OTEG Meeting 5 (Second Open Meeting)
29th September 10.30-14.00, DTI Conference Centre
Note of Meeting

This note has been taken by DTI/Ofgem to capture some of the key points made and to inform further debate. Presentations from the meeting are available on the DTI website http://www.dti.gov.uk/energy/sources/renewables/policy/offshore-transmission/offshore-transmission-experts-group/page28711.html Therefore, this note will not repeat their content but concentrate instead on the questions raised and subsequent discussion. It is not our intention to clear the note with participants but it will be made available for their use in future work. The views expressed in this note are not necessarily the views of DTI or Ofgem.

Welcome and introductions

1. The Chairs welcomed and thanked all for attending the second open OTEG meeting. The aims of the day were to:

    - To provide an update on the issues that OTEG is considering, primarily the SQSS work and the upcoming consultation document which will set out the preferred regulatory model(s).

Report back from work streams / issues

SQSS sub-group

2. **Edgar Goddard** presented the main findings and recommendations of the sub-group's report.

3. During the discussion, the following points were raised:

- The criteria for the clarification of the diversity of wind farms is required i.e. is a wind farm built in phases classed as one or two wind farms? How will a wind farm with a wide geographic spread be classified in terms of transmission assets?
- The SQSS work considered both high and low diversity scenarios but focused on the collection and transmission of power to on shore rather than the how it was generated.
- The SQSS sets the minimum standard for offshore transmission.
- The methodology used to develop the SQSS will be made available.
- There were no firm recommendations as to if or how regularly the SQSS will be reviewed.
- The boundary point is at the bus bar side of the low voltage connection.
- Where there are multiple local platforms connected to a master platform, these inter-platform connections will be classed as offshore transmission if the voltage between them is 132kv or higher.
- There are 3 different options for the location of the offshore TO boundary with option 3 being the sub-group's recommendation. Will the other options be available to enable customer choice?
- If there are a number of wind farms close together connected via a single transmission link, is there a risk that if the wind farms are generating at a high capacity, the transmission link will have insufficient capacity to carry the power? The figure of 90% capacity of the wind farm is the minimum standard required but this transmission capacity can be increased to 120% if necessary. However, the cost-benefit analysis shows that a 90% capacity is still relevant.

Price Control sub-group

4. **Colin Taylor** presented the group's findings which focused on the high-level principals of a price control and the issues that needed to be addressed in its development.

5. The following points were raised:

- There is more work to be done once the decision on the regulatory option has been made.
- Onshore the TO has an obligation to connect a generator and is then subject to a price control. Offshore, no one has an obligation to connect and this must be reflected in the offshore regime as there is a need to encourage offshore TOs. The risk / reward ratio must be correct if this is to happen.

Offshore Transmission connecting to DNOs

6. **John Greasley** presented the work covering issues that had been raised by the SQSS sub-group.
7. The paper concerns offshore transmission networks that may connect to onshore transmission networks via DNO networks. Under these circumstances, the DNO networks will distribute power from offshore TO networks to customers, or if the injection of power from the offshore network is greater than the demand in the DNO network, the DNO network will be transited by transmission power flows.
8. The paper raises a number of issues surrounding how these proposed arrangements introduce a new interface that has to be managed contractually and operationally, namely that between the offshore TO and the onshore DNO. The role of the GBSO and how it interfaces with the offshore TO and the DNO also needs to be considered.
9. The following points were raised:

- How are offshore generators classed as small, medium or large?
- It was questioned whether a 132kv transmission exemption would be viable but it was noted that the regulatory regime needed to provide consistency between offshore and onshore. This is to avoid perverse incentives and use the existing framework.
- Which charging regime would apply offshore?
- If the connection to the DNO is from a small offshore wind farm then the offshore TO can be missed out entirely.

Consultation update

10. **Ofgem** gave an update on progress in terms of the consultation process including a discussion of each of the main the options for consultation being considered by DTI / Ofgem.
11. It was explained in the non-exclusive licence approach that a TO would bid a revenue stream and this would be a lighter form of regulation. There was a concern that asymmetric information would be a problem for the TO in making its bid and this would represent a great deal of uncertainty and may therefore take a long time to formulate the bids.
12. During the discussion the following points were raised:

- Details of how extra capacity or further investment would be incorporated into this option was also queried, but it was stated that flexibility was built into this option.

