

Martin Crouch
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Your Ref:

Our Ref:

Date: 21th Sept 2012

Contact: Alan Michie

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Dear Martin

Open Letter of 26th July 2012: Offshore Transmission - Update on Coordination Policy Developments

SP Transmission Ltd welcomes the opportunity to comment on this letter. As a Transmission Owner ("TO") located in the South of Scotland, we are required under our transmission licence to comply with the System Operator – Transmission Owner Code ("STC") to make available our transmission assets to National Grid Electricity Transmission ("NGET") as the System Operator. We must also ensure that we develop an economic, efficient and coordinated onshore transmission system.

We fully support the need to establish efficient offshore network co-ordination. As an incumbent TO, we have an important contribution to make in facilitating offshore networks, and also in reaching the right integrated network solution/s. For example, we would need to ensure that any OFTO network connecting to our network leads to an economic, cost-efficient and compliant onshore grid solution.

We believe that Ofgem should build on the success delivered by the existing TOs' onshore wider system transmission developments, which include the subsea Western HVDC link. Our system analysis and design expertise, including considerable recent experience in HVDC, will be very important in supporting the design and delivery of coordinated networks.

These existing arrangements should be built upon to achieve the effective network planning process required. Our track record of co-operating with the other UK TOs in accordance with the STC and through bodies like the Electricity Networks Strategy Group (ENSG) demonstrates the significant contribution we make to ensure the GB network is being developed to meet the changing environment.

In the supporting appendix, we have responded to the issues on which the open letter requested further views.

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If you have any queries please do not hesitate to get in touch with myself or Alan Kelly on 0141 614 1736

Yours sincerely,

A handwritten signature in black ink that reads "Alan Michie". The signature is written in a cursive, slightly slanted style.

**Alan Michie,
Head of Policy and Commercial
SP Energy Networks**

Appendix 1 Further Views on Issues raised in Open Letter**1. *“The availability of information around connection offers and the 90 day period for making or accepting connection offers”***

The competition regime in offshore generation does inevitably limit information sharing and co-ordination amongst developers. This hinders long-term customer value by discouraging exploration of innovation and partnerships.

For example in respect of Investment Category 1 - Offshore generator focused AI, effective and efficient investment requires not just the sharing of information but the co-ordination of projects and sharing of risks. The development of a regulatory regime that provides incentives to do this is essential.

The existing 90 day period encourages individual offers to be produced timeously but limits the scope for co-ordinating multiple projects. Any future regulatory regime needs to be focussed on encouraging co-ordination, for example, by setting time limited windows for connection applications in specific areas.

In respect of Investment Category 2 and 3 – Wider network benefits investment, the open letter does not emphasise the distinction between transmission assets for developer benefit and for wider network benefit. Connection assets are expected to have 35% utilisation whereas interconnection assets for reinforcement will have much higher utilisation. This could be a factor that could be used to incentivise developers to enter into pre-construction, construction and/or ownership.

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 etc.”*

We support the establishment of a Design Authority role for the SO working in conjunction with affected TOs and OFTOs as well as developers depending on the needs of the project. The current onshore TOs deliver this form of Design Authority informally but effectively, and the experience and strong working relationships established could be formalised and incentivised in any future offshore regime.

In general, there needs to be recognition of the deliverability challenges for all parties to achieve the vision of a co-ordinated and integrated offshore network. These include design, manufacturing, construction and financing challenges. Without a strong regulatory regime these challenges are likely to lead to lower risk radial projects at best, which will not deliver the best long term benefits for UK consumers.