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Dear Gareth,

Ofgem – 164-12¹

Consultation on a proposed framework to enable
coordination of offshore transmission

RenewableUK response

Thank you for your consultation. We enclose our response to the as follows:

- About RenewableUK
- Key Points
- Consultation questions and responses
- Conclusions

About Renewable UK

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with over 650 corporate members, RenewableUK is the leading renewable energy trade association in the UK, representing the large majority of the UK's wind, wave, and tidal energy companies. Our members include supply chain companies both manufacturing and services; renewables developers & generators; and energy companies with renewables' portfolios. The association's response aims to represent wind, wave and tidal industries, aided by the expertise and knowledge of our members.

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Key Points

Gateways – We very much welcome Ofgem’s proposed Gateways and ask that they are made available to all projects regardless of Category and including projects without Anticipatory Investment (AI) so that developers can have certainty that their design will not be reviewed again at valuation.

User commitment – this is a key issue to the whole discussion. We have made some very deliberate comments and proposals and ask that Ofgem review these and discuss with us further if appropriate.

Categories – Ofgem’s categories of GFAI and WBNI are useful concepts, however in practice many real projects will not be as simple as shown in Ofgem’s Figure 2.1. We urge Ofgem to ensure that the regime has built in flexibility to accommodate all possible combinations and variations.

Interconnection outside GB – we are of a view that this is possibly the greatest area of saving for GB customers, and although it is being considered under Ofgem’s ITPR we see no reason why potential benefits of interconnection cannot be considered where appropriate in the Gateway 1 & 2 processes.

Risk of underutilisation - in para 3.4 of the consultation Ofgem consider that “if the later generator does not connect the risk of long term underutilisation is high”. We strongly disagree with this generic statement. Given the opportunities for other developers, for WBNI, and for interconnection; each case should be examined on its merit, however in general we would expect quite the converse – the existence of ready made transmission capacity would make siting adjacent generation highly attractive and therefore the risk of long term underutilisation would be very low.

Process Speed - RenewableUK is concerned that Ofgem’s long process on offshore coordination means customers are not benefitting from coordination opportunities as developers are pushing ahead with projects without coordination due to a lack certainly about the whole process and impacts. We urge Ofgem to put appropriate processes in place urgently and evolve them with experience if necessary. In particular we note that legislation changes may be required and urge that these are identified and added as amendments to the Energy Bill.

Transmission Charging - the uncertainty over charging for HVDC and coordinated networks is not incentivising a coordinated solution and therefore projects are inevitably being progressed without coordination.

Consultation Questions and Responses

CHAPTER 2: Overview of our proposed framework for the delivery of coordinated offshore transmission assets

Q2.1 Do you agree with our high-level framework for the development of coordinated offshore transmission assets?

Yes provided there is a high degree of flexibility to adapt and combine the three categories (1: GFAI, WNBI – 2: Developer led or 3: non Developer led) according to circumstances and to allow for interconnections outside GB to be considered if applicable.

However, we are concerned that some of the details, especially around user commitment, will prevent delivery of the potential savings that have been identified.

Q2.2 Do you agree with our expectations of how coordination opportunities will be identified for parties to progress? Are they consistent with existing roles and responsibilities of parties with regards to the development of the network?

Ofgem expects “that the connection application and agreement process will be key in identifying coordination opportunities and determining where investment to support coordination is needed”. This statement implies that the CION will be key in this process. However, most WNBI coordination and some (or maybe most) GFAI will involve a number of separate parties who do not have access to each others agreements and CIONs, and therefore the process of identifying AI will largely rely on the NETSO who is the only party with access to all the relevant information (as some WNBI and GFAI may cross onshore TO boundaries).

Notwithstanding the key role the NETSO will normally play, our view is that any combination of parties should be able to bring an AI proposal forward, as stated in our Position Paper ⁽²⁾ see Figure 1.

