

Statkraft – Annex to Response

Offshore transmission - Consultation on a proposed framework to enable coordination of offshore transmission

1 March 2013

Answers to specific questions in the consultation:

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

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

Yes – the framework appears to be broadly appropriate. The move away from “type of asset” to appropriate investment route is a sensible and positive move. However we have concerns on how it will work in practice and how the various roles and responsibilities will be fully articulated, allocated and might interact.

Ofgem suggests that there may need to be restrictions around who can develop some classes of assets in future – this unnecessarily raises uncertainty without providing sufficient details on the rationale and the process by which these restrictions might be applied.

There are likely to be issues arising for resolution regarding the interactions between the different investment types that have been identified. We also note that the proposals are silent on how interactions/overlaps with ITPR will be managed and dealt with in a consistent manner, and this is a major omission in the consultation paper.

We support the principle of non-developer-led wider network benefit investment, which should address a key weakness in the current arrangements. We have previously suggested either further developing the early OFTO build delivery model or that the role of National Grid could be extended to include responsibility for consenting the offshore coordinated network proposals that are for the wider network benefit. The outline framework for this, under which onshore Transmission Owners would be able to submit proposals for funding to undertake preliminary work for WNBI, followed by an OFTO build tender exercise, appears sensible.

There is a need to ensure appropriate licence obligations on National Grid in order to ensure consistency with the RIIO price controls and ensure an appropriate balance. It must not be perversely incentivised to develop assets itself over developer led proposals. However, it should have the opportunity to invest where overall benefits are maximised.

We support the proposal for a two-stage gateway to give greater clarity on cost recovery, but we are concerned that the process as proposed will be both bureaucratic and onerous and believe this approach requires further consideration.

2.2 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?

We note the chosen investment route will be a product of discussions between the parties involved (NETSO, developers and TOs) (2.16). Firm details are needed on how this will actually work in practice.

We have concerns regarding the structure of the decision process, the potential for delays, and particularly the prospect of additional power accruing to National Grid. If National Grid is to take on a greater role in system planning, as most stakeholders consider appropriate (2.21), then developers need comfort that this will not result in unjustified costs/risks/delays, particularly if offers include GFAI and WNBI.

The NETSO has an obligation to work towards an offer which is economic, co-ordinated but also commercially acceptable to the generator. There is a need to ensure that the commercial risks that proposed solutions present to generators are suitably incorporated and weighted in any offer development process.

We have previously noted that a mechanism is required to take forward anticipatory investment proposals outside of the existing formal connection process – e.g. the effective co-ordination of wind with cross-boundary interconnectors could well not require a connection application at all but could require anticipatory investment to ensure the full benefit is realised. Against this background, the proposals seem to provide few incentives for anticipatory investment by the NETSO.

We strongly support Ofgem’s concerns regarding the need for a clearer route to cost recovery and risk sharing in undertaking investments with coordination elements (2.24).

2.3 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?

We support formally reviewing the CION process to ensure that it is fit for purpose going forwards. It is very important that developers understand the full rationale underlying the identification of opportunities for coordination and for producing the “optimal design”, and that there is sufficient time for a thorough assessment and evaluation to be done.

The work documented in the CION at the point of grid connection offer cannot be expected to have fully examined and concluded on the viability of a co-ordination opportunity. There is as a result the risk that possible co-ordination opportunities are identified at this stage and taken forward before being properly assessed. We would therefore encourage a default position whereby co-ordination is not included within scope, but which could be developed going forward as the CION develops after offer acceptance but only where there are demonstrable benefits.

If co-ordination aspects are to be included in a connection offer, we would also welcome the first Ofgem gateway being a streamlined assessment during the offer period, to avoid surprises and give certainty to the developer that such a co-ordinated solution sits comfortably with the regulator.

Further development of the CION after the connection agreement is accepted could be the vehicle for taking forward and properly making the need case for co-ordination opportunities. However this process takes place in parallel with the wind-farm development activities of the developer, and the arrangements should be designed not to cause delays or create barriers to this process.

We believe there is a need for proper codification of the CION process in the CUSC if this is to be an appropriate tool for identifying (or indeed rejecting), managing and delivering co-ordination opportunities. This needs to hard-wire in more formalised opportunities for developers to engage in the process to inform National Grid's development of options.

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

The important thing here is timeliness. Developers need a process that covers all relevant matters in a reasonable timescale.

Timescales for offers are already tight (90 days), and we previously argued in our April 2012 response that, although there is the possibility for the application process to deliver coordinated solutions, these will probably have to have been discussed with zonal developers prior to the formal application process for them to be viable as part of the offer.

