

Martin Crouch
Partner, European Wholesale
Ofgem
9 Millbank
London
SW1P 3GE

Centrica Plc
Millstream
Maidenhead Rd
Windsor
Berkshire SL4 5GD
www.centrica.com

25th May 2012

By email

Dear Martin

RE: Open Letter: Planning for an integrated electricity transmission system – request for views

Thank you for the opportunity to respond to your open letter. This non-confidential response reflects the views of the Centrica group of companies, excluding Centrica Storage, although we are seeking particularly to bring our perspective as an offshore wind developer to the ITPR project.

Centrica welcomes the ITPR project as an opportunity to review and develop regulatory arrangements onshore, offshore and cross border to improve their interactivity. We also welcome further recognition in your open letter of the OTCP Conclusions Report, which identifies regulatory barriers that need to be addressed in order to realise the benefits of coordinated offshore transmission.

As a major offshore wind developer in GB, Centrica recognises that, for large scale Round 3 wind projects in particular, the offshore (and potentially onshore and cross border) regulatory regime needs to *adapt* so it can better accommodate integrated and integratable offshore transmission connections. However, as stated in our recent offshore transmission consultation responses, we do not believe that *fundamental* changes to the role of the NETSO or the existing transmission regimes are necessary or in consumers' interests. A number of Round 3 projects are already in train, and need those parts of the regulatory regime that work fairly well to remain stable and predictable. Projects not yet in train are still likely to benefit from knowing that the future regulatory framework will not be fundamentally different from today.

From your open letter and 16 May stakeholder event, our understanding is that the ITPR project is proposing to look closely at the role of the NETSO in system planning. Specifically, this may include looking at:

- Whether the NETSO's role in system planning is sufficiently strong to bring about coordinated offshore transmission; and
- If the NETSO's system planning role is deemed too weak, how it would be strengthened, and what would need to be done to manage any conflicts of interest arising from a strengthened system planning role.

We believe that *modest* changes to the NETSO's role could usefully contribute to more integrated transmission in GB. For example, the consolidation of the SYS and ODIS into a document that depicts future integrated transmission scenarios would be informative for a range of stakeholders, and could be used by the NETSO to shape early iterations of specific connection offers to developers.

However, a move away from the current negotiated connection agreement between the NETSO and developer(s) would be counterproductive.

Superficially, strengthening the NETSO's role in the connection offers process may seem a relatively straightforward way of ensuring integrated connections are built; for example, giving the NETSO power to *direct*, rather than *negotiate*, a developer's connection offer. In practice, such an approach runs the significant risk of making projects uneconomic, even where integratable transmission solutions could be established through negotiation.

Negotiated arrangements between National Grid and their customers will deliver superior outcomes to "command and control" network planning powers. Negotiations allow parties to understand the needs and imperatives of the other, address problems and find solutions.

The OTCP Conclusions Report correctly identified the lack of incentives on offshore wind developers to undertake anticipatory investment as a key barrier to integrated / coordinated transmission. We believe that any project seeking to facilitate integrated transmission must, first and foremost, recognise this significant barrier and look to address it. In the context of the offshore transmission regulatory regime, Ofgem is most likely to facilitate integrated transmission by:

- Reducing the current disincentive to undertake anticipatory investment, for example by:
 - Moving towards a generator build option where the developer has an option to agree an upfront capex allowance for agreed anticipatory investment with Ofgem; or
 - Providing detailed *ex ante* guidance to offshore wind developers on what Ofgem considers to be an efficient generator build procurement and construction process.
- Improving the flexibility of the tender process (and modifying the onshore transmission regime as necessary) so it can accommodate *initial* radial connections, with the potential to be integrated into the wider system upon completion of *subsequent*, separately procured integrating works.

Please refer to our [response to the offshore coordination consultation](#) for further discussion of our recommendations on coordination.

We look forward to working with Ofgem to ensure that the ITPR project delivers a stable, transparent and enabling regulatory regime for developing generation and transmission assets in GB, with improved interactivity between the onshore, offshore and cross border regulatory regimes.

Yours sincerely,

Tim Collins

Regulatory Affairs

Centrica Energy

t: 01753 492119

m: 07789 577609

e: tim.collins1@centrica.com