² RenewableUK Position Paper on Offshore Network Coordination V12 12th Jan 2012

Way forward – Parties

20. In our view the process should be open for any party to bring forward a proposal for approval of anticipatory investment to Ofgem. Those parties include generators (under generator build), OFTOs, onshore TOs, Interconnector Owners, or combinations of these parties.

We consider key AI opportunities include interconnection with other systems as well as reinforcing the GB system. We are concerned that there is a lack of consideration of these opportunities in the consultation. It is not sufficient in our view to say that this is part of ITPR. The Gateway process should allow for such opportunities from the start.

Q2.3 Do respondents consider that changes to the CION process are needed, for example, should the CION be developed further to support coordination? If so, what changes are needed to the process or document? Would an improved CION assist in building developers' confidence in accepting coordinated connection offers?

The CION process is not documented nor is any CION template published. Members do have CIONs but we cannot be certain that the process or documentation is identical, or how it may have been adapted for different parties in different circumstances

Therefore we support a documented public domain CION process and template(s) which would include options for coordination where appropriate.

We expect the CIONs for individual projects to be confidential to the parties (e.g. developer / NETSO)..

Q2.4 Are there any barriers to improving the CION, if so, what barriers exist and how could they be addressed?

See answer to 2.3 above.

Q2.5 Do respondents anticipate issues with the design or delivery of transmission assets where generation projects are reliant on works to be undertaken by another developer? If so, what would be the appropriate mechanism to address such issues?

There are serious issues to be addressed where a second developer is dependent on works undertaken by a first developer. These include:

- How can the second developer secure finance for a project where there are no contractual arrangements (i.e. Liquidated Damages) with the first developer? This

issue can be solved if the assets are built, commissioned and handed over to an OFTO when the second developer seeks financial close.

- What say will the second developer have in the design of the assets including ratings, specification, redundancy, platform location, cable routing corridors, etc.? This issue can be solved if the assets are built commissioned and handed over to an OFTO when the second developer seeks financial close, as at that stage the second developer can consider these facts in their final investment decision.

There are serious issues for the first developer who has no control of the second developer's actions, in particular:

- The first developer needs to be certain that in no circumstances will its project be delayed; therefore the first developer will likely have to undertake preconstruction for two options: one with GFAl and one without.
- Once the first developer commences tendering, it is effectively fixing the design. From this stage on, the first developer needs to be certain that it can continue with its design (even if the second developer drops out). If the first developer was forced to change course once tendering has started, there would be a severe delay, and therefore the first developer would not be able to consider GFAl – not only because of the costs of delay but other knock on impacts - such availability of the Renewables Obligation or impacts on its CfD contract etc.

Q2.6 To what extent could NETSO intermediation mitigate data confidentiality issues between developers? Are any further measures required? (paras 2.33-2.34)

Data confidentiality issues are becoming of increasing importance in a number of respects as data passed to generator/developers by suppliers may need to be shared with Ofgem, the NETSO and other developers (e.g. for coordination).

- There needs to be a dialogue with the supply chain to determine how much information they are willing to share under the gateway processes (with other developers, the NETSO and Ofgem prior to signature as part of the gateway process may be an issue for suppliers).
- We have a concern that the NETSO becomes integral to the design process and a developer's contractual relationship with their key suppliers for the offshore transmission system, which adds contractual complexity, extra costs and could lead to delays if the communication process is not managed appropriately.

CHAPTER 3: Category 1: Generator-Focused Anticipatory Investment

Q3.1 Do respondents agree with our preferred option, to support the transfer of GFAL assets to the OFTO if security is provided to protect consumers against stranding risk?

No we do not. However we do agree that there should be user commitment from generators who are not building assets – in an identical manner to onshore (i.e. as per CMP192 as far as is possible).

Once a generator (generator build) or OFTO (OFTO build), has commenced procurement (i.e. commenced tender specifications) they must be certain that they can proceed with the agreed design regardless of whether one or more generators proceed or not. The “user commitment” process cannot be an underwriting of the additional investment, as this is not Anticipatory Investment and such a process would preclude many opportunities for cost savings to the consumer.

