

Jon Parker
ITPR team
Ofgem
9 Millbank
London
SW1P 3GE

Richard Clay
Grid & Regulation Manager

Tel: 020 7851 5336
E-mail: richard.clay@thecrownestate.co.uk

24 November 2014

Dear Jon,

ITPR – Draft Conclusions: Response from The Crown Estate

Thank you for the opportunity to respond to Ofgem’s draft conclusions on the Integrated Transmission Planning and Regulation (ITPR) project, published on 29 September. As we have set out in previous consultation responses on ITPR, The Crown Estate welcomes this initiative as we believe that addressing issues associated with the interaction between the different 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 finalising policy in this area.

1. The Crown Estate

The diverse portfolio of TCE comprises marine, rural and urban properties across the whole of the United Kingdom, valued in total at almost £10 billion. Under the 1961 Crown Estate Act, TCE 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. Our entire revenue surplus is paid directly to HM Treasury for the benefit of UK citizens; in 2013/14 this amounted to over £267 million.

Our energy and infrastructure portfolio 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 also 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 given in our view all steps should be taken to enable and incentivise the development of a more integrated approach to transmission where this is appropriate. As

such, we welcome Ofgem's draft conclusions document, and look forward to implementation of the proposed arrangements at the earliest opportunity once they have been finalised. Having said this, as set out previously, we consider two overarching criteria should be at the heart of this initiative if it is to be considered a success, being:

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

We see these as essential indicators of success given that offshore generators will be one of the most affected user groups of the proposed changes; they also align with Ofgem's duty to protect consumers given the deployment of offshore generation is part of the answer to reducing carbon emissions.

We set out responses to some of the specific issues raised in the document below.

3. Response on issues raised

Question 1: What are your views on our proposed enhancements to the SO role in system planning, including the specific roles we have proposed the SO would undertake for onshore, offshore and interconnection planning?

Overall, we consider that the proposed enhancements to the SO role in system planning appear sensible. As you will be aware, many studies have demonstrated the benefits of a more integrated or coordinated approach to the transmission system¹ and so reshaping the regulatory rules to enable this to evolve in practice is a positive step forward. We understand that in some ways the SO has started to undertake aspects of this wider remit already, for example through specific projects such as IOTP East. This demonstrates to some extent a willingness for it to consider the wider landscape when incentivised, although changes (e.g. to the CUSC) will be required to formalise the detail of the updated approach to give certainty to all parties.

The one area of concern we have is regarding the proposal for 'the SO to include WNBI in a developer's connection offer and be responsible for considering whether the WNBI should be taken forward' (paragraph 2.36). This suggests automatic inclusion of WNBI if it is identified as having overall system benefits. However, this seems overly onerous if taken as a blanket rule and could adversely impact on the economics of an offshore wind project as it would add to direct project costs. Whilst we acknowledge there would be a cost assessment process to determine the efficiency of any expenditure in these circumstances, this is not without risk and so compelling a developer to undertake such works may introduce a level of additional uncertainty to the delivery of the overall project. We would ask that this is reconsidered on a voluntary basis instead, whereby developers are incentivised

¹ A recent example being a report for the European Commission from Ecofys, Tractabel and PWC: 'Study of the benefits of a meshed offshore grid in Northern Seas Region', July 2014
http://ec.europa.eu/energy/infrastructure/studies/doc/2014_nsog_report.pdf

but not compelled to take such works forward – with an assessment dependent on the specific circumstances of the project. In order to finalise policy in this area, we would ask that Ofgem considers explicitly the impact on bankability of adopting this compulsory process against a range of funding options available to developers of offshore wind projects.

Question 2: Are there other roles that you think an enhanced SO could or should undertake in order to better support the development of an efficient transmission and interconnector network?

As part of the implementation process, consideration should be given to enhancing the information available in documents such as the Electricity Ten Year Statement – for example in terms of including information on physical seabed constraints and conditions. Enhancing such documents with practical information such as this would be of value to many parties (including developers of offshore generation projects, interconnector developers and the consenting community) and would likely be developed more efficiently if as part of a wider document on system development scenarios.

Question 4: What are your views on our proposal that, as part of its enhanced role, the SO should lead gateway assessments for offshore projects that include investment to provide wider network benefit?

Our comments in respect of question 2 are relevant here.

Question 6: What are your views on our proposals to maintain a developer-led approach to interconnection and to extend the cap and floor regime?

We support the proposal to maintain a developer-led approach to interconnection and to extend the cap and floor regime to future interconnector projects. Interconnection is an important part of the overall GB energy system and is expected to become more so going forward, particularly from a system balancing and security of supply perspective as we see an increasing volume of renewables connected to the transmission system (such as offshore wind).

An important issue raised in the consultation is regarding application windows. The proposed extension of the cap and floor regime and also the intention for interconnectors to participate in the Capacity Market will mean it is likely the rate of interconnector projects coming forward will increase in the coming years. Requiring projects to apply through a common window should help organisations with marine obligations (such as The Crown Estate) to undertake their necessary assessments in a more structured way, for example on considering spatial conflicts.

Question 7: What are your views on our proposal that non-GB generators pay for their connections, without consumer underwriting?

We are neutral in many ways to the detail of the regulatory framework that is applied to connections to the GB transmission system from non-GB generators. We consider the key factor in determining the viability of such projects will remain the potential availability of subsidy support, and we note that DECC has stated it expect to put in place arrangements from 2018. We will continue to work with DECC and Ofgem in this area as clarity emerges

on support schemes and what this might mean in terms of rights required for seabed use going forward for such projects.

Question 9: What are your views on our assessment of conflicts of interest?

Conflict of interest is a serious issue within the context of the proposed new framework, and we welcome that Ofgem has considered this in detail further. We support enshrining further obligations on NGET (including on ringfencing) through a new licence condition; this should give stakeholders greater confidence in the robustness and independence of decisions as part of this new regulatory framework. We look forward to seeing the detailed drafting of proposed licence conditions in this regard.

Closing note

We trust that you find our responses helpful in finalising policy in this important area. As always, we are more than happy to meet to discuss any aspect of this response. We are content for this response to be placed in the public domain.

Yours sincerely,



Richard Clay
Grid & Regulation Manager