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By e-mail –
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Contact / Extension
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Dear Peter,

Offshore Transmission: Non Developer Led Wider Network Benefit Investment (WNBI)

This is a response on behalf of SP Transmission (SPT) to the above consultation. We welcome the opportunity to comment on Ofgem's developing policy and thinking.

I would like to first of all comment that in terms of the ownership of offshore assets our position is that we want to avoid situations where we develop, own and operate subsea links for onshore boundary benefits, such as the WHVDC Link, and then face a divestment situation because offshore developer/s want to make use of this link. We believe that in potential future scenarios where there are radial offshore connections to an "onshore link" it should be possible to clearly define asset boundaries. Indeed, we see no reason why onshore transmission owners (TO's) could not directly own offshore assets.

As an incumbent onshore TO, we recognise that we have an important contribution in the development of a coordinated onshore and offshore electricity grid network. Our system analysis and design expertise, including HVDC design, will help in supporting the design and delivery of coordinated networks.

However, we see such support being strategic and advisory rather than being directly involved in specific offshore developments. In this consultation, we are concerned at the proposal for onshore TOs to undertake pre-construction activities relating to WNBI as it presents SPT with significant challenges in terms of skills and resourcing. Our experience to date on offshore connections is in terms of designing the onshore connections. We have no experience in offshore connection design. We therefore had seen our obligations as being to providing compliant onshore connections for offshore generation.

The three models set out in this consultation all require onshore TO involvement in non-developer led WNBI. Of these three models we would expect offshore developers to favour Model 3 as it requires the TO to undertake more tasks in the build process i.e. detailed design,

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routing surveys / studies, and consenting. From SPT's perspective Model 3 is unsatisfactory for the following reasons:-

- Additional liabilities, and lack of incentive, on the TO,
- Our limited experience in offshore connections, and
- Additional workload on the TO.

If the onshore TO is required to be more directly involved in the build process, then our preference would be for Models 1 or 2. Under these Models, the TO's involvement would be more limited. Model 1 may lead to more cost-efficient solutions, while also opening up development work to third parties. Model 2 provides the opportunity for OFTO's to take full ownership of the preliminary works therefore potentially reducing costs associated with commercial management of risk and liabilities between parties. It also incentivises the targeting of appropriate, deliverable projects by allowing a return on investment in the post construction stage.

The following sheet provides our views on some of the questions.

Yours sincerely,

Alan Kelly
Transmission Policy Manager
SP Energy Networks

Detailed Comments by SP Transmission

Question 2.1: Do you consider there would be market interest in tenders under these non developer-led WNBI models? Please state why or why not, including whether you would be an interested party.

Model 1 may have merit in opening up the market to third parties for work through to construction.

Question 2.2: What are your views on the role that onshore TOs and the NETSO would need to undertake to ensure success of non developer-led WNBI projects under the different models?

The identification of suitable projects, development of a needs case and cost benefit analysis of options would need to involve both onshore TO and SO.

Question 2.3: What are your views on the appropriate risk allocation between consumers and parties undertaking preliminary or construction works, and why?

We have an issue over the liabilities position faced by the TOs, particularly under Model 3. The issue of liability would need to be fully addressed and at this stage it would help to have more clarity on Ofgem's view on this. For example if a TO must hand over its work to a third party then this will need to be reflected contractually to ensure that potential liabilities are appropriately aligned.

The risk of costs incurred in the preliminary works in developing a project, should it not come to fruition should be borne by consumers. Construction risk should be allocated on a project by project basis depending on the potential benefit to consumers against the risks identified in its construction.

Question 2.4: What are your views on the incentives and obligations that would be needed to ensure that the preliminary works, including consents, are completed in the interests of consumers and the economic and efficient development of the future transmission system?

The three models set out in this consultation all require onshore TO involvement in non-developer led WNBI. Of these three models we would expect offshore developers to favour Model 3 as it requires the TO to undertake more tasks in the build process i.e. detailed design, routing surveys / studies, and consenting.

From SPT's perspective Model 3 is unsatisfactory and part of this reason for this is the lack of incentive on the TO. Our view is that this is not in the interests of consumers.

If the onshore TO is required to be more directly involved in the build process, then our preference would be for Models 1 and 2. Under these Models, the TO's involvement would be more limited.

Question 2.5: To what extent do you think the alternative models would help deliver the objectives set out in paragraph 2.32 of Chapter 2?

We consider Models 1 and 2 the most likely to deliver the objectives in paragraph 2.32.

Model 1 has the advantage of encouraging new market players with specialist skills in the work package areas.

Model 2 provides the opportunity for OFTO's to take full ownership of the preliminary works therefore reducing costs associated with commercial management of risk and liabilities between parties. It also incentivises the targeting of appropriate, deliverable projects by allowing a return on investment in the post construction stage.

Model 3 is less likely to deliver the required benefits by putting risk and liability onto the TO's without any incentive from future revenues from asset ownership, to bring them through to construction.