

Dear Colleague,

### **Offshore Electricity Transmission – Open letter to Industry**

The Government Response to the joint BERR/Ofgem July 2007 Policy Statement, which contained further proposals on the design of the regulatory regime that will cover the high voltage cable connections from offshore wind farms and future renewable generation projects in UK waters, was published on 10 January. The Government Response was published following careful consideration of all the points made by industry in response to the proposals in the July document. It confirmed further decisions and contained views on the design of the new regime. In addition, Ofgem published on 14 January a Regulatory Policy Update which set out updated proposals on the design and implementation of the competitive regulatory regime for offshore electricity transmission.

As co-chairs of the joint BERR / Ofgem Project Board, overseeing introduction of the new regulatory framework for offshore electricity transmission, we are writing this open letter to set out the forward work plan over the coming months that will implement the new regime. In particular, we ask industry to focus its efforts on the important and detailed work that will set the framework for the new offshore transmission regime for some time to come.

We believe that the Government decisions and the further detailed policy proposals provide an integrated picture of the new regulatory regime, competitive tender process, transitional arrangements, and detailed technical and commercial issues. They represent an important step forward in providing confidence that the new regulatory regime will deliver the economic and efficient, timely and secure grid connections that are needed to ensure the success of the offshore wind industry.

The further decisions in the Government Response set the high level framework for the new regime. The additional powers the Government is seeking in the Energy Bill to enable

Ofgem to run efficient and effective tenders to licence Offshore Transmission Owners (OFTOs) are a further demonstration of our commitment to its successful delivery.

We are aware that debate continues in some sections of the industry as to the overall direction of the new regime. The Government believes that having consulted extensively with industry on the framework, the approach to licensing and regulating offshore transmission that BERR and Ofgem are introducing will best meet the overall objectives set out in Annex C of the Government Response to the joint DTI/Ofgem Consultation on Licensing Offshore Electricity Transmission published in March 2007<sup>1</sup>.

The process of consultation that we have undertaken with industry to get to this stage has already taken over three years. To achieve our aims for the new regime, it is important that it is implemented as soon as practicable. It is our view that little purpose can be served by continually re-visiting decisions that have already been taken on the overall shape and structure of the regulatory framework.

We therefore urge the industry – including offshore wind developers, trade Associations (BWEA and ENA), existing TOs, future OFTOs and equipment manufacturers – to commit your expertise and knowledge to finalising the detail of the changes that are required to implement an effective regime for the regulation of offshore transmission systems.

#### Industry Consultation and workstreams

The work that BERR and Ofgem are now undertaking is therefore focused on considering the modifications to the standard licence conditions and industry codes that will be appropriate for the offshore transmission regime. Before the Secretary of State makes those modifications, a significant amount of further work will be needed. Much of that work will be taking place from now until April – when there will be further consultation on final policy proposals and on drafts of the modifications to licences, codes, agreements and tender regulations that will underpin the new regime.

To achieve this timetable, Ofgem has already set up a licence drafting working group to engage in the development of licence text. That group will be starting its work from the middle of March and will be chaired by Ofgem. A joint BERR and Ofgem document setting out the scope of the changes to standard transmission licence conditions was published on 14 February. Consultation on the full legal text of the licence will then be commenced from mid-May.

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<sup>1</sup> <http://www.berr.gov.uk/files/file38705.pdf>

The development of recommendations for code modifications will also be progressed through industry working groups, and will be followed by detailed drafting instructions that will be issued to the relevant code owners. Industry engagement in this process will also be vital.

A working group has already been established to consider Embedded Transmission issues including modifications to the Distribution Code and DCUSA. We have also invited industry engagement in further development work of the Grid Code, GB SQSS and STC. Again it is our intention to consult on the draft texts, once prepared, in April.

In addition there will be a work stream focussing on the tender regulations to implement the tender process for identifying who will be awarded offshore transmission licences. To facilitate this work a tender workshop was held at Ofgem on 22 February. Draft tender regulations will also be consulted on by Ofgem with Final Policy proposals in April.

A diary of events<sup>2</sup>, workshops and milestones will be published on the Ofgem website and updated regularly. If you wish to participate in these work-streams, please contact the relevant work-stream leader in the first instance.

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<sup>2</sup> <http://www.ofgem.gov.uk/Networks/Trans/Offshore/Pages/Eventsdiary.aspx>

Finally, we would like to assure you of the joint commitment of BERR and Ofgem to the successful delivery of a new offshore transmission regime to enable the development of offshore generation in an efficient and cost effective manner.

Yours sincerely

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