

GB Offshore Transmission Operator (Designate),
National Grid Electricity Transmission plc
National Grid House
Warwick Technology Park
Gallows Hill
Warwick, CV34 6DA

Your Ref: Industry Workshop on 3rd December 2007

7th February 2008

Dear Sir or Madam,

**Response to Questions Arising from: Offshore Electricity Transmission Access
and Compensation Industry Workshop on 3rd December 2007**

Please find attached Warwick Energy Limited's (WEL's) written comments in response to the above Questions as circulated by National Grid following the Industry Workshop on 3rd December 2007.

WEL supports the principle of extending the Onshore Charging Methodology to Offshore Networks. There are a number of comments on the questions raised which are described in the attached document.

WEL believes that appropriate charging, compensation and access arrangements for Offshore Transmission Networks are essential to the success of the Governments proposals. It seems likely that with the proposed 20 year License Period without Regulatory Review the initial charging mechanism will be critical. The final arrangements are likely to underpin charges for the duration of the License and must therefore be attractive to potential OFTOs while balancing risks and rewards between OFTOs, Generators and wider (Onshore) Users. For this reason WEL supports the consultation process being undertaken by National Grid on charging issues.

I trust the comments on the informal consultation questions are clear however please do not hesitate to get in touch if you require any clarification on any of the points made.

Yours sincerely,

Mark Petterson
Director
Warwick Energy Limited

Warwick Energy Limited

Comments on Questions arising from Industry Workshop on Offshore Electricity Transmission Access and Compensation on 3rd December 2008

Scope

This document summarises Warwick Energy Limited's (WEL's) initial comments in response to questions circulated by National Grid arising from the industry workshop on "Offshore Electricity Transmission Access and Compensation" on 3rd December 2008.

The present response should be considered along with comments already submitted by WEL in response to the National Grid's Charging proposals as set out in Section 5 of GB ECM-08.

Detailed Comments

Access

Question: Do you agree that the principles applied to customer request design variations (as represented in the current arrangements or in the CUSC amendment CAP149) should extend to offshore connections which, whilst compliant with the offshore standards in the SQSS, do not have the same levels of circuit redundancy as compliant onshore connections?

WEL Response: WEL agrees with the basic principle that customer design request variations should be treated in the same way for both Onshore and Offshore Networks.

The GB SQSS standard for offshore networks has been determined by economic appraisal – in much the same way that the Onshore standards were originally derived. The fact that there is a difference in security standard is a reflection of the difference in equipment costs for Onshore (largely overhead line) and Offshore (mainly submarine cable) networks. WEL therefore believes that the principle should be that the GB SQSS for the network being considered is used as a benchmark in determining treatment of design variations; i.e. Onshore GB SQSS for Onshore networks and Offshore GB SQSS for Offshore networks.

There may also be an issue with the definition of "customer choice", which needs further consideration. In practice for a large number of Offshore projects a single offshore cable connection is unlikely to be acceptable or indeed correspond to a minimum cost scheme. As such it is likely that OFTOs will install networks which, in part at least, are more secure than the minimum standard. At this point the design is in effect not a "customer choice" in the intended sense of the phrase for Onshore connections. This issue may warrant further consideration.

Question: Currently, if a restricted capacity had to be shared between parties, entitlements would be set by pro-rating the different parties' capacities. Are more sophisticated arrangements required at this stage for offshore networks or is sufficient flexibility delivered through pro-rating and short term access products?

WEL Response: It is difficult to see an immediate alternative to pro-rating of capacity. However it is not clear that this would be equitable particularly in view of the difficulties inherent in splitting reactive compensation requirements between Users. WEL notes that the reactive capabilities of the machines installed by different Users within the same OFTO network may vary. A further issue that needs to be considered is any constraints which

might arise due to outages on reactive compensation equipment. These by their very nature may not be split in proportion to the real power output of the generators but rather be a complex function of machine performance.

WEL has already observed in response to NG GB ECM-08 that it is discriminatory to expect Offshore generators to pay for reactive compensation plant to be installed to account for the VAR characteristics of the (passive) OFTO network. (A similar argument applies to harmonic filtration equipment.) This is because there is no equivalent User requirement to provide reactive compensation remote from the connection point for an Onshore connection. WEL believes this issue needs to be addressed.

Compensation

Question: Should Offshore Transmission users be compensated for a loss of access due to a problem on the onshore component of the transmission system on the same basis as onshore users?

WEL Response: The changes to the charging methodology propose that the same charging principles should apply to Offshore and Onshore networks. The methodology implies that the TNUoS charges for a given Offshore connection are to be split between contributions to the Onshore and Offshore network costs. The Onshore element of the charges appears to be the same as an equivalent Onshore generator located at the same Onshore Connection Point as the OFTO network connection point. Since the charges are the same the access rights and consequential compensation arrangements should be the same for both Offshore and Onshore users for a loss of access due to an event on the Onshore network.

In view of the above WEL believes that Offshore Transmission users should be compensated for a loss of access due to an Onshore event on the same basis as an Onshore user.

Question: Do you agree that the most appropriate source for compensation to offshore users in the event of an offshore access restriction is the Offshore Transmission Owner under and OFTO Incentive framework?

WEL Response: WEL has indicated in response to previous DTI/OFGEM consultations that setting an appropriate OFTO Incentive scheme is likely to be challenging. In particular setting incentives for a new industry where no international benchmarking exists will be difficult. Faults giving rise to constraints are likely to be relatively infrequent provided suitable construction and installation standards are adopted by the OFTO. However the location of the subsea cables and Offshore substations will make return to service times longer and more weather dependent in comparison to Onshore networks. Unless there is a suitable financial penalty against the OFTO then there will be no incentive to devise efficient maintenance, repair and access arrangements. WEL believes that rebates on TNUoS charges should be considered as part of any incentive scheme.

A further issue is the stated 20 year OFTO Licence regime with no regulatory review. This will make setting a suitable and realistic incentive framework which balances risks and rewards in a reasonable manner almost impossible.

For the above reason while supporting the principle that some compensation should be available from OFTO incentive schemes is appropriate WEL does not believe that this is likely to be equitable. There should be an additional compensation mechanism in place to protect the interests of the generator, CAP048 style payments might be one possible means of achieving this. In addition WEL believes that any Incentive scheme should be subject to periodic review.

WEL also believes that the TNUoS rebate process - as outlined in the Industry Workshop - where connections are built to a standard greater than the minimum offshore standard should be equally applicable to Offshore Networks.

Question: Should 'CAP048' style compensation payments only be available to offshore users who have a connection standard equivalent to the minimum standard specified in the SQSS for onshore users?

WEL Response: As noted elsewhere WEL believes that the GB SQSS standard appropriate to the network being considered should be used as a benchmark for compensation payments. Hence compensation would be payable relative to the relevant standard i.e. for Onshore Users the Onshore Standard and for Offshore Users the Offshore Standard.

Question: Should any 'CAP048' compensation cover the onshore component of charges as well as the offshore component?

WEL Response: In principle compensation would need to cover the Onshore element of the charges as well as the Offshore element. The reasoning behind this is that since the TNUoS charges are the same for the use of the Onshore network the compensation arrangements should be the same to avoid discrimination.