In practice there are opportunities to extend the application process timeline if required, but experience has shown that co-ordination aspects of offers can significantly complicate approvals processes for grid connection agreements. In this context, there should be an obligation on NGET to clearly identify differences in user commitment (including the securities to be required) and charges for radial and co-ordinated options.

2.5 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?

Yes. This issue represents a very significant potential risk to developers, and it needs a clear and effective mechanism for allocating risks and responsibilities, including mitigation routes when problems occur.

In practice we see considerable scope for skewing incentives and blurring investment decisions. Indeed it is unlikely that such solutions will prove commercially acceptable for the developers involved, and dependencies on the investment decisions of other offshore wind-farm projects could prove a significant barrier to investment decisions on in-house projects.

Furthermore these risks will inevitably increase as projects move into the CfD FIT world where they are competing for support, and regulatory judgments in this area could easily run the risk of determining “successful” projects.

2.6 To what extent could NETSO intermediation mitigate data confidentiality issues between developers? Are any further measures required?

Data sharing between developers in GFAI scenarios is problematic because it requires competitors to share information on their generating stations, network and technology.

In principle we believe that the proposal for a NETSO role in mediating confidentiality agreements could be a useful way to mitigate this problem. However, the controls on what the NETSO uses such information for and how (if at all) elements of the information could be shared with other parts of NGET requires careful consideration if developer confidence is to be secured.

CHAPTER 3: Category 1: Generator-Focused Anticipatory Investment

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

This seems to be the right way forward, subject to clarity on user commitment. The proposal has the advantage that the developer will be able to take a commercial judgement on whether the potential benefits outweigh the risks and management of the stranding risk pre-transfer. However the proposed approach does introduce a key question. If a later project were to be burdened with securitising major capital expenditure before it was ready to commit to its own construction phase, it is unlikely to proceed, which would derail the co-ordination proposal at the first hurdle. The only logical approach is that consumers should bear the stranded asset risk in such circumstances.

More generally it is clear that changes to user commitment under CMP192 do not cover the implications of offshore coordination, notably GFAI assets being constructed by a developer. The proposed solution has the benefit of being consistent with onshore and OFTO build arrangements, but as noted it may prove to be a delivery barrier.

Under GFAI there should be no opportunity for developers to be retrospectively targeted for cost penalties if anticipatory opportunities are not taken forward.

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

See 3.1 above.

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

Clarity is required on the user commitment for the incremental capital expenditure for the GFAI and how this can be quantified as a small part of a wider works project.

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

4.1 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?

Yes. The NETSO should support the needs case as it will have a full and up-to-date picture of future transmission network needs. In fact only the NETSO is in a position through its access to all relevant information to make the case for wider network benefit anticipatory investment.

This position should be underpinned by licence/code changes.

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

We are not aware of any barriers.

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

This seems to be a sensible set of criteria.

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

We note that projects generally will only be able to satisfy the assessment criteria for the first gateway after a developer has signed a BCA as an important sign of commitment. We have previously argued that significant effort should be put into developing a mechanism to include the first assessment as a streamlined process as part of the generation connection offer assessment period, to allow a generator to have confidence in the anticipatory investment funding, in order to accept the offer.

We consider that the approach to the gateways needs to be revised in order to ensure that it is an enabling and user focussed process and not overly onerous or bureaucratic.

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

This option should remain open and we note the two circumstances Ofgem has identified where this may be appropriate.

4.6 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.

Such a mechanism may be appropriate, but a practical de minimis threshold for offshore assets may be high in capital cost terms in comparison to onshore transmission. An example of such an asset would be the provision of extra connection bays on platforms to facilitate the later connection of cables to move to a more integrated offshore network or to allow the later tie-in of inter-project or inter-zonal links. Even if such an asset were deemed de minimis from a regulatory perspective, it would still require guidance from Ofgem that it was appropriate and also a strong need case justification from the NETSO.

Developer-led WNBI is not an appropriate mechanism for more significant offshore transmission assets for wider network benefit. These should be taken forward only by organisations which are designed, incentivised and capable to deliver large-scale transmission infrastructure.

CHAPTER 5: Category 3: Non Developer-led Wider Network Benefit Investment

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

This is appropriate, although it will require a suitable regulatory underpinning, including ensuring a level playing field where a TO is taking forward preliminary work. The opportunity should extend to pre-qualified OFTOs as well.

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

These appear to be appropriate.

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

This provides consistency with the approach used for WNBI and will allow an updated assessment to be made.

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

The proposals in the consultation document seem appropriate.

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

TOs should be expected to engage fully and widely with relevant parties as proposed, and be prepared to account to the regulator for their engagement efforts. Relevant parties should have defined routes for expressing concerns with the process, both to the TOs themselves and to Ofgem as necessary.