

BERR/Ofgem Offshore Transmission - External Communication Session 7 July 2008

This note has been taken by BERR/Ofgem to capture the key points made at the offshore transmission external communications session and to inform further debate. The first section summarises the points made during the presentations. The second part details the issues raised during the question and answer sessions. The final section gives a list of attendees at the event.

Speakers

Duarte Figueira, BERR
Robert Hull, Ofgem
Richard Clay, Ofgem
Bridget Morgan, Ofgem
John Greasley, National Grid

Introduction – Duarte Figueira

Duarte opened the session with a brief overview of the objective of the day. He provided a general overview of the regime and the aims in developing it. He stated that the session sought to provide additional clarity on:

- Offshore transmission project status;
- The Energy Bill;
- The design of the regime in light of the June 2008 consultation;
- Implementation issues; and
- The key stages, next steps and dates in the implementation process.

Offshore Transmission: the Proposed Regulatory Regime and June Consultation – Robert Hull

Bob provided more detail on the regime, discussing the current consultation and the key regulatory proposals. He also discussed the tender process, risk allocation and future developments.

Transitional Regime – Richard Clay

Richard discussed the transitional regime. After a recap of the transitional arrangements, he discussed the Regulated Asset Value (RAV) assessments, the tender process, and the underlying tender documentation and tender regulations.

Implementation of Offshore Transmission Regime – Bridget Morgan

Bridget discussed the current change proposals for the transmission licence standard conditions and industry codes. She explained why changes are being made and what changes have been proposed.

National Grid's Role as GB System Operator Offshore – John Greasley

John explained National Grid's system operator obligations under its current licence terms, its relationship with transmission owners and generators onshore, and went on to discuss how they could be applied offshore.

Question and Answer Session

Given the potential disadvantages with the new regime, BERR and Ofgem were asked if they would pause for reflection to ensure that the approach was going in the right direction.

BERR and Ofgem have been consulting for nearly 4 years and have not received any new evidence which has caused them to change previous high level decisions taken to have a competitive approach to licensing offshore transmission.

Taking a step back would be contrary to many views within industry, including the British Wind Energy Association and Scottish Renewables Forum, who feel that delaying the delivery of the regime would be detrimental.

There have been some very positive responses, particularly from those parties seeking to take part in the transitional regime. Overall there has been significant support for moving the regime forward.

In light of the deadline for responses of a material nature to the June 2008 consultation, can you summarise the responses received?

We have not had time to look at any responses in detail, so it would be difficult and inappropriate (given the deadline for responses is 25 July) to provide feedback at this stage. As with previous consultations, details of non-confidential responses will be posted on the BERR and Ofgem websites.

Where would competition for OFTO licences come from?

There has been much interest in the potential investment opportunities from potential newcomers. The transitional projects will give the opportunity for OFTO's to invest without construction risk. We anticipate that the regime will allow new entrants and interest from a variety of sectors which could bring a wealth of new skills and ideas.

How will the incentive schemes on availability and delivery operate? Also, how will interconnectors work in a regulated industry and what tools will be in place to aid this?

We consider that it may be appropriate to mirror onshore arrangements in respect of completion dates. We are still consulting on the proposed incentives regime. We recognise that it may be appropriate to have incentives that balance risk and return for an OFTO. For example we are considering mechanisms that allow planned outages, but with penalties beyond these planned outages. The figures that will be used are open to consultation. We have also set out how penalty payments would flow through to generators under the new regime.

Our initial thoughts are that the existing arrangements for interconnectors¹ will be extended as the GB transmission system extends offshore.

¹ The electricity interconnector licence allows the licensee to participate in the operation of an electricity interconnector. Participating in the operation on an electricity interconnector is defined as:

- co-ordinating and directing the flow of electricity into or through an electricity interconnector, or
- making such an interconnector available for use for the conveyance of electricity.

One participant noted that they felt their concerns (as raised in previous consultations) had not been addressed. These include potential delays to projects caused by the introduction of the enduring regime, the treatment of offshore transmission losses, licence exempt embedded generation stations, and the possibility of making the enduring regime the same as the transitional regime, which would allow generators to self-build.

BERR and Ofgem confirmed that all responses have been considered throughout the consultation process.

The transitional regime will help to avoid delays for projects that fall under that regime, given that developers will be building the offshore transmission infrastructure. We are aware from general feedback to our proposals that offshore projects typically have sufficient lead time such that the time required to appoint an OFTO should not cause delays. We are designing the enduring process, and consulting extensively to avoid introducing delays to offshore projects and will reflect responses in coming to future decisions.

Will the RAV assessment include a range of costs, including capex and debt financing?

We expect RAV calculations to be much the same as onshore, which would likely include efficiently incurred development costs with an element of financing costs and professional fees. A key issue for Ofgem will be to ensure that only transmission costs are assessed and a key task will be to ensure that the split between transmission and generation costs is accurately identified. Ofgem will go through RAV assessments when engaging with transitional projects over the coming months.

How will the EU procurement rules for OFTO subcontracting dovetail into the tender process?

This issue has been considered previously. Bidders need to consider their own procurement process in advance of the tender process. We recognise the need to give sufficient time in the tender process for accurate prices to be delivered by bidders following their own procurement processes, and will be consulting further in this area

Will substantial changes be needed to the design of the transitional projects to allow them to be operated as offshore transmission networks?

We are expecting to see radial connections which would be simple point to point projects, so it is expected there will be a simple transition. There is also experience to be gained from the Scottish Networks that went through the BETTA process.

It was noted that it would be useful to seek generator involvement in discussions between NGET and the OFTO.

What changes would be needed in terms of control system for systems that currently form part of existing offshore generator installations (reference was made to Barrow)?

