially be improvements to current network planning documents. National Grid informed members that they are considering the potential to combine the Offshore Development Information Statement and Seven Year Statement documents and would be providing more details on this in due course.

Risk-reward profiles of coordinated investments: Members agreed that charging and user commitment arrangements should reflect the benefits that consumers receive from coordinated transmission assets and that updating arrangements should be a high priority. One member felt that future uncertainty in these arrangements needs to be addressed or it will prevent coordination, even if other barriers are removed. It was noted that CMP192 addresses issues with relation to current user commitment rules and, as mentioned above, National Grid were going to be publishing a paper on charging methodology.

Interconnector-OFTO regulatory interfaces: Members agreed that regulatory changes should take into account that investment in UK-EU interconnectors must be attractive to the market when compared to other EU destinations.

Planning and consenting barriers to anticipatory investment: Kristina Dahlstrom (DECC) informed members that DECC and the department for Communities and Local Government (CLG) are considering this issue as part of a current review of planning guidance.

Technology risks and asset incompatibility There was consensus amongst members that industry fora were best placed to take forward discussions on this barrier, but that there may be a role for Government intervention if timely progress is not forthcoming over the next few years. One member highlighted the work that The Crown Estate is already undertaking to promote standardisation within the industry. One member suggested that Ofgem could help promote standardisation through the cost assessment process. Ofgem stated that it welcomed more standardisation of technology and the reduced costs that could be realised but that such developments must be market led. One member stated that Ofgem should clarify how design decisions that impact on transmission losses will be treated when Ofgem are undertaking cost assessments ahead of transfer of a generator-build asset to an OFTO.

## **5. Wrap up / next steps**

The Chair summarised the key issues discussed, noted that this would be the last meeting of the OTCG, and thanked the members of the OTCG for their contributions over the course of the project. Members were informed of DECC/Ofgem's proposed next steps:

- Joint DECC/Ofgem conclusions report published **by end February**
- Ofgem consultation document published **by end February**, with consultation running until **end-April** and Ofgem consultation response **summer 2012**

OTCG members are encouraged to feed into the consultation process and were reminded that DECC and Ofgem are open to requests for bilateral meetings to discuss specific issues or concerns.