

By email: offshore.coordination@ofgem.gov.uk

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Dear Martin,

19 September 2012

RE: open letter on offshore transmission coordination policy developments

Your ref. Open letter dated 26/07/2012
Our ref.
120919_OffshoreCoordinationUpdate

DONG Energy is a leading energy company operating in Northern Europe and headquartered in Denmark. It is one of the most active offshore wind operators and investors in the United Kingdom. We operate 700 MW of offshore wind farms, and have approximately 1.2 GW under construction with a strong pipeline of future projects, including an interest in the first 1GW from the Hornsea Round Three zone, and a recently acquired a 50% interest in the Irish Sea Round Three Zone, both of which may require anticipatory investments or could benefit from coordination of offshore transmission assets.

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We broadly support Ofgem's work on offshore coordination, noting that it may require further work under the enduring regime development to establish the framework for an Early OFTO Build option, which we believe will be the most appropriate option for offshore transmission works built to benefit the wider network.

The responses to the detailed consultation questions can be found below.

Yours sincerely



Ebba John
Regulatory Affairs Advisor

DONG Energy

1. Improvements to the network planning process

- **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**

Any party looking to connect a wider asset into generator build assets prior to OFTO asset transfer, or conducting AI with a view to subsequent connection of 3rd party projects, will require detailed information about the connection, such as technology details, connected user's networks and types of generators, etc. A generator is likely to be unwilling to share this confidential information with a direct competitor, as these companies are in competition to deliver generation assets, whereas a licenced transmission owner is providing a service to these companies in terms of connection and use of system. It is therefore more appropriate that the relationship remains between the generator and transmission owner rather than commercial agreements between generators.

For much of the information the NETSO could act as an intermediary, providing sanitised data sets (which to an extent should already occur under the current generator build model when connecting to the onshore transmission network) to other developers undertaking generator build, or to relevant OFTOs. It should be noted that the nature of the information required by developers of offshore transmission networks may be very detailed and extensive, as well as varying dependent upon the project, so careful consideration must be given to the presentation, access and usage rights (including business separation) as well as the quality of such large amounts of relied-upon, confidential information.

- **90 day period for making or accepting connection offers. Some flexibility – National Grid can request an extension if they feel the time required is not adequate.**

We believe that if the current flexibility given to National Grid is retained for the offshore regime, it should be sufficient in most cases. Although it should be expected that more complex coordinated connection offers may take longer to prepare and assess and may require additional time in excess of 3 months. Extensions should be decided on a case-by-case basis rather than by a blanket extension to the current timescales which we believe would introduce unnecessary delays in many cases.

2. Whether the NETSO could have a role in identifying and undertaking the pre-construction works, instead of or in addition to TOs having such a role.

As the generator would be responsible for taking forward preconstruction works under Investment Categories 1 and 2 (offshore generator focused AI and wider benefits investment undertaken by generator), the response below is only focused on Investment Category 3 (wider benefit investment not taken forward by a developer).

However, certain works may cross categories, and the definitions of investment categories may need to be widened. For example, we have received offers which require us to provide AI for future works that are ultimately for wider system benefit. The AI (e.g. providing additional switchgear and j-tubes on the offshore substation) will most likely be taken forward as part of a generator build option in order to enable future category 3 investment to be taken forward.

There are two possible options for the works in the investment category 3:

- **Onshore approach extended offshore:** National Grid (or other parties) identify works and Ofgem approve a sum of money for preconstruction work expenditures. When built, the assets form part of the company's Regulated Asset Base and earn a regulated rate of return.
- **Competitive approach:** anyone can identify works, and Ofgem initiates a tender process immediately for an Early OFTO build option. National Grid has to tender alongside other interested parties, even if it identified the offshore works in the first place. As a late OFTO build option would require the generator to undertake the preconstruction work, we do not see this as a feasible option for this investment category (it can however be an option alongside generator build in the first two categories).
 - Business separation would be required as NETSO would be best placed to evaluate technical aspects of offers.

The second option is a continuation of existing offshore transmission arrangements.

3. 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 believe the establishment of an industry design body could be an appropriate way to assess proposals for wider network investment. Such a body could be set up to be similar to existing industry panels, such as the Grid Code review panel, utilising the expertise of National Grid but at the same time ensuring appropriate representation and guidance from generators and other TOs.

Anyone (whether generator, OFTO, onshore TO, or National Grid) making a proposal for wider offshore works would then take the proposal to the design body, which would evaluate the option and present a recommendation to Ofgem. Ofgem could then approve the initial phase of the works by initiating an Early OFTO build tender for preconstruction works, or give National Grid approval to carry out the works (depending on which option in our answer to Q2 is chosen).

4. 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.

If the competitive approach with an Early OFTO Build option is chosen, required pre-construction activities and outputs should be specified in the ITT documents. Bidders should then be allowed to submit offers with additional/altered proposals to be assessed by Ofgem.

5. 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.**

Business separation needs to be a requirement to avoid giving any party an undue advantage. If the competition is run as an Early OFTO build one, there will be less requirement for business separation than if one player could perform pre-construction work and then bid for that same project in a tender process. For simplicity, we favour the early OFTO build project for assets in investment category 3.

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

Again, this is most simply solved through running the competition for an Early OFTO build option. DONG Energy also favours an approach where the assets are contained in a Special Purpose Vehicle, enabling a simpler transfer through a share sale rather than asset transfer.