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PLACE AND DATE
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CONSULTATION ON A PROPOSED FRAMEWORK TO ENABLE COORDINATION OF OFFSHORE TRANSMISSION – RESPONSE FROM STATKRAFT

Statkraft welcomes the opportunity to respond. Delivering a proportionate coordination regime for offshore generation assets is fundamental to us given our involvement through Forewind in the Dogger Bank project, our involvement in generator-build projects and our dependence on the integrity of developer-led offshore transmission delivery models.

This letter summarises the key points of our response. Answers to the specific consultation questions are set out as an appendix.

Qualified support

We support the direction of Ofgem's work. The concept of the four part framework that differentiates between different types of schemes is sensible. However, there needs to be great care in further detailing the regime and its implementation to avoid unintended consequences.

Where there is any trade-off between potential future benefits from coordination on the one hand and certainty on the other, developers in general have a clear preference for certainty. Impacts on hard costs and their timing are much more important than possible future benefits. It follows that only those elements of anticipatory investment and co-ordination that offer a high probability of utilisation with minimal risk of delay to projects should be pursued.

Outcomes that do not take this reality on board will result in fewer developers accepting connection offers, delays or barriers to projects entering construction. As a consequence the Government's ambitions for offshore wind could be compromised.

Testing the framework

The four part framework for coordinated investment clearly needs to be flexible to respond appropriately to the different types of investment being undertaken. However it now needs to be properly stress-tested by mapping a range of specific projects against it in sufficient detail.

We have previously set out¹ the key attributes that the coordination regime needs to embrace. These are:

- incentives for timely investment decisions and work;
- the need to future-proof the regime against probable changes, especially with regard to charging and user commitment (more on this below);
- flexibility to account for project specific variables;
- certainty on the definition of efficient costs and on their recovery; and
- above all investor exposure to stranded asset risk needs to be minimised.

Ofgem's proposals—now and as they evolve—need to be assessed against these parameters.

Issues requiring further focus

Progress has clearly been made in the December 2012 consultation over the previous consultation in translating concepts into more detailed arrangements. However, there are still critical details to be determined, and these need to be progressed in order to ensure developers and investors have a high level of confidence in the proposals.

Specific issues requiring urgent considerations include:

- the need to establish unambiguous tests, in advance, for what is accepted as efficient investment for the purposes of cost recovery. If a generator's or a developer's proposals meet these tests at the appropriate point, there should be no retrospective process or regulatory revisit "with perfect hindsight";
- the proposals for anticipatory investment do not address many of the risks that developers have previously identified, and there are still many unresolved issues. The ITPR project will also clearly have a major influence on this area, but it is in its early stages. The December 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;
- we support the use of gateways in principle for WNBI as a means of helping to provide greater certainty. However, their use needs to be based on an enabling, user-focussed approach. The current document does not appear to be consistent with this and suggests that developers will face procedures that could be bureaucratic and onerous;
- further work needs to be done to provide the necessary clarity on how the WNBI and GFAI approaches might work in terms of a codified approach under CUSC, and there remain important design gaps on the treatment under both of user commitment and charging, which are critical;
- for GFAI existing arrangements are proposed to be extended. It is assumed that these works would equate to "Attributable works" under CMP192, and NGET guidance suggests user commitment would be fully targeted at the developer(s) involved. This may prove to be a practical barrier to such GFAI coordination. Ofgem considers there needs to be further work to understand whether CMP192 principles on "wider works" should be extended to include wider system

¹ See our 26 April 2012 response to Ofgem's Consultation on potential measures to support efficient network coordination

investments undertaken by a developer. How this is resolved could act to seriously choke off investment; and

- there is a need for proper codification of CIONS in the CUSC if this is to be an appropriate tool for identifying (or indeed rejecting), managing and delivering co-ordination opportunities.

Future-proofing the arrangements

The application of the framework will also be subject to influence from other decisions in associated areas, especially transmission charging and user commitment (as well as ITPR). These (and other) aspects of the regime are still evolving, and the framework needs to map out how these will be accommodated in order to give developers confidence that it is sufficiently robust or “future-proof”.

A major area of continuing lack of clarity and real concern is the transmission charging approach for offshore wind. NGET has convened an informal working group to consider possible development of the charging regime to support an integrated on-shore/offshore network. However, given the importance of charging to the offshore regime, we believe that the status of this group needs to be elevated and widened out, to ensure the necessary stakeholder input and scrutiny, prior to formal proposals entering the modification process. The progression of CMP213 has demonstrated the need for sufficient time and robust analysis to be made available when dealing with charging issues.

Ofgem should also consider how the CfD FiT mechanism will deal with any transmission charging changes such that developers are “held whole”.

Stakeholder liaison

Ofgem plans to provide updated proposals in the Spring—with further development and implementation actions expected over the coming year. We look forward to accelerated progression on the issues. However, for this process to be effective there needs to be much closer liaison than hitherto with operators, developers and investors.

Please contact me if you have any questions or would like any clarifications on this response.

Kind regards

Bjørn Drangsholt
Managing Director Statkraft UK