- Are licences issued for the life-time of the project?
- Competition is key to ensuring that the value of the assets that become part of the price-control is correct i.e. economic and efficient.
- There is no obligation on a TO to bid to connect projects offshore.
- From a TO's perspective the information available when any competition or auction for TO licences takes place is key. For example, it may be expensive to bid for the right to build transmission assets if each TO has to undertake a seabed survey. One option may be for a single seabed survey to be undertaken and made available to all potential bidders. The process should involve the generators as there will be continual refinement of the connection assets required. This should be built into the process.
- As a result of winning an auction will TOs be under any obligation to connect other assets in the future? How future assets would be connected i.e. through follow-on investment or another auction has yet to be agreed. However, if possible the regime would be flexible enough to allow, for example, the laying of an extra cable at marginal cost if further generation assets are expected in the vicinity at some time in the future.
- Before TOs are asked to bid for any assets, the regime needs to be finalised and clarity on obligations and other issues is required.
- There was a concern that TOs would be unwilling to spend large sums bidding for the right to build assets if there was no guarantee that they would win the auction.
- The issue of 'a TO of last resort' if no TO wanted to build particular transmission assets was raised. Special administration licences could be used or a developer could bid and be a TO for its own assets.

Adoption issues

13. **Ofgem** gave a presentation on the issue of adoption was to be taken forward in light of the new regime. This included details of how the process works onshore.

14. During the discussion the following points were made:

- Ofgem were aware of the concerns that a number of developers with early projects have with regards to adoption.
- Developers were concerned existing networks would not be adopted if they did not meet the SQSS. It was explained that the current SQSS findings were a default minimum standard based on a rigorous cost-benefit analysis. Departure from the SQSS was not a problem in itself and that non-compliance could be backed off with private commercial agreements.
- It was questioned what would happen if a developer had already built transmission assets before the regime came into power and no TO came forward to adopt them under the non-exclusive licence approach. It was stated that the option for the new regime had not yet been finalised and that the detail of the options had not yet been fully worked through. However, it was envisaged that there would be an auction for existing assets under the non-exclusive licence approach.
- Developers also wanted to know whether adoption would be addressed in the consultation document. It was noted that exemptions had been requested, but it was explained that the SQSS proposals would aid design and proposed changes in the Renewables Obligation would improve the economics of offshore wind. DTI reiterated their commitment to offshore wind.
- DTI and Ofgem are trying to give developers as much certainty as soon as possible and the SQSS will help with this.
- The consultation document will contain a 'straw man', which will show how the proposed regime will work and will include adoption issues.

7) Any other business

- The timetable for the implementation of the regulatory regime was outlined. There will be a 6-week consultation on the regulatory options in the autumn. A decision on the regulatory option will be made early in the New Year. Further work streams will be taken forward following this. Further statutory consultations will take place in 2007 with the final regime in place by 2008.

8) Date of next meeting

- It was noted that the date of the next open OTEG meeting will be January 2007 at DTI. Date to be confirmed.

DTI / Ofgem Open OTEG Meeting - 29 September 2006

Attendees

Kristian	Armstrong	DTI
John	Overton	DTI
Suzanne	Coe	DTI
Richard	Daniels	DTI
Bob	Hull	Ofgem
Giles	Stevens	Ofgem
Graham	Knowles	Ofgem
Karron	Baker	Ofgem
Konrad	Keyserlinkg	Ofgem
Neil	Birch	Npower renewables
Chris	Seaman	Eon UK
Lewis	Dale	NGT
John	Greasley	NGT
Peter	Jones	BEAMA Power Ltd
Danielle	Lane	Centrica
Aileen	McLeod	Scottish & Southern
Dragana	Popovic	Energy Networks Association
Colin	Taylor	Scottish Power
Robert	Longden	Airtricity
Edgar	Goddard	NGT (SQSS sub-group)
Goran	Strbac	SEDG (SQSS sub-group)
Ben	Barton	The Crown Estate
Andrew	Coker	Scira Offshore Energy Ltd
Tony	Cotton	Eclipse Energy
Richard	Cooke	Areva
Charles	Davies	Ex-NGT
Mark	Duffield	NGT
Gordon	Edge	BWEA
Bill	Grainger	Amec Wind Energy
Chris	Hill	
Steve	Ingram	TNEI Services
Mike	Kay	United Utilities
Merel	van der Neut Kolfschoten	Centrica
Graham	Mason	Fluor
Mark	Pettersen	Warwick Energy
John	Pickett	Linklaters
David	Porter	Kema Consulting
Bilal	Rana	Linklaters
Svend	Richmann Jensen	Energi E2
Isabelle	Scott-Skinner	Elexon
Graeme	Vincent	CE Electric
Jenny	Woodruff	Central Networks