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Dear Charlotte,

### **ITPR – Emerging Thinking: Response from The Crown Estate**

Thank you for the opportunity to respond to the consultation on emerging thinking on the Integrated Transmission Planning and Regulation (ITPR) project, published on 5 June. As we have set out previously, The Crown Estate welcomes this initiative and we believe that addressing issues associated with the interaction between the regulatory frameworks is essential if transmission is to be an effective enabler to maximising the deployment of offshore renewables in the UK. We trust this response is helpful in refining policy in this crucial area.

#### **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 over £8 billion. 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 2012/13 this amounted to over £250 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. Overview comments**

We fully support the aims and objectives of the ITPR project as we firmly believe that all steps should be taken to enable and incentivise the development of a more integrated approach to transmission where this is appropriate.

Resolving regulatory barriers and reducing uncertainty are essential given how the generation mix is expected to evolve over the coming decades, with generation from projects located offshore making a significant contribution to total energy supply. Many of the responses set out below echo the key messages from our earlier submissions to the ITPR initiative, and so these remain relevant. One issue we want to reiterate specifically from our response to the May 2012 open letter is that in delivering against the objectives of the ITPR initiative, it will be essential that:

- (i) any changes put forward should not disadvantage any offshore generation project compared to their current position (including in terms of cost, risks or programme), and
- (ii) existing or impending investment decisions and plans should not be undermined by any new arrangements.

We feel the need to reiterate this point given recent announcements on EMR mean the offshore wind industry is at a critical juncture in terms of delivery of its potential. The sector has now reached a level of maturity: out of a total pipeline of 47GW, there is now around 3.3GW of operational capacity, around 0.9GW under construction, and a further circa 0.5GW which has achieved Final Investment Decision (FID). There is also a sizeable near-term pipeline of 'shovel ready' projects looking to reach FID in the next 24 months, seeking support through a mix of the RO, FID Enabling, and enduring CfD regimes. Equally there are key supply chain investment decisions which could be triggered over the same period. As such, we are at a crucial transition period for the development of the sector. It is essential therefore that the regulatory arrangements for transmission do not undermine, distort or delay any of these decisions unnecessarily.

### **3. Response on issues raised in the open letter**

Question 1: Do you think we have appropriately characterised the future challenges to network development? Where do you see the main challenges? What are the long-term strategic and sustainability implications of these challenges?

The consultation is a comprehensive assessment of the key issues. The main long term challenge is to put in place a regulatory framework for transmission which reflects the changing needs of users of the system, and ITPR initiative is an appropriate vehicle to do so. It is essential now to move from the emerging policy principles and start to consider detailed implementation.

Question 2: Are any of the review areas under ITPR more relevant than others?

The twin aspects of system planning and asset delivery should continue to be considered together and given similar prominence. We understand that the ITPR process was established as a holistic review of regulatory frameworks and given it was initiated in this way, we believe it should remain as such, which makes it difficult to rank aspects within the review. We continue to highlight the importance of looking at the commercial arrangements in parallel (for example transmission charging) as these are key drivers of the success of frameworks, and welcome the commitment to work on these matters as set out in section 5 of the document.

Question 3: What are your views on the options for system planning discussed in this chapter? Are there other approaches to system planning that you think we should be considering within the ITPR project?

We believe Ofgem has considered all credible options at this time and emerging thinking around the enhanced SO model seem sensible and pragmatic.

Question 4: Do you think that it would be beneficial to strengthen the role of a coordinating body working with relevant parties to facilitate efficient decision-making? In what areas could this coordinating body add most value to the process?

A move toward introducing more flexibility within the regulatory framework should include enhancing the role of a coordinating body. We believe value would be added in particular in terms of the understanding the needs of a range of relevant stakeholders during the process of assessing optimal transmission solutions. There is also a potential role for such a coordinating body to input into, or even make recommendations to, Ofgem on its decisions on anticipatory investment. Any such process should have clear governance arrangements in place to ensure full transparency.

Question 5: What are your views on the (real or perceived) conflicts of interest that could occur from parties holding dual responsibility in system planning and asset delivery and ownership? What are your views on potential options for institutional arrangements, separation and transparency measures to mitigate this?

Conflict of interest is a serious issue, and so it is important to recognise the potential for this within both the current and potential future arrangements and put in place appropriate arrangements for mitigating or managing this risk through the regulatory and commercial frameworks for System Operation and Transmission Ownership. A key first step is to ensure roles and responsibilities are clearly defined and communicated to stakeholders. Also important is that the decision-making processes are transparent so stakeholders can understand reasons for a particular decision (even if they do not agree). Developing as full transparency as possible should drive appropriate behaviour. We note that Ofgem and DECC have recently examined this in the context of National Grid's role under EMR, and believe arrangements in this context should be similarly kept under review.

Question 6: What are your views on potential future approaches to planning Interconnection? Should there be increased central identification of potential Interconnection that could benefit GB consumers?

Increased interconnection would be a positive development for the UK, particularly if it enables offshore renewables the opportunity to export to other markets. Other key benefits include in terms of reducing overall costs to consumers and improving system security. The system planning function should be aligned to all extents possible so that future interconnection is driven as much by consideration of overall system requirements as trading opportunities.

Question 7: What are your views on the options for delivery of transmission assets discussed in this chapter? Are there other options that you think we should be considering within the ITPR project to address the delivery drivers and challenges identified?

We consider Ofgem has explored credible options through its work to date, and we agree that enabling flexibility is a pragmatic outcome. Key now is to consider practical implementation, building in sufficient feedback loops to re-visit policy principles as and where practical challenges are presented.

