

dti



Offshore Electricity Transmission

Development of the new offshore transmission regime

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SoS's Energy Act Powers enable him to create offshore transmission licences



- 2003 Energy White Paper set out 2010 target – offshore wind to play a significant part in achieving that goal
- The Energy Act 2004 gave Secretary of State power to regulate offshore grid connections.
- Offshore Transmission is defined as 132 kV and above.

Joint DTI / Ofgem consultation document - launched in July 2005



- Set out high-level regulatory options
 - Price-control regulation with or without capping or cross-subsidy
 - Licensed merchant approach

- Consultation closed October 2005

31 responses received. Majority favoured regulated approach

<http://www.dti.gov.uk/energy/sources/renewables/whats-new/page25958.html>

Government Announcement 30 March 2006

SoS decided that... 'the extension of the current onshore regime offshore is the correct approach to take for the licensing of offshore electricity transmission'

This approach:

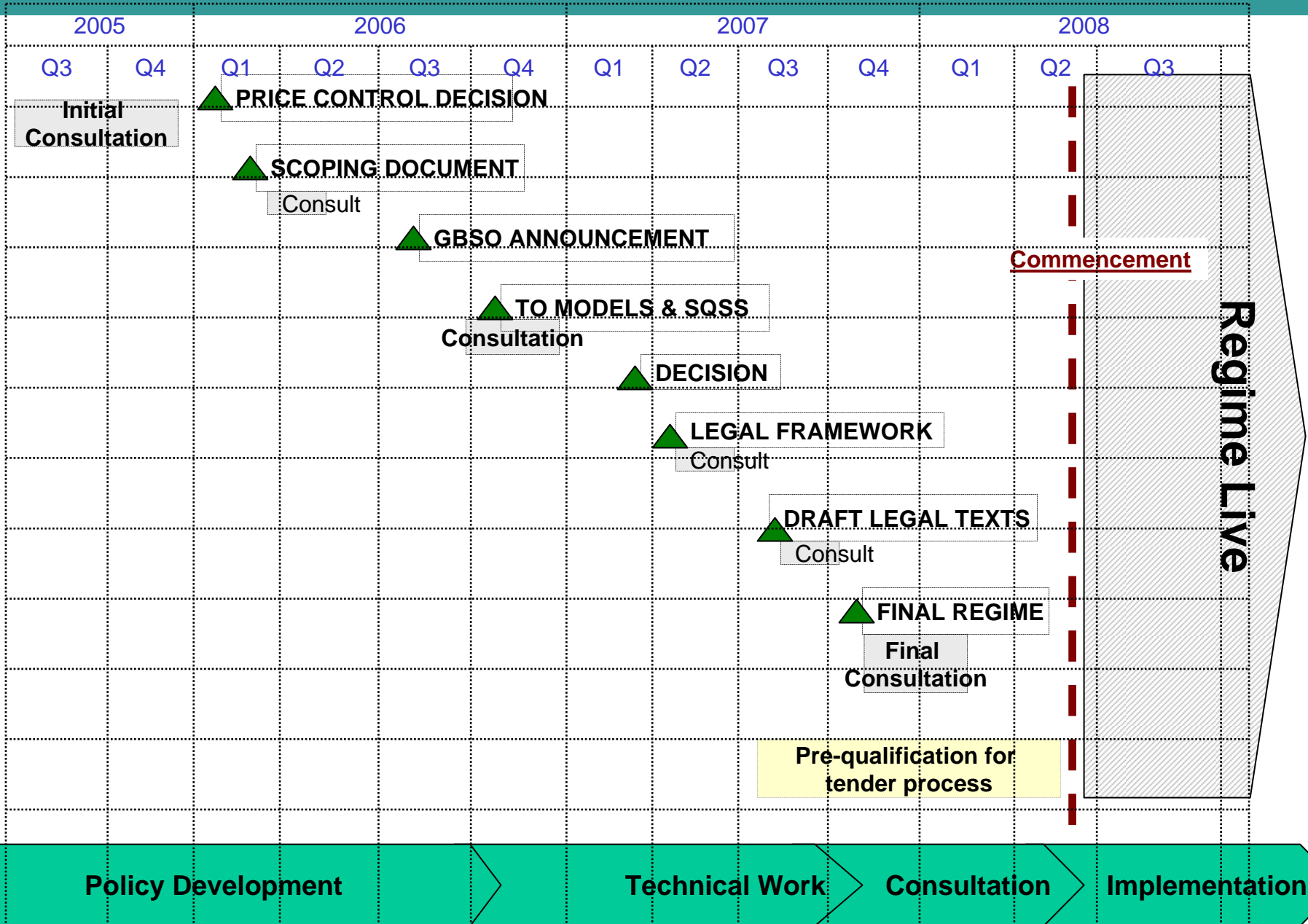
- Ensures consistency with onshore arrangements
- Provides extra financial assistance to offshore wind developers as costs of grid connection spread over number of years
- Responsibility for building and operating offshore connections shared with System Operator and licensed TOs

<http://www.dti.gov.uk/files/file27137.pdf>



Project Structure

- DTI and Ofgem project to implement offshore regime
- Areas to be considered
 - Geographic scope of offshore transmission licences
 - Allocation of offshore transmission licences
 - Technical rules for offshore networks
 - Design of offshore price controls
 - Modifications to licences and codes



