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Via email

Dear Catherine

## **Offshore Electricity Transmission: Consultation on implementation of the Generator Build Commissioning Clause in the Energy Bill 2012-13**

Thank you for the opportunity to respond to your consultation. Centrica is responding in its capacity as a potential investor in new GB offshore wind.

Our primary concern with the Generator Build Commissioning Clause in the Energy Bill 2012-13 (the "Clause") is the risk that the completion notice is issued excessively early.

Based on real project experience, we believe 18 months from the granting of TEC (effectively ION Part B) could be insufficient to resolve commissioning issues and transfer assets to the OFTO in some cases.

We strongly favour the completion notice being issued later in the commissioning process to minimise the risk that the Clause gives inadequate time. We recommend the following trigger point is used for the completion notice:

- 1. Our preferred trigger point for the completion notice:** *The point at which National Grid lifts the 70% of Registered Capacity restriction following completion of the Limited Frequency Sensitive Mode control tests specified in the Grid Code<sup>1</sup>.*
- 2. Our alternative option:** *The point at which all of the following conditions are met:*
  - (i) *ION Part B is issued.*

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<sup>1</sup> We refer to [Grid Code CP.6.6.3](#). We anticipate that future offshore wind projects will be greater than or equal to 100MW, meaning the lifting of the 70% restriction will be a step in the commissioning process in all cases. Our alternative option could apply for power park modules under 100MW only. Where projects are staged, we suggest an additional requirement that a project is in its final stage before the completion notice is issued.

- (ii) *National Grid lifts the 20% / 50MW restriction following the completion of the voltage control tests specified in the Grid Code<sup>2</sup>.*
- (iii) *National Grid records an active power flow through the offshore transmission system of at least 20% of the project's Registered Capacity<sup>3</sup>.*

Our proposals are linked to clear milestones that NGET can easily verify. We also believe our proposals provide greater confidence that the OTSUA is technically ready to transmit, as a material level of system loading has to be demonstrated before the completion notice is issued.

### **Developer incentives to transfer the OFTO assets**

It is important to recognise the natural commercial incentives on the developer to complete the OFTO sale as quickly as circumstances allow. A delay to the OFTO asset sale means income from the sale is deferred, which has a negative impact on a project's IRR. Given the natural commercial incentives on the developer are to sell quickly, the policy intent of the commissioning clause, i.e. as swift an OFTO sale as possible, will happen as a matter of course.

Where an OFTO sale takes longer than expected, it will be for valid commercial or technical reasons. In such circumstances, there is a real risk that the 18 month period could expire before the sale can complete – particularly if the completion notice is issued excessively early. The consequences of time running out are not entirely clear, but none of the potential outcomes is likely to be in the interests of developers or consumers:

- The OFTO may be unwilling to accept the assets until they are commissioned, but the developer will be unable to (lawfully) complete commissioning – this could actually create a hiatus in the OFTO sale and delivery of renewable electricity to consumers.
- OFTOs may include a premium in future TRS bids to factor in the risk that they have to accept assets before commissioning is fully completed.
- Commercial negotiations over the terms of the OFTO sale are likely to be (further) skewed against the developer. Failure to conclude the OFTO sale in the 18 months puts the developer in a legally precarious position. The OFTO could unfairly leverage this to extract unreasonable terms of sale from the developer.

In summary, we believe the risks of the completion notice being issued too early substantially outweigh any perceived benefit in terms of speeding up of the OFTO sale. Ofgem should opt for a later issuance of the completion notice, recognising the natural commercial incentives the developer has to conclude the OFTO sale in the shortest practicable timeframe.

Our responses to your specific questions are appended below. Please feel free to contact me if you would like to discuss our response further.

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<sup>2</sup> We refer to [Grid Code CP.6.6.3](#).

<sup>3</sup> Where projects are staged, we suggest an additional requirement that a project is in its final stage before the completion notice is issued.

Yours sincerely,

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## Responses to specific Ofgem questions

### CHAPTER: Two

#### **Question 2.1: Do you agree with our proposal to split the ION into an ION Part A and ION Part B? Please provide reasons to support your answer.**

We are content that the ION is split into Part A and Part B. However, we believe that ION Part B is too early to issue the completion notice.

Based on project experience to date, a period of 18 months from ION Part B (or TEC being granted) may have been insufficient to complete the OFTO sale in some cases. For example, we believe that London Array may not have completed in 18 months from TEC being granted (ION Part B). It also seems likely that 18 months from TEC being granted (ION Part B) will be extremely marginal in the case of Lincs.

As projects get larger and more complex, it is reasonable to expect that commissioning may take longer than we have seen thus far. We strongly recommend that Ofgem issues the completion notice later than ION Part B, in view of the increased complexity of future projects – and the increase in commissioning risk that goes with it.

#### **Question 2.2: Do you agree with our assessment of the options for the completion notice trigger point? Please provide reasons to support your answer.**

We do not share your concerns about using *Option 3: the lifting of the 20% restriction* for the trigger of the completion notice (para 2.28-2.30 of your consultation). Whilst it would give the lifting of the 20% restriction more significance than it has currently, it would not in our view give it “*unnecessary significance*”. The key priority should be that the milestone(s) chosen ensures the completion notice is issued suitably late in the commissioning process. For this reason, we favour the lifting of the 70% restriction as the trigger date for the completion notice (see cover letter and response to question 2.3).

We also believe the lifting of the 70% restriction (or failing that, a requirement for an active power flow of at least 20% of Registered Capacity) would provide greater confidence that the OTSUA is technically ready to carry on transmission activities, as the Clause intends. Using either of our proposed trigger points means a material level of system loading will be required before the completion notice is issued. The same degree of assurance over technical readiness cannot be obtained by using ION Part B as the trigger point.

