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Dear Hannah,

Consultation on the generic Offshore Transmission Owner (OFTO) licence for Tender Round 3

National Grid Electricity Transmission plc (NGET) welcomes the opportunity to respond to the above consultation. While most of the issues contained within the consultation are of primary relevance to those directly engaging in the development of offshore transmission infrastructure, there are a number of issues that are of relevance to NGET in its capacity as a TSO and so we set out our views below and in more detail in the attached appendix.

This response is on behalf of NGET and is not confidential.

Availability Incentive: - Ofgem is proposing to modify the existing availability incentive to one which gives an incentive to take smaller outages (less than the full capacity of the network).

- 1 We support the use of availability incentives for transmission owners (we consider they should apply to all transmission networks - onshore and offshore – so as to assist transmission owners in determining the most efficient and economic timing and duration of planned outages and to provide an appropriate incentive in the event of an unplanned outage)
- 2 We support tailored availability incentives if these will help make transmission owners more responsive to the needs of affected network users

The existing and proposed incentive arrangements will help to ensure network owners will have an incentive to repair faults and to optimise their maintenance programmes against that incentive. However that incentive is fixed and takes no account of the circumstances existing at the time of the outage. It does not address (or reward) the ability to be flexible and responsive to circumstances, so as to take an outage at a time of low wind output, or to defer an outage at a time of high wind output (or system stress). The current and proposed offshore transmission availability incentives do not encourage network owners to respond when there are opportunities for outages that will minimise the impact on customers (generators).

Notwithstanding the above comments, we consider the proposed changes to the incentive mechanism are an improvement to the current arrangements.

SF₆

A high proportion of switchgear employed by OFTOs offshore is likely to be SF₆ because of the advantages it offers in compactness. Given the volume of switchgear that will be involved in the Round 3 offshore transmission projects (we estimate around 650 SF₆ units if Round 3 is fully built out)

we believe that it is just as important that an SF₆ incentive is in place for offshore transmission projects as it is for onshore transmission owners. By comparison NGET has some 600 GIS units out of a total of 3000 (20%). Furthermore, if the OFTO is required to collect the information necessary to enable them to report on SF₆ leakage then we see no reason why that information should not be used to drive an incentive.

We note that the NGET SF₆ incentive (as set out in Special Condition 3E of NGET's Transmission Licence) is probably more complex than would be needed for an OFTO as it needs to cope with adding new SF₆ equipment to the system during a price control. It might be proportionate for the key parameters for an OFTO incentive to be established when the network is first commissioned and to only be revisited when there is a modification – which given the nature of the networks and the offshore regime is likely to be rare.

Refinancing gain-share. We have no comment on this.

Financial Security: We support the intention of this mechanism (i.e. to reduce the risk that an OFTO might walk away from a major fault in the last years of the contract). However there may be a case for there being some flexibility to reflect e.g. whether the wind farm concerned is still operating.

Biddable Indexation: We have no comment on this.

Our thoughts on the specific questions raised in the open letter are provided in Appendix 1. We have also made specific comments on the drafting (included in Appendix 1).

This response is on behalf of National Grid Electricity Transmission plc and is not confidential. We are happy to discuss our views contained within this response further should that be helpful. For further details, please contact Andy Balkwill on 01926 65 59 88.

Yours sincerely

By Email

Andy Balkwill
Regulatory Policy Manager

Appendix 1: Detailed questions within the Consultation

CHAPTER 3: Availability incentive – capacity weighting mechanism

Question 3.2: Do you agree with our rationale for setting the proposed values of a and b at $a=1$ and $b=1.3$?

We recognise what Ofgem are trying to achieve with the use of these values and consider that they are an improvement on the current arrangements. However, we consider that the overall approach to the availability incentive falls short of the ideal since it fails to incentivise flexibility, including outages at times of low wind output. By comparison NGET does face an incentive to react to system conditions when taking outages through its exposure to network congestion costs¹ and we believe this produces efficient results for our customers.

The relatively low load factor of offshore wind farms should mean that there could be many opportunities to take outages at times when the impact on the generator is minimal. An availability incentive that reflects this would have benefits in helping OFTOs formulate their asset management policies in respect of maintenance frequencies, outage durations, and decisions on whether to hold certain strategic spares. It may facilitate them making appropriate design alterations to optimise outage arrangements. However for such optimisation to take place the incentive needs to be visible at the time of designing the network and specifying equipment. A flat availability incentive of the type proposed is likely to distort asset management and spares holdings strategies and lead to inefficient costs which will ultimately feed through to consumers.

We consider that there are at least two possible approaches to this issue:

1. prospective OFTOs might be permitted to define their proposed availability incentive parameters as part of their tender. This would allow them to optimise their asset management, maintenance, spares holding policies etc. based on the “cost” of outages represented by the availability incentive. For instance one OFTO may be willing to offer a sharper incentive for outages at times of high wind output in exchange for no penalties where outages do not impact on the wind farm output; and
2. it might be worth considering an arrangement where an outage that had been agreed with the relevant generator (because e.g. it was programmed to take place at a time of expected low generator output) would not be subject to the availability incentive.

We would further suggest that consideration should be given to providing a mechanism whereby outages of the OFTO's network that are requested/required by another transmission owner (e.g. for proximity working) or by the NETSO, should not be included in the OFTO's availability incentive.

¹ Congestion costs fall on NGET as the NETSO (and in part on consumers via the SO incentive scheme). In its role as TO NGET will face costs from modifying or cancelling outages, adopting different working arrangements (e.g. overtime, weekend working, 24 hour working etc.). NGET is able to internalise the trade-offs between the costs falling on SO and TO activities so as to minimise the overall costs and by so doing minimise the costs falling on consumers.