National Grid noted that they need to satisfy themselves that they can operate the GB transmission system (including all offshore transmission systems).

National Grid also noted that it was about to embark on a series of bilateral discussions with transitional projects to discuss the requirements specific to each project.

Would there be a requirement for bidders to have an investment grade rating?

We are currently minded that there will not be an investment grade requirement as such, but assurance of some kind will be needed that they can finance themselves, in a similar way to how Independent Gas Transporters (IGTs) and Independent Distribution Network Operators (IDNOs) have to. We would expect such provisions to be less stringent than for onshore transmission companies, but high enough to protect generators and consumers against failure of the company. We are consulting on this issue.

What tools would be in place to ensure that offshore projects are not delayed in the same way as onshore generators in the GB queue?

The Crown Estate engagement is crucial and Ofgem has been liaising with The Crown Estate on this issue. Substantive changes have been proposed (and are currently being developed) to the onshore arrangements to address issues associated with the GB queue.

How will developments outside GB territorial waters be taxed?

This issue was first looked at in 2001, and it was considered that as long as a company is registered in the UK, the existing taxation arrangements will apply.

How far have Ofgem got in establishing a tender team to eventually run the process?

The Authority is overseeing the process, and we have external advisors on board (Herbert Smith and Ernst and Young), and we are building an internal team with experience from comparable industries. It is anticipated that the tender teams will consist of a mixture of internal staff and external advisors and that there will be a need for commercial expertise within these teams.

Can you confirm that you will review the process for licence exempt embedded generators?

Yes, we are considering how the proposed arrangements would apply to licence exempt offshore generators who have (or plan to have) 132kV connections to an onshore system. We need to ensure that arrangements are consistent with other types of transmission connected generators. Furthermore, National Grid is planning to consult on the charging arrangements for licence exempt generators.

Will OFTOs be subject to normal code changes over the proposed 20 year revenue period?

Yes, changes will apply to OFTOs and they will have the opportunity to be involved in developments.

List of attendees

First Name	Surname	Organisation
Duncan	Ayling	BWEA
Richard	Bankart	Consultant
Valmai	Barclay	Mcgrigors LLP
Simon	Bradbury	Poyry Energy Consulting
Michael	Brooks	Oceanteam
Neil	Budd	Watson, Farley & Williams
Iain	Cameron	National Grid
Nick	Chapman	Centrica Energy
Richard	Clay	Ofgem
Mike	Collins	Capula Ltd.
Sheila	Connell	Allen & Overy LLP
Graeme	Cooper	Fred Olsen Renewables
Anthony	Cotton	Dong Energy
Bryan	Dakers	Siemens Transmission and Distribution Ltd
Lewis	Dale	National Grid
Michael	Doble	Vinson & Elkins RLLP
Colin	Down	Ofgem
Richard	Fawssett	Ofgem
Duarte	Figueira	BERR
David	Flood	SLP Energy
John	Greasley	National Grid
Neil	Griffiths-Lambeth	Moody Investors Service Limited
Clotilde	Gros	Gavin Anderson & Company
Guy	Hacking	Climate Change Capital
Juliet	Haldane	Shepherd and Wedderburn LLP
Jerrald	Hauber	RWEpower
Paul	Hawker	BERR
John	Hill	Airtricity
Tim	Hobday	Offshore Design Engineering Ltd
Simon	Hobday	Pinsent Masons
Mark	Holden	BERR
Giles	Holford	BERR
Robert	Hull	Ofgem
Fiona	Irwin	Garrad Hassan & Partners Ltd
Laura	Jeffer	Centrica Energy
Ben	Johnstone	Balfour Beatty Capital
Ian	Jones	BP Alternative Energy
David	Jones	Elexon Limited
Allan	Kelly	Scottish Power Limited
Clare	King	Lovells LLP
Sundeep	Klair	Energy Networks Association

Merel Van der Neut	Kolfschoten	Centrica Energy
Adam	Langridge	Hammonds LLP
Rachel	Lockley	British Energy
Robert	Longden	Airtricity
Dominic	Maclaine	Platts Power UK
Peter	Madigan	BWEA
Samantha	McEwen	Ofgem
Grant	Mckay	ABB
Jon	Mears	Oceanteam
James	Mitchell	Morgan Stanley
Bridget	Morgan	Ofgem
Natasha	Morris	Hastings Funds Management
Yvonne	Naughton	Ofgem
Fiona	Navesey	Centrica Energy
John	Overton	BERR
Mark	Petterson	Warwick Energy
Guy	Phillips	E.ON UK PLC
Anthony	Prince	The Bank of Tokyo-Mitsubishi UFJ, Ltd
Dafydd	Rickard	Cardiff Power
Charles	Robson	Lovells LLP
Peter	Roper	ScottishPower EnergyNetworks
Charles	Ruffell	RWEnpower
Alison	Russell	Centrica Energy
Cameron	Smith	Mainstream Renewable Power
Dominic	Smith	Ofgem
Lars	Stendus	Imera Limited
Keith	Stuart	Consultant to Ofgem
Andy	Sutherland	Black & Veatch Ltd, MEIEA Region
Ian	Taylor	Goodenergies (UK) LLP
David	Tee	Health & Safety Executive
Chris	Veal	Babcock & Brown Limited
Judith	Ward	UK Business Council for Sustainable Energy
Roman	Webber	Deloitte & Touche LLP
Jocelyn	Wessling	Sinclair Knight Merz
Simon	West	RBC Capital Markets
Jake	Wood	Ofgem
Gus	Wood	Wragge & Co LLP
Charles	Yates	Grant Thornton UK LLP
David	Young	Ofgem