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**20<sup>th</sup> September 2012**

By email

Dear Jon

**RE: Open letter: Offshore transmission: update on coordination policy developments**

Thank you for the opportunity to provide further views on offshore coordination. This non-confidential response reflects the views of the Centrica group of companies, excluding Centrica Storage.

Offshore coordination policies have both benefits and risks. We continue to recognise the benefits that coordination / integration of offshore transmission could bring to GB, particularly the potential system benefits. We also recognise that coordination policies could introduce substantial new risks to developers' offshore wind projects, depending on the policy approach taken. The introduction of new risks to what are already very challenging projects would in our view be counterproductive, particularly given the UK's ambitious 2020 renewable energy target.

We remain supportive of an offshore coordination policy which facilitates the exploring of coordinated connection options between the developer(s) and the NETSO. However, it is important to recognise that the major additional capex and cost recovery risks often associated with coordinated offers may prevent acceptance by developers. Coordination policy should therefore (i) seek to mitigate these risks directly (e.g. guarantee 'oversized' capex); or (ii) encourage future integration optionality in radial connection agreements, such that integrating works can potentially be taken forward by a third party at a later date, allowing system benefits to be realised.

Please find our responses to the specific questions in your open letter below and feel free to contact me if you would like to discuss.

Yours sincerely,

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## Responses to specific Ofgem questions

### Improvements to the network planning process

*Our views on the availability of information around connection offers - due to confidentiality around connection requests from other parties in the area, some respondents have noted potential limitations in the information available to help developers plan and coordinate works and assess connection offers that include elements that go beyond developers' own needs.*

As stated in our response to your March consultation, we believe that the current negotiated arrangements between the NETSO and the offshore wind developer(s) should form the basis of a connection agreement to the greatest extent possible.

We believe that the NETSO could play a role in addressing availability of information around other parties' connection applications by inviting individual developers in the area to explore coordinated connection options in conjunction with other parties. If individual developers were willing to explore coordinated options in principle, the NETSO could then facilitate the signing of confidentiality agreements between the relevant parties in the area, which would enable those parties and the NETSO to discuss coordinated options more fully. Connection negotiations could progress on that basis, recognising that any connection offer would ultimately need the consent of each of the relevant parties, and should not in any way be mandated by the NETSO. A model form confidentiality agreement might be useful in these circumstances for expediency's sake.

It is however important to note that some developers may simply not be in a position to sign oversized connection offers or offers with a high level of dependency on other project connections, for sound risk management reasons or because their project's critical path precludes it.

Whilst we acknowledge that limited information around other projects can contribute to the uncertainty around accepting oversized connection offers, we remain of the view that the need for developers to avoid excessive upfront capex and the significant risks that currently exist around capex recovery represent the biggest barriers to accepting oversized connection offers.

*Our views on the 90 day period for making or accepting connection offers - a number of respondents suggested that this may not be long enough for some more complex offers. At present the connection offer process includes some flexibility in that National Grid can request an extension to this 90 period if they feel that the time allowed is not adequate.*

The relevant licence condition as currently written does not in our view constitute a barrier to increasing the 90 day period where necessary – it provides that the 90 day period can be extended where the Authority consents. Extending the “generic” period for all connection offers without the need for the Authority's consent may have the undesirable consequence of unnecessarily delaying straightforward connection offers, and thus investment in the GB energy sector.

### **Improvements to the network planning process**

*Our views on whether the NETSO could have a role in identifying and undertaking preconstruction works, instead of or in addition to TOs having such a role.*

The NETSO would appear to be the party best placed to *identify* opportunities to develop coordinating transmission works by virtue of its role in connection applications and agreements with developers. The NETSO should be equally well placed to identify both coordinating works that are immediately taken forward by developers and potential integrating works that link up radially connected offshore projects after the initial radial connections have been built. The NETSO benefits from a holistic perspective on connections that other parties do not have, and as such should be able to identify high level opportunities to coordinate networks most easily.

We believe that the most effective way to *undertake* preconstruction of coordinating works (where the developer chooses not assume responsibility) would be to confer preconstruction responsibilities on the incumbent SO or TO, extending the area of onshore TOs offshore as necessary. Alternative delivery mechanisms, e.g. competitive tendering for coordinating preconstruction works, are likely to make the coordination process unwieldy. We believe it is already challenging for developers to accept coordinated offers for the reasons stated in your March consultation and because of the capex intensity and capex recovery challenges around oversized connections. The additional delivery uncertainty that tendering for preconstruction work would introduce would only make coordination more complicated, particularly for coordinated offers that rely on a party other than the offshore wind developer to deliver a critical part of the developer's connection.

We recognise that conferring a direct responsibility for preconstruction coordinating works on an incumbent SO or TO means that Ofgem would need to play a role in determining the value of preconstruction works. However, we note that a requirement on Ofgem to assess the value of the preconstruction works would be similar to the process proposed by Ofgem for assessing the value of (and facilitating transferability of) preconstruction works under OFTO Build tenders. It should not therefore amount to a new or novel responsibility.

Finally we note there may also be a case for directly assigning responsibilities for construction of coordinating works to an incumbent TO, e.g. if offshore wind developers depend on the expeditious construction of the works to get their projects connected to shore on time.

*The process for proposals for this type of work to be put forward by third parties, including any need for consultation/publication to ensure interested parties are adequately engaged in the process.*

We do not believe that any formal role for third parties in proposing coordinating works is necessary, and it is not clear that it would bring benefits, given that the NETSO and the developer(s) are ultimately the parties that need to agree a connection offer.

The objective of delivering coordinated offshore transmission implies a need for a party with a strategic overarching role, who can allow each developer's project needs to be met, whilst

helping wider system benefits to be realised. As stated above, the NETSO is likely to be the party best placed to put forward opportunities to develop coordinating transmission works, by virtue of its role in connection applications and agreements with developers. The process that should follow is (as currently) the negotiation of a connection solution that meets the needs of the NETSO and the developer(s).

*What outputs might be required from a third party's pre-construction activities on this type of asset, such as necessary surveys, wayleaves, consents and a tender specification.*

The required outputs would presumably be the same as would be required for the developer's preconstruction works under OFTO Build, i.e. works sufficient in scope to allow the constructing party to assume the rights and responsibilities necessary to construct the assets.

*What further obligations might be necessary to ensure a fair and competitive tender, such as:*

- *Any requirement for business separation between the third party and a related organisation intending to participate in a competitive tender process.*

The tender process rules for OFTO assets have previously contained provisions that limit interactions between parties, with a view to ensuring a fair and competitive tender. Assuming that similar rules were applied to competitive tenders for coordinating/integrating works, additional business separation requirements on top of these restrictions should not be necessary.

*The need for certain assets to be transferred across from the third party to the successful bidder.*

The need for certain (preconstruction) assets to be transferred across to a successful (constructing) bidder would presumably be similar to the portability requirements of preconstruction works under OFTO Build, i.e. the works need to be sufficiently portable to allow an incoming third party to assume the rights and responsibilities necessary to construct the assets. However, we note from experience of the OFTO regime that some preconstruction works do not lend themselves easily to being transferred.