Question 3.3: Do you agree with our approach to use the same values of a and b for all projects in TR3?

The design of each TR3 project will likely differ, reflecting the circumstances affecting that project (size, technology options, connection options, etc). It therefore seems inappropriate to set the same factors 'a' and 'b' for all projects in TR3 without considering individual circumstances since such an approach may not lead to economic and efficient design and so may not be in consumers' interests.

The current framework does not promote an holistic approach to network design and without this the outcome is always likely to have elements of inefficiency. For an economic and efficient outcome it is necessary that the full lifetime costs of the network and the associated user(s) are considered. It will be necessary to take account of the cost of outages to the affected customers(s) as well as the cost of undertaking the various maintenance activities (which in turn is dependent on the transmission owner's asset management policy). Given knowledge of all the operational aspects of the proposed network it should then be possible to optimise the network design so as to minimise the overall construction and operational costs. The "developer build model" fails to do this because the developer will not be aware of which OFTO will be successful in acquiring the network or what their approach to maintenance and asset management will be. There is therefore little or no scope for optimisation of the overall design and so it is not likely to be the most economic and efficient solution.

We have already noted our view that the availability incentive mechanism should provide an incentive for OFTOs to take "opportunity" outages at times of low wind output when notwithstanding the loss of capacity in the OFTO network, there may be little or no impact on the generator.

Furthermore, it is possible that some Round 3 projects might contribute to enhancing overall GB network capacity by reinforcing existing system boundaries (e.g. due to using more than one onshore connection point). Where this is the case an outage could not only affect the relevant offshore generator(s), but it could also have an impact on wider system capability and constraint costs. It is disappointing that the scenarios examined by Ofgem's consultants did not include an example of an "integrated" design where such impacts might be seen. We assume this omission may be due to the current position of the ITPR project and that the issue will be addressed as part of ITPR in due course.

To summarise, while the inclusion of the parameters 'a' and 'b' is an improvement on the current position we consider it would be inappropriate to apply these factors universally to all TR3 designs (especially so where wider network capacity is involved). A more sophisticated and bespoke approach is required to deliver an economic and efficient outcome.

CHAPTER 5: Sulphur Hexafluoride (SF₆) emissions reporting

Question 5.1: Do you agree with our decision to introduce a reporting requirement on SF₆ emissions?

We agree that there should be a reporting requirement. However, we consider, given the volume of GIS equipment involved in TR3, that the data collected should be reported on and used to drive an incentive. If the presence and form of an incentive is clearly understood in advance then the network and equipment designers can take this into account when designing and specifying the OFTO network and equipment. Once built, it may not be practical or cost effective to modify OFTO SF₆ equipment to improve its performance. Thus if a reporting obligation only is used, and it is subsequently found that one of more OFTOs have poor performance in this area, it may be too late address the issue. In our view the presence of a simple transparent incentive is best way to drive efficient design and operation.

Question 5.2: Do you have any views on the licence drafting of amended standard condition E12-J12 (Sulphur Hexafluoride Reporting Requirements)?

We consider this drafting should be extended to include an SF₆ incentive (and appropriate changes elsewhere in definitions and the to the OFTO revenue formula in E12-J2 paragraph 4 (formula (1))).

Question 5.3: Do you have any views on the proposed approach to reporting emissions?

We recognise and agree with Ofgem that due to the individual asset nature of OFTO networks, that the consumption of SF₆ might be 'lumpy' and as a consequence figures for any one year may not be particularly instructive. However we see no reason why a rolling (say) 5 year average should not be used. Other statistical techniques might also be used to smooth out the effects of large year to year variations in SF₆ consumption. Ofgem suggest that OFTO data might not make meaningful comparison against onshore transmission or distribution assets; however it is not clear to us that (with appropriate statistical analysis) this is necessarily the case. Even if there was evidence that no useful onshore – offshore comparison could be made then there would still be merit in publishing the data so as to compare OFTO-OFTO performance as a separate 'class' of network. We consider publication of the data would help to identify where good or poor maintenance practice is being employed in the OFTO sector.

CHAPTER 6: Other licence drafting changes

Question 6.1: Do you have any views on the licence drafting changes made to the generic OFTO licence for TR3?

Amended Standard Condition E12-A1

In paragraph 4 of Amended Standard Condition E12-A1, the change to introduce a reference to "the electricity transmission licence" rather than "electricity transmission licences" should not be made as it is (a) inaccurate, there being several electricity transmission licences (each licence holder having a separate one) and (b) inconsistent with equivalent references elsewhere (see for example the Note at the end of paragraph 2 of Part II of the generic licence).

A number of the defined terms use the wording "subject to any further explanation or elaboration that might be set out in the NIC Governance Document" (see, for example "Funding Return Mechanism", "Halted Project Revenues", "NIC Funding", "NIC Funding Mechanism", "Returned Royalty Revenue"). We do not consider that this approach to defining terms is appropriate, since it gives rise to the potential for the licence to be changed by the "back door" of a change to the NIC Governance Document. This appears implicitly to circumvent the requirements of the Electricity Act 1989 to follow the statutory process for licence changes and we consider that this is not appropriate.

General Drafting Comments

We also notice that there are a large number of inconsistencies in the use of defined terms throughout the licence. In particular, capitalisation of defined terms needs to be effected consistently. We note that the term "licensee" should be used consistently in lower case throughout the amended standard conditions, and that terms such as "subsidiary", "ultimate controller" and "system operator" should all be used consistently in lower case as they are defined in lower case in Condition A1.

The references to legislation amending or replacing the Acts referred to in the definition of "Network Rates" is unnecessary as a result of the effect of paragraph 5 of the terms of the licence which expressly makes provision for changes in legislation. This wording should therefore be deleted.