Regime Live

Policy Development

Technical Work

Consultation

Implementation

OTEG Established

- Expert's group established to advise DTI / Ofgem on issues arising from establishment of new regime;
- 5 meetings held – every third meeting open;
- Sub- groups set up advise on specific issues;

Project Objectives

- Delivering 2010 target (speed)
- Delivering 2020 aspiration (capacity)
- Enduring Regime
- Reliability and Security of Supply
- Consistency with onshore regime
- Minimises environmental impact
- Compliance with EU and domestic legislation
- Timeliness - providing certainty to industry
- Consumer protection and prices
- Meets Better Regulation principles (complexity)
- Increases competition
- Increases innovation

3 Key Pillars of new regime

- Appointing GBSO
- Establishing the TO licensing model that will apply offshore
- Determining the Security and Quality of Supply Standard (SQSS) that will apply offshore

GBSO Appointment

- DTI “Minded TO” Statement issued in May
- National Grid confirmed as Offshore System Operator (Designate) in August.
- Relevant provision of Energy Act 2004 will be commenced at the appropriate time.
- NG’s role as GBSO extended to Territorial Waters and Renewable Energy Zone (REZ)

SQSS

- Sub-group of OTEG considered changes for offshore
- Cost-benefit analysis undertaken to determine optimum security standard solution
- Recommendations consider:
 - Offshore Platform (i.e. transformers/HVDC converters)
 - Offshore cable network (I.e number and capacity of cables)
 - Single and multiple windfarm connections considered

SQSS

- Recommendations
 - Single windfarms – platform and cable capacity should be, at least, equal to export capacity of the windfarm
 - Multiple windfarms – platform and cable capacity should be, at least, equal to 90% of total export capacity of the windfarms
 - Windfarms > 120MW, post outage of platform transformer, sufficient capacity should remain to export 50% of installed platform transformer capacity
 - For HVDC, post outage of DC converter, loss of power infeed should not exceed 1000MW

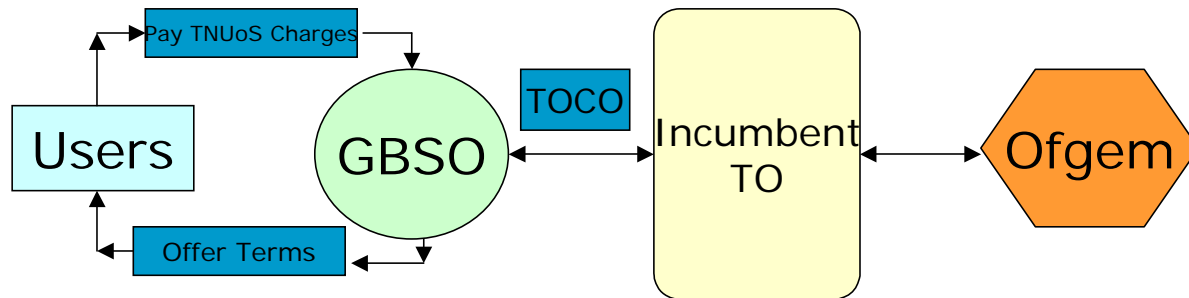
Options for TO licensing model

1. Extension of Onshore Licences to adjacent Offshore areas
2. Single Offshore Zone (competitive tender)
3. 3 – 5 Offshore Zones (competitive tender)
4. 3-5 Bundles of Lines (competitive tender)
5. Distribution Model (applications)
6. Point to Point (applications)

Exclusive licenses

- Single TO with responsibility for a defined geographic area
- Areas could be divided up in a number of ways
- Competitive tender approach to awarding monopoly zones

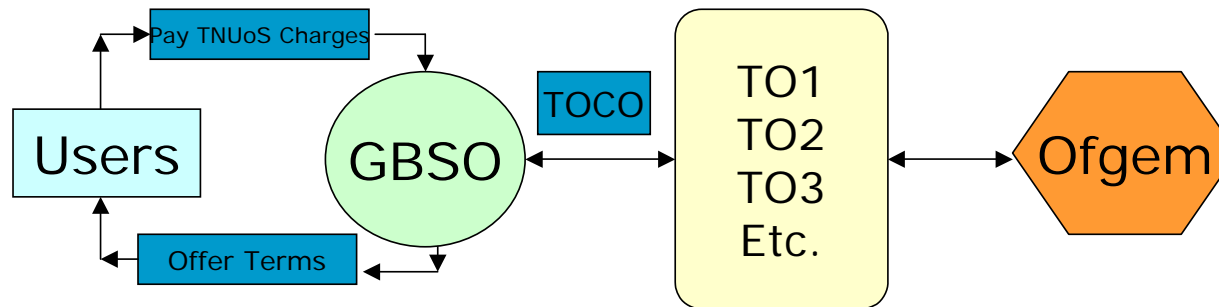
Conceptually – exclusive licences



Non-exclusive licences

- TOs licenses issued to any party which applies and meets the application criteria
- After connection application from generator – all offshore TOs have the right bid to connect
- TOs bid revenue stream
- Winning TO gets price control and has assets absorbed into its RAB

Conceptually – non-exclusive licences



Adoption – developer's main concerns

- Will offshore transmission assets be adoptable
- If so, will all costs incurred be recovered
- What level of charges will generators be exposed to?
- What will happen if the assets are not adopted by a TO?