

Developers' adoption paper – update

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Contents

- Introduction
- Our approach
- Summary of developers' concerns
- Way forward

Introduction

- Raised as an issue to be considered during policy development
- Paper developed to contribute to OTEG and policy development process
- Concerns about transmission uncertainty in financing offshore projects under price controls
- This issue needs to be assessed against the proposed price control approach

Our approach (1)

- Ofgem's primary objective is to protect the interests of consumers, wherever appropriate by promoting effective competition
- In discharging this objective Ofgem has developed a broad approach to the regulation of electricity transmission that involves encouraging:
 - efficient operation;
 - Investment; and
 - innovation
- Investment in networks is primarily responsive to Users' needs

Our approach (2)

Seek to make allowances for costs incurred provided the following conditions are satisfied:

- the costs were properly incurred and necessary for purpose;
- the level of costs was no more than an efficient level of costs; and
- at the time the investment is made reasonable forecasts show that there would be sufficient demand for the use of the transmission cables to justify the investment.

Our approach (3)

Consistency and precedent:

- Companies are prepared to make investments under this regime onshore
- Proven to work
- Majority of issues raised would be a significant paradigm shift from our current approach
- It is a question as whether departing from our approach could be viewed as undue discrimination

Developers' main areas of uncertainty

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

Summary of developers' requests (1)

1. Legally binding comfort that early developers can choose to be exempt from a transmission licence
2. Or, legally binding comfort on policy issues, including:
 - SQSS;
 - Grid codes; and
 - Design life.

Summary of developer's requests (2)

Alternatively:

1. Ofgem to make economic and technical assessment of designs and costs in advance of actual investment taking place
2. Transferring statutory consents to subsequently appointed TO (DTI / DEFRA)
3. Clarification of legal position if no 3rd party comes forward
4. Legally binding comfort from Ofgem that connection and use of system charges paid under enduring regime would be no more than equivalent costs under existing regime

Way forward

- Autumn consultation document will outline and respond to the issues that were raised in the paper

A large, central version of the ofgem logo is positioned in the middle of the slide. It features the word "ofgem" in white lowercase letters on a red rounded rectangular background. The background of the slide is a light blue gradient with a faint image of an electrical plug and a meter on the left side.

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