We are asking that the generators provide user commitment in the same manner (as far as possible) as onshore generation, i.e. that the user commitment process is non-discriminatory. However, the current (CMP192) process allows for a generator to fail in its project development and in the process that failed generator forfeits the securities it has lodged. Consumers will lose out if no other user or use is made of the assets. However, Consumers will gain an additional benefit from the forfeit if another user makes use of (and therefore pays for the use of) the assets. The scenarios are explained and shown in following section “Scenarios under user commitment” and Figure 2 below.

Scenarios under user commitment

Three scenarios are considered where an investment is made for two identical generators:

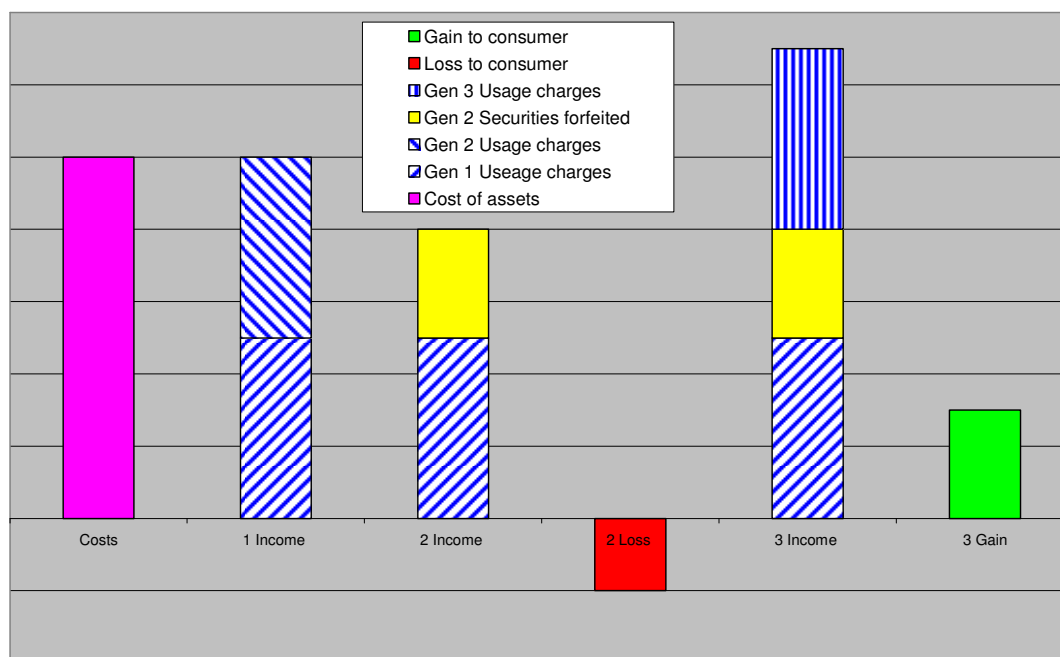
1. Generators 1 and 2 both precede.
2. Generator 1 proceeds but Generator 2 fails before connecting.
3. As Scenario 2 but a new Generator 3 takes advantage of the capacity left by Generator 2’s failure.

These scenarios could apply equally to onshore or offshore reinforcements; however they have been simplified to communicate the point.

In Figure 2 each bar in the chart is explained in turn:

1. "Cost" – this is the investment cost of the assets designed for two generators.
2. "1 Income" - in scenario 1 income from charges covers costs incurred with no loss or gain to the consumer.
3. "2 Income" – in scenario 2 the second generator fails partway through the process forfeiting its securities, the result is that there is a net loss to the consumer.
4. "2 Loss" – in scenario 2 the loss to the consumer.
5. "3 Income" – In scenario 3 a new Generator 3 emerges, connects and pays use of system charges in addition to those already paid by Generator 1 and the forfeit by Generator 2.
6. "3 Gain" – in scenario 3 there is more income than cost and there is a net gain to the consumer.

Figure 2: Three scenarios where consumers benefit lose or gain from AI.



In the scenarios (Figure 2) there is a benefit to the consumer in Scenario 1 - as the costs are less than building two sets of individual assets, one for each generator. This AI benefit is not shown in the chart for simplicity.

