

# Offshore Transmission

Issue Three  
July 2013

## In this issue...

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Sheringham Shoal licence grant completed

OFTO assets demonstrate high levels of performance

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Strong competition seen in West of Duddon Sands tender



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## Introduction

The past year has seen significant progress for the Offshore Transmission regime with licences granted for a further three transitional round one projects: Ormonde, Walney 2 and Sheringham Shoal. As a result, licences have now been granted for seven out of the nine projects in the first transitional tender round, attracting around £660m of new investment into the UK transmission sector. We recognise the enormous amount of work put into these transactions by developers, bidders, lenders, advisors and a range of third parties. In Transitional Round Two we also appointed preferred bidders for two projects; Lincs and London Array.

With help from our stakeholders significant progress has also been made on policy development. Over the last year the focus of our consultations was on realising the potential savings from the coordination of offshore and onshore electricity networks, as well as policy and licence developments related to the enduring tender regime. As our policy work continues during 2013 we value your continued input.

December saw an opportunity for new investors to compete to invest in the offshore regime, with the launch of the tender process for West of Duddon Sands. In June the shortlist of bidders was announced with one new entrant, indicating healthy competition in the offshore transmission sector. We also continue to develop our thinking on the OFTO build model through discussions with developers and other interested stakeholders.

Later in 2013 we are preparing for the first tenders to come forward from the future project pipeline, with Tender Round Three expected to launch towards the end of the year. At the same time the team will be busy with the remaining transitional tenders as they move towards financial close and licence grant.

## Recent achievements and next steps for the OFTO regime

We continue to work to ensure that the remaining transitional tenders reach financial close and licence grant. The OFTO licence for Walney 2 was awarded to Blue Transmission in September 2012 and they too have just been awarded the licence for Sheringham Shoal. This is the third Blue Transmission OFTO and the first involving Scira Offshore Energy Ltd as the wind farm developer.

Investment in the current tender round has already reached around £660m. With the Thanet, Greater Gabbard, Lincs and London Array projects all expected to reach financial close and licence grant during 2013, it points to further investment in offshore transmission assets in excess of £1bn.

In Transitional Tender Round Two the Gwynt y Mor project is at the Invitation to Tender stage and a preferred bidder was selected for the London Array (phase 1) project in September 2012. We have also just announced the shortlist of bidders for the West of Duddon Sands project. They are Balfour Beatty Equitix Consortium, Blue Transmission, John Laing Investments Ltd and Transmission Capital Partners. We expect to be able to announce details of the preferred bidder for the project in Spring 2014.

Looking forward, we expect to launch Tender Round Three later this year. In terms of future tenders we also remain keen to engage developers and other interested parties on how the OFTO build model could work for upcoming projects.



## OFTO availability performance

Through the licence, OFTOs are incentivised to ensure that they maintain the availability of the offshore transmission assets that they own and operate. They also engage in significant levels of due diligence prior to taking over the assets. This ensures that offshore wind farms are able to transmit the electricity they generate to the National Grid, with minimal disruption.

OFTO availability performance refers to the length of time assets have been available. Whilst the operating level for all OFTOs is set at 98%, the aggregate availability across all OFTOs to date is 99.4%. With a total of 2,900 days of operational performance to date, this equates to a total of only 14 days downtime across all current OFTO projects. The existing seasonal weighting also means that in general planned outages will be taken at the time of limited impact on generation output.

Details of individual OFTO performance from April 2012 to March 2013 will be published in the National Electricity Transmission System Performance Report, which National Grid plan to publish in October 2013. This report will include the performance of all currently connected offshore networks.

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## Energy Bill provides clarity to offshore generators

As the Offshore regime has progressed developers have raised the status of commissioning activities on the transmission assets, prior to transfer to an OFTO, as an issue. We have been working with the Department of Energy and Climate Change (DECC) for some time to resolve this.

The Energy Bill 2013 includes an amendment to the Electricity Act 1989 in the form of the Generator Commissioning Clause.

This change will ensure that offshore generators who choose the generator build model (under the enduring regime) can convey electricity during these commissioning activities, before transfer to an OFTO.

The Energy Bill is currently before parliament and, subject to the outcome of the parliamentary process, we anticipate the change coming into force in 2014. We have already begun to prepare for this and will soon consult with stakeholders on industry code and licence modifications that will be required as a result of the change.

For further details of the Energy Bill please see DECC's website.



## Key Offshore Transmission regime contacts

We are always interested to hear from our stakeholders and encourage you to contact us at any point if you wish to discuss any element of the regime.

The Offshore Transmission Programme has two Associate Directors, Steve Beel and Min Zhu, who would be pleased to hear from you. Steve's focus is on tenders and transactions and enduring regime tender policy, whilst Min's focus is on the coordination of offshore and onshore networks and the cost assessment and licensing processes.

