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Dear Martin,

Open letter on the Integrated Transmission Planning and Regulations project: Response from The Crown Estate

Thank you for the opportunity to respond to the open letter on the Integrated Transmission Planning and Regulation (ITPR) project, published on 23 March. The Crown Estate welcomes this initiative and we believe that addressing issues associated with the interaction between the regulatory frameworks for transmission is essential if transmission is to be an effective enabler to maximising the deployment of offshore renewables in the UK. This response addresses some of the specific points raised in the open letter, as well as providing some general observations on the key issues identified.

1. The Crown Estate

The diverse portfolio of The Crown Estate comprises marine, rural and urban properties across the whole of the United Kingdom valued in total at £7 billion (2011 figures). Under the 1961 Crown Estate Act, The Crown Estate is charged with maintaining and enhancing both the value of the property and the revenue from it consistent with the requirements of good management. We are a commercial organisation guided by our core values of commercialism, integrity and stewardship. The Crown Estate's entire revenue surplus is paid directly to HM Treasury for the benefit of UK citizens; in 2011 this amounted to around £230 million.

Our marine estate comprises virtually the entire UK seabed out to the 12 nautical mile territorial limit, in addition to the sovereign rights to explore and make use of the natural resources of the UK continental shelf, with the exception of oil, coal and gas. We own around half of the foreshore and beds of estuaries and tidal rivers in the United Kingdom. Our expertise includes marine resource management (e.g. marine aggregate extraction, marine renewable energy installations, seabed infrastructure, aquaculture and new activities such as gas storage and carbon capture and storage) and its interplay with other marine activities such as defence, energy, navigation and marine safety. We have a strong understanding of the needs of a broad range of coastal and sea users, as commercial partners, customers and stakeholders.

2. Context for The Crown Estate response

By 2020, the UK must generate 30% of its electricity from renewable sources to meet its binding renewables targets. Offshore generation is expected to make a significant contribution to meeting this, and DECC's Renewables Roadmap indicates that offshore wind could have an installed capacity between 11 and 18 GW by

2020. This burgeoning industry is set to become a major UK manufacturing activity, bringing significant new inward investment, businesses and jobs. To help make sure this industry realises its full potential, we are taking a proactive approach. This ranges from co-investment in the consenting of projects through to positive engagement with statutory and non-statutory bodies, regulators, trade associations, local and national governments and representatives of the shipping, aviation and fisheries industries.

3. Overview comments

We welcome the ITPR project as outlined in your letter of 23 March and elaborated on at the industry workshop on 16 May. We believe that reviewing now issues around transmission system planning and the interactions between the regulatory regimes for different classes of transmission asset is essential given the volume of offshore generation – and increase in interconnection – expected in the coming decade. Our perspective on these issues is informed from a number of angles.

As custodian of the seabed, we are required to manage this unique asset on behalf of all users and to maximise value on behalf of the nation. We do this by taking a long term view on development, seeking to minimise the footprint from activities and considering the interests of other users in our decision-making processes. We believe that a more coordinated and integrated approach to electricity transmission infrastructure – be it terms of reinforcements to the onshore system that are routed offshore (i.e. “bootstraps”), infrastructure to connect offshore generation projects or interconnectors – will ultimately optimise seabed usage, for example through providing greater visibility on planned transmission developments.

Our perspective is also informed by seeking to deliver programmes which will help realise the UK’s ambition for the deployment of offshore renewables. As you are aware, we have undertaken a number of leasing rounds to date for offshore wind and wave & tidal sites, and for Round 3 in particular we have taken a proactive approach through co-investing in development activities across the zones. We believe seeking ways to enable offshore projects to connect offshore – for example to a bootstrap or to an interconnector – would de-risk offshore projects significantly, for example in terms of the capital outlay that is associated with connection¹ and also in terms of alleviating risk of delay associated with onshore reinforcements. Enabling this to happen may require a step-change in the current regulatory and legal frameworks, but we believe these should be fully examined through the ITPR project to ensure there are no artificial barriers that prevent developments like this occurring in instances where it would be cost effective and timely to do so.

The remainder of this response considers some of the key issues raised in the open letter.

4. Scope and objectives of the ITPR project

We wish to make three comments on the scope of the ITPR project:

¹ Predicated on the Generator Build model for offshore transmission infrastructure.

