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Dear Gareth,

Offshore Transmission: Consultation on a proposed framework to enable coordination of offshore transmission. A response from The Crown Estate

Thank you for the opportunity to respond to Ofgem's consultation published on 7 December 2012. As we have set out in responses to previous consultations, The Crown Estate supports the concept of a more coordinated or integrated approach to transmission both offshore and onshore. The cost savings identified by Ofgem and DECC in the conclusions statement to the Offshore Transmission Coordination Project in March 2012 are potentially substantive and in an era when the spotlight is shining on overall cost reductions for the offshore wind industry, every effort should be pursued to capture these – for the benefit of the offshore generation as well as consumers more generally. Against this backdrop, we welcome that Ofgem is exploring mechanisms in which anticipatory investment in offshore transmission may be facilitated.

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 £8 billion (2012 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 2012 this amounted to around £240 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.

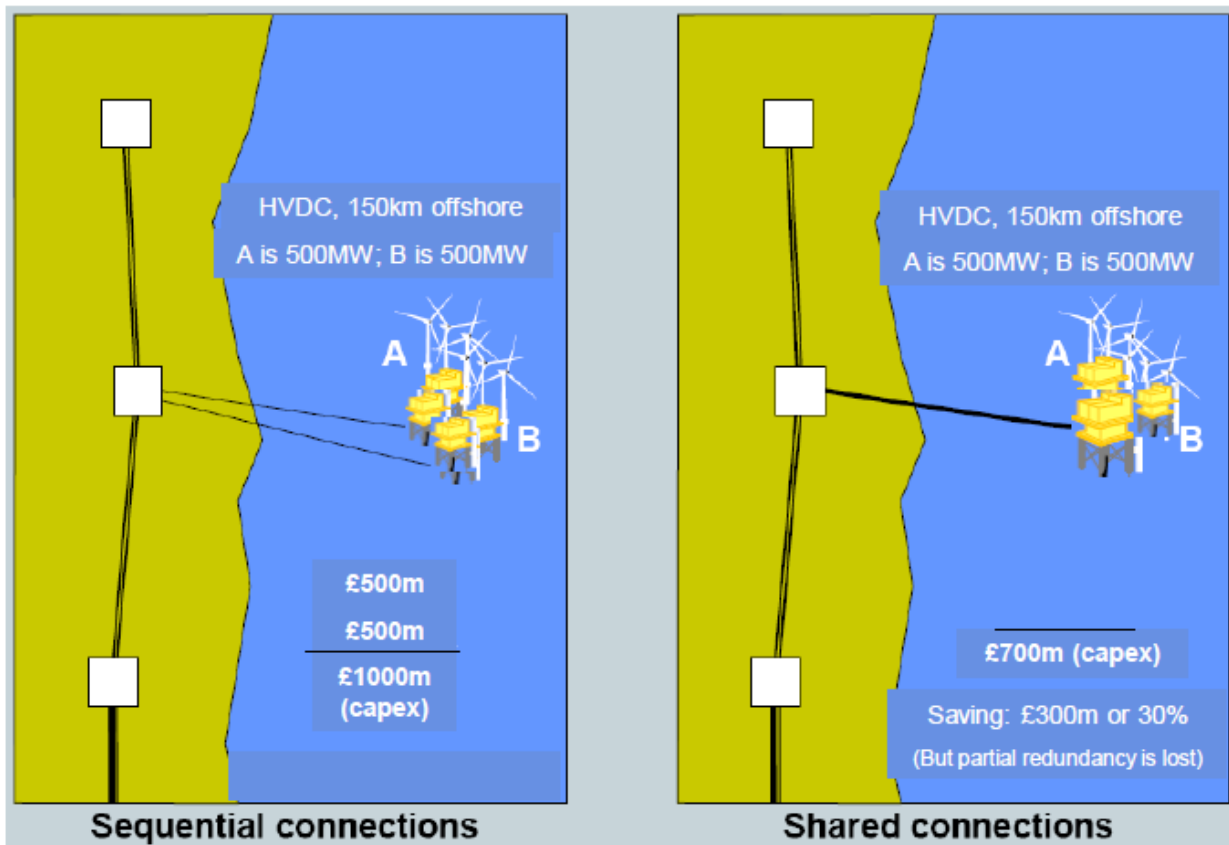
2. Context for The Crown Estate response

By 2020, the UK must generate 30% of its electricity from renewable sources. Offshore generation is expected to make a significant contribution to meeting this target, 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, The Crown Estate is taking a proactive approach. This ranges from co-investment in the consenting of projects 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.

Given our position in the market, we do not feel appropriate to comment on the specific questions asked in this consultation. Nevertheless, we offer the following remarks on the issues raised in the document.

3. Policy direction

We broadly welcome the direction of proposals for enabling Generator Focused Anticipatory Investment (GFAI) and Wider Network Benefit Investment (WNBI). We have set out on a number of occasions that the foundation of a more integrated approach to transmission is to enable the most basic form of integration, which is to oversize transmission assets for two adjacent projects that would otherwise be connected separately, as illustrated in the diagram below:



NB. Values in the diagram are purely illustrative

It would appear that the GFAl proposals in particular are a step closer to enabling this to occur in practise.