Question 8: Do you think that it would be beneficial to introduce some flexibility in the existing regimes to provide for alternative delivery routes, where this is in the interests of consumers? If so, what criteria could be used to determine the delivery route for an investment?

We believe that introducing flexibility into the existing regulatory regimes is essential to enable the connection of offshore generation projects to the transmission system offshore (for example to a bootstrap, interconnector or

multi-purpose hub). The work we commissioned from Poyry in 2012 – which we submitted to Ofgem as part of our response to the December 2012 open letter – confirmed that there are some hard barriers in the regulatory frameworks which would likely prevent innovative or progressive solutions and these should be resolved through the ITPR framework. Greater flexibility in application of the regulatory regime could resolve these challenges. In considering introducing flexibility, we believe it offers an opportunity to build in sufficient safeguards to future-proof the regulatory regime.

Question 9: If we pursued additional flexibility in application of the regimes, what role should discretion play in identifying the delivery route for a particular investment?

Discretion in identifying the appropriate delivery route fits well with a more flexible approach, and we would support this where it results in more optimal decision-making (for example the solution is more cost effective or timely). We agree with Ofgem’s assessment that this would also create opportunities for learning-by-doing, which is an important consideration in designing a new framework. Discretion should be sufficiently bounded however by a clear set of rules or criteria in order to counter any concerns, for example around the potential for arbitrary decision-making. These rules or criteria should be transparent and only subject to change through a robust and inclusive process.

Question 10: Do you think that the case for change to current arrangements to enable more integration and coordination is material now, or may become so in the future? If the latter, when?

We believe the case for change is as strong now as it ever has been. The generation mix is changing and there will be a greater proliferation of generation at the extremity of the transmission system. Whilst there is an ongoing debate around volumes of offshore generation that may be deployed, Ofgem’s work to date has indicated that the current arrangements are inflexible, and potentially more innovative or cost effective ways of connecting offshore projects are prohibited. A key building block of a more integrated offshore transmission system is to enable adjacent offshore generation projects (e.g. 500MW each) to connect via a single link (e.g. 1GW or 1.5GW). We recognise that issues around enabling anticipatory investment like this are being progressed under the coordination policy workstream, but it is at this more modest level of deployment that increased flexibility is needed. Ofgem should not delay its reforms on this any further – we believe facilitating anticipatory investment is not only an issue to be resolved for high offshore wind scenarios, but also an urgent issue to be resolved for all cases.

Question 11: What are your views on our emerging thinking to consider further an enhancement of NGET’s role as the SO in system planning to provide for a more coordinated and holistic approach across the GB system?

Our responses to other questions address our current thinking in this area.

Question 12: What are your views on the emerging thinking that introducing further flexibility and applying criteria to designate whether an investment should be delivered by incumbent delivery or competitive selection could address many of the challenges and drivers identified?

We believe extending competition is a key element of future transmission delivery, and fully support moves in this area, including Ofgem’s initiative on competition for onshore transmission delivery. However, introducing the potential for more competition is only part of the toolkit. This has proved successful in the OFTO regime to date, but it needs to sit alongside other key reforms to the regulatory framework where there are hard barriers to the

way in which the system is planned and delivered. The report we commissioned from Poyry identified some of these – and possible solutions – and we continue to believe they should be reformed.

Question 13: What other options should we take forward for consideration in the next stage of our work on ITPR?

We consider the consultation, and prior work on the ITPR project, has captured the fundamental issues. Key now will be moving from the high level policy principles that are emerging to workable solutions. One way of progressing these in a more expedited way would be to establish focussed working groups comprising cross-sector representation. We recognise that this approach may introduce its own challenges (logistical, dominance of parties with vested interests etc), but in our experience they are a good way of developing solutions. We would be happy to work with Ofgem to establish such a process, participate and support accordingly.

Question 14: Do you have any views on our approach and timetable for our work on ITPR, or on interactions with related areas?

We welcome the further clarity provided on the timetable for this initiative, but remain concerned that it is not mapped out for the implementation phase (Stage 4). This could easily run into a number of years, particularly if changes to legislation are required. We recognise that securing legislative change may be driven by other matters, including not least securing an appropriate parliamentary slot, but there may be ways to minimise the effects of this. For example, Ofgem could indicate where it believes change is required (to legislation, codes, licences etc) and begin preliminary work – with industry – on considering amendments. This parallel working could also be an effective way of stress-testing policy principles to understand whether (and how) they would work in practice.

Question 15: Do you have any other views on the ITPR project not covered by these questions?

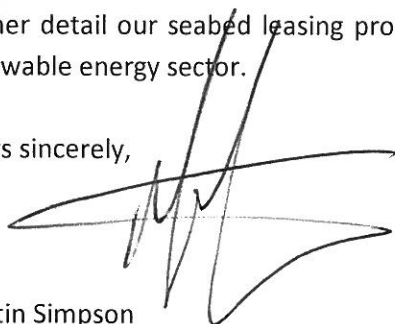
Our response covers all issues we want to raise at this time.

**Closing note**

We trust that you find our responses helpful in refining policy in this crucial area. We are already engaged in dialogue with Ofgem on the ITPR project, and have met with the team on a number of occasions over the past 12-18 months. We look forward to continuing this over the coming months, and we are more than happy to expand on the points made in this response in a meeting. If you have any questions on our response, please contact my colleague Richard Clay on 020 7851 5336 or [richard.clay@thecrownestate.co.uk](mailto:richard.clay@thecrownestate.co.uk) in the first instance.

Separately, we noted with interest that The Crown Estate was mentioned in the minutes of the June meeting of Ofgem's Sustainable Development Advisory Group. We would be very happy to meet with you to explain in further detail our seabed leasing processes, and also our wider role and initiatives with respect to the offshore renewable energy sector.

Yours sincerely,



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