- (i) We welcome the focus on the interaction between regulatory regimes. We would suggest that the scope should also include the transmission charging framework that would be needed to support delivery of a more integrated approach to transmission (including allocation of risk across users),
- (ii) We would suggest that any recommendations for change are implemented in a timely way to reduce uncertainty. To help deliver against this, we would recommend that mechanisms for implementing proposals are identified and agreed as early as possible so that the necessary preparations can be made to ensure implementation is not delayed (for example by ensuring appropriate Parliamentary time is available if that were needed), and
- (iii) In order to focus stakeholder attention on key issues, it will be as important to define what is out of scope of the review as what is included within scope. We would suggest this is made clear in the first full consultation document.

In delivering against the scope of the project it will be essential that:

- (i) any changes put forward should not disadvantage any offshore generation project compared to their current position (including in terms of cost, risks or programme), and
- (ii) existing or impending investment decisions and plans should not be undermined by any new arrangements.

5. Framework for network planning

As you will be aware, around 35GW of offshore wind capacity has connection agreements in place, with around 23GW of this total coming from Round 3 projects. Connecting these projects will require significant investment, and effective system planning is essential to ensure optimal solutions are delivered. This challenge is magnified when the connecting interconnectors is taken into consideration. We agree it is therefore timely to re-visit the approach to system planning. We made representations to this effect in our response to the OTCP conclusions document, and these points still hold².

In terms of network planning, we consider two areas should be given sufficient focus – (i) ensuring process transparency to give users confidence in outcomes and (ii) clarity over the governance framework. On this latter point, Ofgem may wish to consider the option of establishing an independent nationwide supervisory body to monitor planning (potentially in a form similar to the existing Electricity Network Strategy Group).

Looking at system planning more broadly, we believe this should be able to take into account competing needs for limited landfall points across different sectors. For example, as the Carbon Capture and Storage market develops and commercialises, there will inevitably be a need for new pipeline infrastructure, potentially landing in similar locations to offshore wind and interconnector sites. Enabling this would necessarily require cross-industry coordination, but this is likely to become essential as and when there are competing needs for limited suitable landfall points.

² Our response has recently been published on the Ofgem website:

<http://www.ofgem.gov.uk/Networks/offtrans/pdc/cdr/2012/Documents1/The%20Crown%20Estate%20response%20to%20consultation%20on%20potential%20measures%20to%20support%20efficient%20network%20coordination.pdf>

6. Interfaces between onshore/offshore/interconnection regulatory regimes

A key finding from the Offshore Transmission Coordination Project (OTCP) was that there is currently a lack of clarity on the regulatory treatment of assets that involve combinations of onshore reinforcements, offshore generation connections and interconnectors. We commented on these issues in our response to the OTCP conclusions document, and these points still hold. We note the simple diagrams presented in Annex 1 to the open letter, and agree these identify potential future scenarios. We would suggest two others are added – (i) focussing on multi-user projects and (ii) with interconnection via two offshore generation projects (i.e. one located in country A and one in country B).

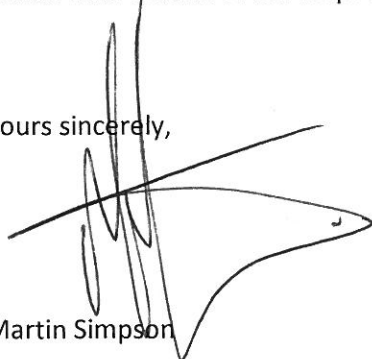
In order to consider how the scenarios in Annex 1 could be delivered, it will be important that Ofgem considers the legal underpinnings of the onshore transmission, offshore transmission and interconnection regimes to assess whether they remain fit for purpose. We fully appreciate the different origins of each regime, and do not believe that the legal backgrounds should necessarily be the same. However, in order to maximise the benefits from an integrated approach to transmission, there should not be any artificial legal barriers which mean innovative developments (such as those outlined in Annex A) are frustrated. For example, we understand that the requirement in the Electricity Act 1989 to appoint an offshore transmission licensee for transmission assets which are used to connect offshore generation may actually contribute to preventing innovative concepts like offshore projects connecting to “bootstraps” or to interconnectors. If this is the case, we believe the scope of the ITPR project should give sufficient leverage to examine these in detail and make recommendations for change.

7. Conclusions

We trust that you find these comments helpful in developing your thinking over the coming months ahead of a full consultation in the Autumn. We would be more than happy to discuss the issues raised further. Please contact my colleague Richard Clay on 020 7851 5336 or richard.clay@thecrownestate.co.uk as necessary in the first instance.

Please note that all of this response may be put into the public domain.

Yours sincerely,



Martin Simpson

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