



**Scottish and Southern
Energy**

The allocation of offshore transmission licences

OTEG Open Meeting
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What does the prospective TO need to offer the developer?

Certainty of a low cost, timely, stable connection

- Efficient design: existing and future generators
 - Planning and construction expertise
- Ongoing security of service
 - Operation and maintenance expertise
- Access to finance
 - Cost of capital



Why consider financing?

- Under the standard RPI-X form of price control, allowed revenues include:
 - Efficient operating expenditure
 - Depreciation
 - Return on the regulatory asset value

Cost of capital is an importance component of allowed revenue; hence, charges



Considering the allocation of licences

- When considering prospective licensees:
 - Experience in planning and construction
 - Experience in operation and maintenance
 - Access to finance
- All factors regardless of geographic scope of licence
- Decision on geographic scope will provide certainty:
 - Timing
 - Governance



Geographic scope: Certainty in timing

- **Point-to-point or regional zones:**
 - Allocation process pre-defined, but...
 - Triggered by application by developer
 - Possibly no applicants (supplier of last resort, “cherry-picking”)
 - Progress delayed until licence allocated
- **Extension:**
 - New licence obligation to offer terms through GBSO for connection (as onshore)
 - Efficient development of network already required by licence – integrated development of onshore and offshore system
 - Requirement to consider future development



Geographic scope: Governance

- **Point-to-point or regional zones:**
 - Pre-define governance procedures, but...
 - Possible need for code modifications
 - Progress delayed until codes modified and agreed
- **Extension:**
 - Existing codes can be modified in advance
 - Compliance with governing codes already required by licence



But what about competition?

- Competition for what?
- The licences...
 - Clear need for competition for point-to-point licences
 - But, licences for zone or extension of onshore licences? What would be the criteria?
- The assets...
 - Competitive tender already exists
 - Ofgem's efficiency test at price control



Certainty of a low cost, timely, stable connection

- Extension of the onshore licensed area:
 - Certainty to the developer
 - Simple, “quick” connections
 - Clear governance arrangements
 - Existing regulatory framework
 - Integrated development of the transmission system

- Unclear what is the meaning of competition
 - Competitive tendering and price control regulation ensure low cost capital solutions
 - By what criteria would licences be allocated?
 - And what would be the benefits?