We would like to make the following specific points on the proposals:

- In section 3.4, it states that ‘if the later generator does not connect, the risk of long term underutilisation is high’. We question this statement and would like to understand Ofgem’s rationale for making it. As the seabed owner, The Crown Estate could be well placed to play a role in ensuring that any underutilised capacity is minimised.
- The proposal to introduce a form of user-commitment for GFAl appears a pragmatic solution, although more detail will be required to make a fuller assessment of its merits. However, we do question what ‘undue stranding risk’ means in the context of the risk consumers would take given it appears from the proposals that developers are bearing all of the risk. We also question this approach will still be an anticipatory investment if full user commitment is required to be put in place. Ultimately, if a developer undertakes GFAl, the overall transmission solution should be more cost effective than the alternative containing no spare capacity beyond the first project, and these benefits will be felt by the offshore projects and consumers. In establishing the detail of the user-commitment framework, it will be important that there is sufficient incentive for developers to undertake the additional works, sharing risk and reward appropriately with the consumer.
- The gateway process described for the Wider Network Benefit Investment (WNBI) is a sensible step forward and seems to start to address the concerns expressed previously around certainty of the cost assessment process. We would urge that any such framework follows similar principles to other similar mechanisms onshore (such as for the Strategic Wider Works mechanism under RIIO), in order to ensure as much commonality across different regulatory frameworks as possible.

Compatibility of regulatory frameworks for transmission

We firmly believe the regulatory frameworks for transmission will need to evolve to become more flexible given the potential different ways offshore projects may seek to connect in the future – such as into an interconnector or a ‘bootstrap’. We are aware of the technical challenges associated with this, but nevertheless regulation should not be an undue barrier, particularly where connecting to the transmission system offshore may lead to more timely and cost effective connections, which would be in the overall interests of consumers. Given this, we fully support the work Ofgem is undertaking both through the coordination initiative and more widely through the ITPR project.

As we have discussed with Ofgem previously, earlier this year we commissioned Poyry to undertake an independent assessment on whether the regulatory frameworks support the connection of offshore generation projects to the transmission system offshore (for example to a bootstrap, interconnector or multi-purpose hub) and if not what the specific barriers were to achieving these. Poyry’s report focussed on the barriers to connecting offshore generation to the transmission system offshore under the different licencing regimes, i.e. the TO regime, OFTO regime and interconnector regime, and is structured as such. It identifies that there are some potentially fundamental barriers within each regulatory framework that would prevent an offshore generator from connecting to the transmission system offshore. The report also offers potential solutions to addressing

these. We have submitted a copy of this report to Ofgem previously through engagement on the ITPR project – it is also available on our website via the following link: www.thecrownestate.co.uk/media/361682/regulatory-challenges-to-connecting-to-grid-offshore.pdf.

Resolving outstanding policy issues

The consultation outlines Ofgem’s intended framework for enabling a more coordinated approach to offshore transmission, which is broadly welcomed. However, there are a significant number of detailed issues that need to be progressed in order to establish a robust regime which satisfies the needs of all users, and section 6.2 highlights where further work is required. However, we do not believe that this list captures all outstanding issues. For example, two fundamental issues that are not included are the user commitment arrangements for the GFAI process and transmission charging. We would ask Ofgem to identify clearly all outstanding issues that require resolution, even where these will be taken forward through wider industry processes.

With respect to transmission charging, establishing an appropriate methodology for an integrated grid is essential, given that decisions on transmission infrastructure will be influenced – and impacted – by the ongoing charges that a developer will face. As the consultation notes, the principles of the appropriate charging framework are currently being progressed via an informal industry working group, on which The Crown Estate sits. However, given that this is being progressed outside of the process of establishing the policy framework for coordination (being progressed through this consultation), there is a risk that the charging principles are not fully aligned with the conclusions from this work. We would ask Ofgem to consider how, within relevant governance frameworks, the work in both areas can be more adequately dovetailed to ensure any modification coming forward is consistent with final policy decisions.

Given that the vast majority of Round 3 capacity has entered into bilateral connection agreements with National Grid and projects are currently in various stages of development, it is essential that the detail of the proposals are fleshed out and resolved as quickly as possible. If they are not, the benefits Ofgem and DECC identified in March 2012 are unlikely to be captured to the fullest extent as projects connect under the status quo approach (i.e. on a radial basis given this is the only option available).


In order to expedite the process, we ask Ofgem to consider establishing expert working groups with a mandate to bring forward proposals to resolve the issues identified. We believe this would be an efficient and timely process, which should get the necessary buy-in from relevant affected parties. Clearly, any such approach would require transparent governance, but it may be an efficient way of resolving issues in a consistent way. The Crown Estate would be willing to work with Ofgem in this regard, if it found that beneficial.

4. Conclusions

We trust that you find these comments helpful in developing your thinking on how to deliver a more coordinated approach to developing transmission infrastructure. We would be happy to discuss the issues raised in this response with you further if required. Please contact my colleague Richard Clay on 020 7851 5336 or richard.clay@thecrownestate.co.uk in the first instance.

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

Yours sincerely,



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