#### **Question 2.3: Do you agree that ION Part B represents the best trigger point for the completion notice? Please provide reasons to support your answer.**

We believe ION Part B on its own is too early to issue the completion notice.

**Our preferred trigger point for the completion notice** is *the point at which National Grid lifts the 70% of Registered Capacity restriction following completion of the Limited Frequency Sensitive Mode control tests specified in the Grid Code*<sup>4</sup>

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<sup>4</sup> We refer to [Grid Code CP.6.6.3](#). We anticipate that future offshore wind projects will be greater than or equal to 100MW, meaning the lifting of the 70% restriction will be a step in the commissioning process in all cases. Our alternative option for the completion notice trigger point could apply for power park modules under 100MW only.

**Our alternative option for the completion notice** is the point at which all of the following conditions are met:

- (i) *ION Part B is issued.*
- (ii) *National Grid lifts the 20% / 50MW restriction following the completion of the voltage control tests specified in the Grid Code.*
- (iii) *National Grid records an active power flow through the offshore transmission system of at least 20% of the project's Registered Capacity<sup>5</sup>*

As stated in our cover letter, it is important to recognise the natural commercial incentives on the developer to complete the OFTO sale as quickly as circumstances allow. A delay to the OFTO asset sale means income from the sale is deferred, which has a negative impact on a project's IRR. Given the natural commercial incentives on the developer are to sell quickly, the policy intent of the commissioning clause, i.e. as swift an OFTO sale as possible, will happen as a matter of course.

Where an OFTO sale takes longer than expected, it will be for valid commercial or technical reasons. In such circumstances, there is a real risk that the 18 month period could expire before the sale can complete – particularly if the completion notice is issued excessively early. The consequences of time running out are not entirely clear, but none of the potential outcomes is likely to be in the interests of developers or consumers:

- The OFTO may be unwilling to accept the assets until they are commissioned, but the developer will be unable to (lawfully) complete commissioning – this could actually create a hiatus in the OFTO sale and delivery of renewable electricity to consumers.
- OFTOs may include a premium in future TRS bids to factor in the risk that they have to accept assets before commissioning is fully completed.
- Commercial negotiations over the terms of the OFTO sale are likely to be (further) skewed against the developer. Failure to conclude the OFTO sale in the 18 months puts the developer in a legally precarious position. The OFTO could unfairly leverage this to extract unreasonable terms of sale from the developer.

In summary, we believe the risks of the completion notice being issued too early substantially outweigh any perceived benefit in terms of speeding up of the OFTO sale. Ofgem should opt for a later issuance of the completion notice, recognising the natural commercial incentives the developer has to conclude the OFTO sale in the shortest practicable timeframe.

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Where projects are staged, we suggest an additional requirement that a project is in its final stage before the completion notice is issued.

<sup>5</sup> Where projects are staged, we suggest an additional requirement that the project is in its final stage before the completion notice is issued.

**Question 2.4: Are there any other points in the commissioning process that you feel we haven't considered in the options above that would be a more appropriate point for triggering the completion notice? Please provide reasons to support your answer.**

As set out in our response to question 2.3, we believe your options for the completion notice trigger point should include:

1. *The point at which National Grid lifts the 70% of Registered Capacity restriction following completion of the Limited Frequency Sensitive Mode control tests specified in the Grid Code.*
2. *The point at which all of the following conditions are met:*
  - (i) *ION Part B is issued.*
  - (ii) *National Grid lifts the 20% / 50MW restriction following the completion of the voltage control tests specified in the Grid Code.*
  - (iii) *National Grid records an active power flow through the offshore transmission system of at least 20% of the project's Registered Capacity.*

## **CHAPTER: Three**

**Question 3.1: Do you agree that the proposed approach, that projects in flight be issued a completion notice when the code and licence modifications take effect and full commencement has occurred, is the most appropriate approach for such projects? Please provide reasons to support your answer.**

We agree that projects in flight should be issued a completion notice when the relevant legislation and code and licence modifications take effect – subject to the projects in flight having achieved the milestones used to determine the completion notice trigger point.

**Question 3.2: Do you consider any other possible approaches we have not outlined would be a more suitable solution for projects in flight? It should be noted that options are limited by the scope of the Clause.**

No.

## **CHAPTER: Four**

**Question 4.1: We invite comments on all aspects of the proposed drafting provided in Annex 1. In particular, do you agree that the proposed licence modifications adequately implement the provisions in the Clause and our proposals set out in this document? Please provide reasons to support your answer.**

We believe the trigger point for the completion notice should differ from your preferred option (ION Part B). Changes to your draft licence modifications, notably paragraph 8 of Condition

C25<sup>6</sup>, would be needed to reflect any revision to the completion notice trigger point.

**Question 4.2: Do you consider there are other licence modifications that are needed to implement the Clause? If so, please provide details.**

We are not aware of any other code and licence modifications that would be needed to implement the Clause.

## **CHAPTER: Five**

**Question 5.1: In addition to the specific questions in Chapter 2 of this document, we invite comments on all aspects of the proposed drafting provided in Annexes 2 and 3. In particular, do you agree that the proposed code modifications adequately implement the provisions in the Clause and our proposals set out in this document? Please provide reasons to support your answer.**

No specific comments.

**Question 5.2: Do you consider there are other code modifications that are needed to implement the Clause? Please provide evidence to support your answer.**

No specific comments.

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<sup>6</sup> Available [here](#).