That said RenewableUK is acutely aware of the negative press that may follow if an AI transmission asset is under-utilised for even a short period of time. We are not seeking a charter for building under-utilised assets; we are however seeking a practical means to deliver at least some of the cost savings opportunities identified in coordination and AI studies with appropriate risks allocated to all parties.

Q3.2 To what extent do the current user commitment arrangements address the scenarios set out in table 3.1 and paragraph 3.13?

The first row in Table 3.1 discusses a single party. In our view there is no user commitment or AI or coordination involved if there is only one party involved.

The second row states “so the later generator would need to provide user commitment for the share of costs the developer is incurring on its behalf”. This sounds like underwriting not user commitment. User commitment under CMP192 has a choice of “actual” and “fixed” profiles. Therefore one cannot be certain that the later generator will provide for its “share”, especially if the later generator were to terminate (see Q3.1).

We want to see the Ofgem Gateway 1 and 2 processes in place for GFAI as options for the developer.

Q3.3 Are there any barriers to extending user commitment arrangements to address any gaps identified in question 3.2?

The CUSC section 15 does not differentiate between onshore and offshore and so appears to be fit for purpose.

CHAPTER 4: Category 2: Developer-Led Wider Network Benefit Investment

Additional Point re Outages for WNBI

The issue of outages is very important for WNBI construction and needs consideration. Consider the scenario where a developer has enabled future integration e.g. through spare switchgear bays on their platform. An OFTO is then appointed to construct some WNBI assets. The OFTO would need to shut down the platform (which would not be owned by generator who would have no control over that action) potentially leaving the generator without access to the onshore grid for quite some time. Under current regulations, there would be no compensation for this. An outage due to the construction of onshore reinforcement could thus lead to a substantial loss of revenue for the generator. This situation is an incentive *not* to facilitate any kind of WNBI. Therefore, codes should be changed to provide a cap on the outage period as well as full cost reflective compensation (i.e. not a TNUoS refund) so that this barrier to developing a lowest cost overall transmission solution is removed.

Q4.1 Do you agree that the NETSO should support the needs case for developer led WNBI, drawing on relevant TO(s) as necessary? Do you consider changes to the NETSO licence or industry codes are needed to support this?

Ideally WBNI would have the support of the NETSO, however, as we stated in Q2.2 any party or parties should be able to bring forward AI proposals. The NETSO and/or TOs should be obliged to comment on any parties' proposals if requested. Although we would normally expect the parties to involve and/or consult the NETSO that decision would up to those parties as to whether they do so.

Q4.2 Are there any specific barriers to the NETSO sharing information required to support the needs case for developer led WNBI with the appropriate developer?

See question 2.6 above re confidentiality of data and whether suppliers will be willing to provide data that will be shared.

Q4.3 What are your views on the criteria that Ofgem could use when assessing proposals for developer-led WNBI?

Ofgem should use the same criteria for WNBI whether they are Developer led or not. These criteria should include (as applicable):

- Potential benefits to GB customers from interconnection or future interconnection capabilities.
- Reduction in constraint payments due to boundary reinforcements.
- Reduced risk of market splitting under CACM (EU Network Code).
- Reduced risks of delays and time taken to complete reinforcements (within or without GB) compared to other alternatives (especially where there require onshore planning permission).
- Relative capital costs of WNBI vs. alternatives.
- Track record of parties in delivery or non delivery.
- Potential options to connect further generation.
- The role of the investment in meeting 2020 targets, fulfilling the UK Renewable Energy Roadmap, supporting the offshore wind cost reduction target³ delivering 2030 decarbonisation of electricity (as per Committee on Climate Change recommendations).
- Overall cost benefit taking the above issues into account.

Q4.4 Do you agree with our proposal for the timing of the Ofgem assessment gateways to support developer-led WNBI?

Yes we agree, noting that with lead times on equipment, Ofgem's Gateway 2 may be four or more years ahead of commissioning.