To contact Steve or Min simply email [offshore@ofgem.gov.uk](mailto:offshore@ofgem.gov.uk).

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## Offshore Transmission: An Investor Perspective

If you are interested in finding out about how the Offshore Transmission Regime operates, and the potential investment benefits, we would encourage you to read the recent report by KPMG.

'Offshore Transmission: An Investor Perspective' was commissioned by us to provide anyone wanting to invest in the regime with a single document that clearly explains all you need to know about the OFTO asset class.

The report can be found on our website at [www.ofgem.gov.uk/offshore](http://www.ofgem.gov.uk/offshore).

## Certification for unbundling

Certification refers to transmission system operators being certified by the Gas and Electricity Markets Authority (the Authority) as compliant with the 'ownership unbundling' requirements of the European Union's (EU) Third Package. Ownership unbundling is the separation of gas and electricity transmission (ownership and operation) from generation, production and supply.

In Great Britain (GB) the Third Package legislation has been implemented through the Electricity and Gas (Internal Markets) Regulations 2011 ('the GB Regulations').

Ofgem has the responsibility for administering the certification process for current and future GB electricity transmission, gas transportation and electricity and gas interconnector licensees.

As a result all Offshore Transmission Owners (OFTOs) have to be certified as complying with the ownership unbundling requirements of the Third Package. We recently certified the OFTOs for the Lincs, Walney 1, Walney 2, Sheringham Shoal, London Array and Thanet projects.

Shareholders for these OFTOs are: International Public Partnerships Limited and Amber Infrastructure Group Holdings Limited Transmission (Lincs), Barclays Integrated Infrastructure Fund and Mitsubishi Corporation (Walney 1, Walney 2, Sheringham Shoal and London Array) and Balfour Beatty Plc (Thanet).

Copies of the decisions are available to view on the European Commission's website ([http://ec.europa.eu/energy/gas\\_electricity/interpretative\\_notes/certification\\_en.htm](http://ec.europa.eu/energy/gas_electricity/interpretative_notes/certification_en.htm)) and Ofgem's website ([www.ofgem.gov.uk/offshore](http://www.ofgem.gov.uk/offshore)).

## Recent policy developments

Throughout 2012 and into early 2013 we have consulted on the potential for the coordination of offshore electricity networks. During the same period we have also made significant progress on how the tender process will work for future projects.

### Framework to support coordinated network development

Looking ahead, offshore wind projects will become larger, more complex and at a greater distance from shore than those developed to date. As a result, there is likely to be the potential for efficiencies from greater coordination in the development of transmission infrastructure.

In December 2012, we consulted on a proposed framework to enable the coordination of offshore transmission. The consultation included three categories of investment, relating to the development and construction of coordinated offshore transmission assets. Such investments might relate to assets which are oversized to cater for specific project developments or include assets expected to provide wider network benefit. We received a good level of response to the consultation and the responses are now available to view on our website.

We will shortly be publishing a policy statement in which we set out our view of the way forward and next steps.

We welcome your views on coordinated networks so please email [offshore.coordination@ofgem.gov.uk](mailto:offshore.coordination@ofgem.gov.uk)

### Future tender exercises under the enduring regime

In May 2012 we consulted on updated proposals for the enduring regime, followed in December 2012 by a consultation on our policy proposals for updating the offshore transmission licence for generator build projects qualifying from 2013 onwards.

Following stakeholder feedback to these consultations we will shortly be publishing a policy statement on the generator build option for future tender exercises under the enduring regime.

This will summarise the key policy positions that we have reached relating to generator build including confirmed positions relating to the Offshore Transmission Owner (OFTO) licence for generator build. It will also provide an overview of the regulatory regime and the tender process in advance of commencing the first tender round under the enduring regime, Tender Round Three (TR3), later in 2013.

We also continue to develop our thinking on the OFTO build option, through continued engagement with project developers and other interested parties. We encourage any stakeholders interested in OFTO build to engage with us as we review the detail of how OFTO build could work for future projects. We would also like to thank those who have engaged actively with us on OFTO build to date. To contact us please email [offshore.enduring@ofgem.gov.uk](mailto:offshore.enduring@ofgem.gov.uk).



