

All interested parties

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Dear colleagues

Summary of responses to 'Offshore Transmission: Non Developer-Led Wider Network Benefit Investment' consultation

Overview

The purpose of this letter is to provide a summary of the key themes from the responses to our consultation 'Offshore Transmission: Non Developer-Led Wider Network Benefit Investment'.¹ The consultation was published on 10 January 2014 and closed on 7 March 2014. We received 11 non-confidential responses, comprised of 5 Offshore Transmission Owners (OFTOs)/potential bidders/an industry body, 3 offshore developers and 3 onshore Transmission Owners (TOs). These responses are available on the consultation's webpage.

The consultation set out three potential tender models for taking forward non developer-led Wider Network Benefit Investment (WNBI), and sought views on the models including an indication of market interest in them. The three models are:

1. Split OFTO Build: an initial tender to determine a party to undertake preliminary works, followed by a late OFTO build tender to determine the party that will construct, own and operate the transmission assets
2. Early OFTO Build: an early OFTO build tender to determine the party with responsibility for preliminary works, construction, ongoing operation and ownership of the transmission assets
3. TO Initiated Late OFTO Build: enabling TOs to undertake preliminary works ahead of a late OFTO build tender to determine the party who will construct, own and operate the transmission assets.

Themes from responses

Responses to the consultation are summarised in the Annex to this letter. The key themes coming out of the responses were:

- Market interest was strongest for Early OFTO Build and TO Initiated Late OFTO Build
- Split OFTO Build had limited interest and many respondents noted issues around operation of the model and incentivisation of the party doing preliminary works
- TOs noted their concerns regarding TO Initiated Late OFTO Build
- Most respondents suggested the National Electricity Transmission System Operator (NETSO) needs to take the lead in identifying the need for WNBI and options.

¹ Copies of all non-confidential responses are available alongside the consultation on the Ofgem website: <https://www.ofgem.gov.uk/publications-and-updates/offshore-transmission-non-developer-led-wider-network-benefit-investment>.

Next steps

We will continue to consider stakeholder feedback on the three models as we continue developing the offshore tender regime to enable potential offshore non developer-led WNBI projects. However, through liaison with stakeholders we do not believe there are any projects requiring a firm solution in the short term.

In parallel, we continue to consider through our Integrated Transmission Planning and Regulation (ITPR) Project how the planning and delivery arrangements for electricity transmission across Great Britain could evolve to better address the interests of consumers. This includes examining the roles and responsibilities of the NETSO, TOs, OFTOs and third parties in the planning and delivery of transmission. As stakeholders noted in their responses, the conclusions of ITPR could influence the appropriate model for offshore non developer-led WNBI. We plan to consult on our ITPR draft conclusions in September.

Yours faithfully,

Min Zhu
Associate Director, Offshore Transmission

Annex: Summary of responses

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.

Market interest was strongest for Early OFTO Build and TO Initiated Late OFTO Build, with four respondents for each model saying they would be interested in bidding. There were also respondents across all three models who considered there was value in the models or thought there would be market interest in them, but did not themselves express an interest in being a bidder.

Under TO Initiated Late OFTO Build, TOs expressed concerns in taking forward the preliminary works under the model as it was set out in the consultation. These concerns included having to use scarce resources on preliminary works for transmission assets the TO was unable to own, as well as reducing the benefits of competition because of the opinion that a TO should not be able to bid for the transmission assets at the Late OFTO Build stage if it was responsible for preliminary works.

Some of the concerns raised about Split OFTO Build included how to incentivise the third party doing the preliminary works, costs of holding two tender exercises and additional complexity for relatively little gain.

Questions 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?

Respondents broadly agreed that the NETSO and TO had roles to play in the early stages of each model, but varied on the extent to which each party should be involved at each stage.

More than half of respondents thought many of the potential roles were suitable for the NETSO but noted that these would need to be undertaken by an enhanced NETSO, other coordinating body or independent system operator.

Four respondents considered that the TO's role in Split OFTO Build and Early OFTO Build should be minimal, with two stating that if the WNBI didn't include an onshore connection, the TO should have no role.

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

Most respondents were of the view that risks should be allocated to those best placed to manage them or by those who gain from them, and that some risks may be more appropriately shared with consumers.

One respondent highlighted that allocating risks to those best placed to manage them may be difficult to do in practice in complex supply chains, and another noted that introducing split responsibilities could create situations where the consumer takes on more risks (ie due to additional transfer points).

Respondents noted that under Split OFTO Build, the third party may not be best placed or incentivised to manage design risks. This may lead to increased costs or delays.

Several respondents commented that they did not think the party carrying out the preliminary works should be exposed to risks that are not within their ability to manage or control, such as changes in system requirements or change of project scope.

A few respondents specifically noted that the OFTO undertaking construction works should not be exposed to stranding risk and other risks during construction or operation of the

transmission assets that they cannot directly control. Similarly, one respondent noted that the third party undertaking the preliminary works under Split OFTO Build should be protected against risks outside their control (eg complexity of consents and changes to project scope).

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?

Most respondents considered that splitting responsibility for preliminary and construction works would result in reduced incentive for the party undertaking the preliminary works to deliver those works efficiently. A couple of respondents noted that Late OFTO Build bids would reflect the complexity and risk attached to consent conditions.

Respondents noted that incentives would need to be placed on the third party or TO under Split OFTO Build and TO Initiated Late OFTO Build. Ideas for incentivising preliminary works included assessing the project against the high-level project specification designed by the NETSO, and sufficient flexibility in funding to allow a full range of options to be identified and developed, given the uncertainty of future generation developments (under TO Initiated Late OFTO Build).

A couple of respondents specifically mentioned that Early OFTO Build was favourable given the alignment of the OFTO's incentives with those of the consumer (ie economic and efficient design and delivery).

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?

The majority of respondents considered Split OFTO Build was the least likely model to deliver fit for purpose electricity transmission infrastructure. Responses noted the cost of running two tenders was not cost effective, but did consider the competition for preliminary works could bring benefits and attract new entrants to the sector.

The majority of respondents considered Early OFTO Build was the model most likely to deliver fit for purpose electricity transmission. Respondents noted that competition could result in value for consumers, but that it would be difficult to have certainty about costs at such an early stage in the project. Respondents also noted that the model was likely to attract new entrants to the sector.

Respondents noted that TOs would need to be incentivised or mandated under TO Initiated Late OFTO Build to ensure value for money. The experience and resources of TOs could mean the model was efficient. However there were respondents that noted having TOs involved in preliminary works would mean they should not participate as a bidder in the tender for the subsequent OFTO assets. Some respondents noted the model would not involve competition at the preliminary works stage.