We want Gateways 1 and 2 to be optional for "straightforward radial connections for a single phase windfarm" and for GFAL as well.

Ofgem should recognise some developers may choose to skip Gateway 1 or instigate it part way through preconstruction / preliminary works.

Q4.5 Are there some specific types of low regret WNBI that developers may be willing to take forward without a gateway assessment?

It is difficult to see developers making any expenditure that Ofgem may subsequently deem inefficient and disallow in the valuation at transfer to an OFTO. We prefer Ofgem to operate fast track Gateways for low regret AI. This situation may change if there were incentives and benefits for coordination and integration, e.g. in use of system charges, however at present we do not see such benefits being available.

Q4.6 Do you consider that there should be a de minimis threshold for low regret developer-led WNBI? What are your views on how this should work, while ensuring consumers are not exposed to significant stranding risk? Where possible, please provide evidence of the types and costs of WNBI that you consider should be captured by the threshold.

We note that OFTOs are able to invest and be reimbursed for an additional 20% of the original investment cost to provide extra capacity. We suggest that the same 20% figure is appropriate here.

These investments are likely to include:

- Onshore assets to enable more efficient future phases, especially, installation of ducts, acquisition of wayleaves, obtaining planning for future phases, development and construction of substations, provision of switchgear and transformers etc.
- Spare bays in offshore platforms populated with circuit breaker and protection; additional platform capacity for switchgear or transformers; for future connections and interconnections.

³ As per consultation para A2.56.

Q5.1 To what extent do you think it would be appropriate for onshore TOs to take forward preliminary works for non developer-led WNBI?

In our Position Paper (⁴) we recommended that any party or collection of parties should be able to take forward AI for coordination and integration and that includes onshore TOs.

Figure 3: extract from RenewableUK Position Paper on Offshore Network Coordination

Way forward - Process

19. In our view there should be a process to bring forward individual¹² cost benefit analyses for anticipatory investment proposals to Ofgem for approval. This process would be similar to that for onshore investments¹³. It would need to be in two stages, firstly approval to undertake design and permitting, and secondly procurement and construction. There is a risk that following the first stage of design and permitting that the second stage is not approved. That risk would have to be minimised otherwise there will be a strong disincentive for parties to choose this route.

Way forward – Parties

20. In our view the process should be open for any party to bring forward a proposal for approval of anticipatory investment to Ofgem. Those parties include generators (under generator build), OFTOs, onshore TOs, Interconnector Owners, or combinations of these parties.

RenewableUK would however have very serious reservations if TOs were proposing such projects whilst undergoing delays in delivering reinforcements to their licensed (onshore) networks.

Q5.2 What are your views on the criteria that Ofgem could use if assessing proposals at the first gateway for non developer-led WNBI?

Our view is that the criteria should be identical regardless of the parties involved. Therefore see Q4.3. above.

Q5.3 What are your views on using two gateways for non developer-led wider network benefit investment?

⁴ RenewableUK Position Paper on Offshore Network Coordination V12 12th Jan 2012

We support the two Gateway process and would like to see it as an option which could be used by all parties in all cases.

Q5.4 What additional incentives and requirements should be placed on preliminary works funding for non-developer led wider network benefit investments?

We want to see preliminary works funding available on an equal basis to all parties in all cases.

There is a risk that non generator parties may not be incentivised to avoid and minimise delays and this would be a key concern. A generator will not be able to make significant user commitments for a generation project which may be delayed by late transmission developments by a third party and where there are no Liquidated Damages for late delivery.

Q5.5 What parties should onshore TOs be expected to engage, and what engagement processes should they follow before and during preliminary works?

TOs should engage with potential OFTO builders on a regular basis.

Conclusion

We thank Ofgem for producing this consultation and for the questions raised and are very willing to engage in discussing any of the matters highlighted. We particularly commend our “key points” section for consideration.

Yours sincerely,

A handwritten signature in dark ink, appearing to be 'Guy Nicholson', written in a cursive style.

Guy Nicholson; Head of Grid for RenewableUK,