## Transitional Rounds 1 and 2 (TR1 and TR2) Progress Update

Project name	Transfer value	Annual revenue	Bid status
Robin Rigg East and West	£65.5m	£6.5m	Licence granted (2 March 2011)
Gunfleet Sands 1 & 2	£49.5m	£6m	Licence granted (19 July 2011)
Barrow	£33.6m	£4.8m	Licence granted (27 September 2011)
Walney 1	£105.4m	£11m	Licence granted (21 October 2011)
Ormonde	£103.9m	£10.6m	Licence granted (10 July 2012)
Walney 2	£109.8m	£11.8m	Licence granted (26 September 2012)
Sheringham Shoal	£193.1m	£17.9m	Licence granted (27 June 2013)
Thanet	£163.1m*	n/a	Preferred Bidder appointed
Greater Gabbard	£316.6m*	n/a	Preferred Bidder appointed
Lincs	£281.6m*	n/a	Preferred Bidder appointed
London Array	£428.4m*	n/a	Preferred Bidder appointed
Gwynt y Môr	£346m*	n/a	Invitation to Tender stage
West of Duddon Sands	£311m*	n/a	Qualification to Tender stage completed

\* Estimated transfer value





## Project milestones:

**14 December 2012** – Tender for the £311m West of Duddon Sands wind farm transmission link commences with the launch of the Pre-Qualification stage

**01 March 2013** - Certification decision for Blue Transmission Walney 1 OFTO Limited and Transmission Capital Lincs OFTO Limited

**22 May 2013** – Certification decision for Thanet OFTO Limited

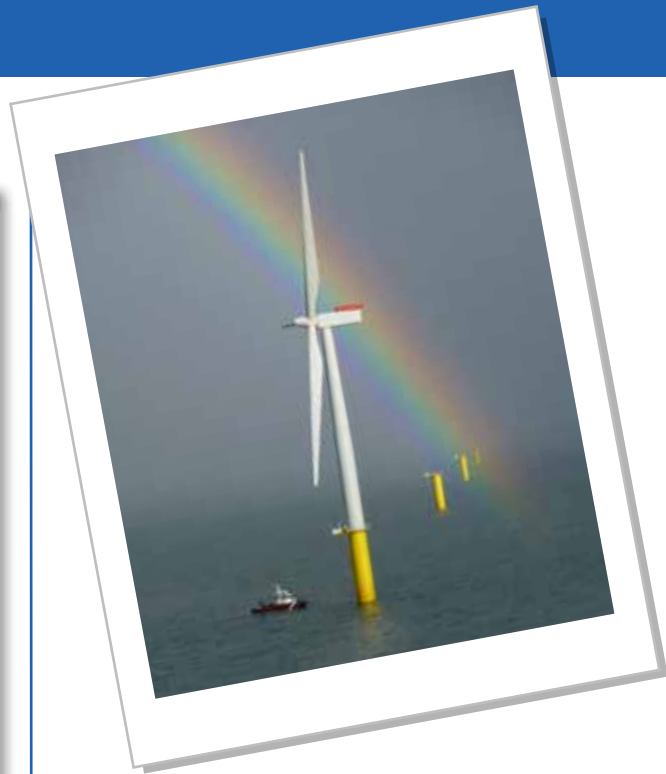
**25 June 2013** – West of Duddon Sands tender: shortlist of bidders announced

**27 June 2013** – OFTO licence granted to Blue Transmission Sheringham Shoal Limited

## Milestones for offshore wind farms

The OFTO regime forms part of a wider programme of offshore wind farm development in Great Britain. As such, it is important to recognise the wider milestones being reached by the offshore wind industry. In recent months construction at the Lincs, London Array and Gwynt y Môr projects have all made excellent progress and provide a clear signal that there continues to be ongoing investment in offshore wind farms.

In September 2012, following a competitive tender process run by Ofgem, Blue Transmission were appointed as the preferred bidder to own and operate the high voltage transmission link for the London Array wind farm. Since then the final turbine has been installed and as of 6 April 2013 the London Array wind farm has been fully operational, making it the largest operational wind farm in the world.



## Elsewhere in GB Transmission

There are a number of other policy developments that Ofgem is currently looking into which we would like to bring to your attention, due to their relevance to offshore transmission.

### Interconnector regime

In March Ofgem's interconnector team published proposals for a new regulatory regime (the cap and floor regime) for electricity interconnector investment. The regime will initially be applied on the NEMO project (the proposed interconnector between GB and Belgium).

A summary of responses will be published on our website shortly, with a decision document due by the end of 2013. This will outline the final regime design and the methodology for setting the cap and floor on returns for the NEMO project.

### Integrated Transmission Planning and Regulation project (ITPR) update

Ofgem's ITPR project is currently undertaking a proactive review of network arrangements for future electricity transmission.

A series of stakeholder workshops have been held since December 2012 and on 5 June 2013 a consultation was published outlining analysis of the issues and emerging thinking on potential options to address them. This consultation closes on 2 August 2013.

To find out more about the ITPR project please visit our website or email [ITPRMailbox@ofgem.gov.uk](mailto:ITPRMailbox@ofgem.gov.uk)