Offshore Electricity Transmission Access and Compensation

Consultation Conclusion

Introduction

National Grid Electricity Transmission (NGET) convened an Offshore Electricity Transmission Access and Compensation workshop at National Grid House, Warwick, on 3rd December 2007. The purpose of the workshop was to initiate discussion amongst interested parties on the rights and obligations associated with access to offshore electricity transmission networks. NGET initiated the session as part of its contribution to the joint Ofgem and BERR programme for developing offshore electricity transmission arrangements.

NGET published a consultation in the form of notes from the Offshore Electricity Transmission Access and Compensation workshop. Responses were invited to the questions posed at the end of the notes along with any other relevant views.

Ten responses were received by NGET. This report summarises these responses and explains NGET's conclusions and the proposed way forward.

Summary of Responses

Access

Onshore users' rights to export to the transmission system, allowing exports up to a defined Transmission Entry Capacity (TEC), are enshrined in the Connection and Use of System Code (CUSC) in paragraph 2.3. Policy development in this area has been based on the premise that these arrangements should be extended offshore unless there is good reason for them not to in line with the main principles set out by Ofgem and BERR in their offshore electricity transmission development and implementation programme.

The recommended Security and Quality of Supply Standard (SQSS) for offshore transmission are different to the equivalent onshore standards. The arrangements applied onshore when connections are not fully compliant with the SQSS have comparable levels of redundancy to the minimum security standard proposed for offshore connections and hence could set a precedent for offshore arrangements.

The CUSC amendment CAP149 if approved will formalise parts of the existing bilateral process used to manage situations where users have selected connection arrangements which do not meet the minimum onshore redundancy requirements. It may also instigate a new process for notification of transmission outages and will mean that conditions which trigger an access restriction are more precisely defined.

NGET expressed the views that:

- If CAP149 or one of its alternatives is approved, the principles could apply to offshore electricity transmission;
- That if CAP149 was not approved the same principles could apply but through the existing Bilateral Connection Agreement (BCA) based arrangements; and
- If an offshore user's connection meets the minimum capacity and redundancy requirements which apply onshore, they could have the same rights as an onshore equivalent.

The consultation posed two questions regarding Access. NGET received ten responses which are summarised below.

Question 1.1 - Do you agree that the principles applied to customer requested 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?

All respondents believed that offshore connections should be treated in the same manner as onshore. However, there were two differing views of the most appropriate way to implement this principle:

- If an offshore user's connection meets the minimum security standard onshore they should have the same rights as onshore users. If any user's connection has a different level of redundancy to a compliant onshore connection design variation principles should apply.
- If an offshore user's connection meets the minimum security standard for offshore they should have the same rights an onshore user with a connection which meets the minimum security standard for onshore.

The majority of respondents concurred with NGET's proposal and agreed with the former view that the design variation principles should be extended to offshore. Some respondents agreed with the principle but noted that further consideration was needed regarding charging, limitations and interruptions of design variations.

The minority of respondents agreed with the latter view. These respondents believed that the standards in the GBSQSS for offshore were optimal therefore there should be no loss in compensation for users who meet the minimum requirements in the GBSQSS for offshore.

Question 1.2 - 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?

The majority of respondents believed pro-rating to be an acceptable method for sharing restricted capacity. Some respondents expressed concern that pro-rating may not achieve the optimum outcome. It was noted by a number of respondents that whilst this method was not very sophisticated it was important to keep the rules simple. It was also noted that pro-rating should be used intelligently and take into account when generators are unavailable or agree to share the capacity differently.

Compensation

Three potential routes for compensating offshore transmission users in the event of an access restriction were outlined as part of NGET's consultation. These were:

- Bid Offer Acceptances in the Balancing Mechanism;
- 'CAP048' payments for disconnection (ie TNUoS rebates and a 'market price element for 24 hours); and
- Offshore Transmission Owner (OFTO) Incentives.

The policy positions that had been developed in this area and discussed in Ofgem and BERR's most recent publications were also considered:

- Onshore principles should apply offshore unless there is a good reason for them not to;
- Compensation would not be applicable to offshore connections built to the minimum offshore security standard;
- Offshore generators would be eligible for compensation due to restrictions triggered by onshore events; and
- Compensation would be applicable to offshore connections built to a level commensurate with full redundancy (ie equivalent to current onshore standards).

The consultation discussed whether offshore users should be eligible for compensation through the Balancing Mechanism in the event of an offshore equipment failure. NGET questioned whether this was appropriate given that:

- Offshore networks are likely to be discrete networks which;
    - give no scope for NGET acting as System Operator (SO) to alleviate offshore constraints by network reconfiguration; and
    - are suited to discrete performance measures (which are difficult to define for highly interconnected networks but more readily defined for simpler networks);
- The SO will have no direct influence over offshore network reliability.
- Competition within an offshore constraint is likely to be very limited; and
- There was a question as to why onshore consumers should bear any direct costs associated with offshore equipment issues.

These factors led NGET to conclude that the most appropriate source of compensation for offshore users was from an OFTO incentive, given that the OFTO would have most influence over offshore network reliability.

The consultation posed four questions regarding compensation. The responses to these questions are summarised below.

Question 2.1 - 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?

All respondents believed that Offshore Transmission users should 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. A number of respondents noted that, in

line with the onshore arrangements, full compensation for a problem with the onshore component of the transmission system should only be available if the onshore network is GBSQSS compliant.

Question 2.2 - 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 an OFTO Incentive framework?

This question received a mixed response. Some respondents agreed that the OFTO was the most appropriate source for compensation but stated that more clarification was needed. The full implementation of this proposal is reliant on developments to OFTO incentives within their respective licences. This is expected to be taken forward in the offshore licensing workstream which Ofgem are leading.

There was concern that the OFTO may be required to restrict access to its network due to events or conditions which do not originate on its own network. In these circumstances it should not be held liable, and generators should be fully compensated for any loss of access.

Question 2.3 - 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?

Three main opinions were fairly evenly spread amongst the respondents:

- Some respondents agreed that 'CAP048' style compensation payments should only be available to offshore users who have a connection standard equivalent to the minimum standard specified in the SQSS for onshore users.
- Some respondents stated that the use of multiple cables gives some redundancy and a sliding scale could be used to take this into account.
- Some respondents stated that meeting the GBSQSS requirements offshore gave the optimal level of security and users who met the minimum requirements for offshore should be eligible for compensation.

Question 2.4 - Should any 'CAP048' compensation cover the onshore component of charges as well as the offshore component?

The majority of respondents believed any 'CAP048' compensation should cover the onshore component of charges as well as the offshore component. A number of respondents noted this should only be the case if the onshore network was SQSS compliant.

Conclusions

After consideration of all the responses, and in the context of the development of the wider regulatory regime, NGET has reached the following conclusions for access and compensation offshore and these shall form the basis against which CUSC and other code drafting will be taken forward.

Access

The arrangements applied onshore when connections are not fully compliant with the SQSS have comparable levels of redundancy to the minimum security standard proposed for offshore connections and hence **should** set a precedent for offshore arrangements.

Some respondents considered that using onshore design variations as a precedent for offshore is not an equal comparison. Onshore design variations do not meet the GBSQSS, however offshore, the GBSQSS will specify that no redundancy is required in the case of many network designs.

Any connection with lower redundancy levels could increase total balancing costs if it has fully firm access rights. It does not seem acceptable to spread these costs across the wider community through increased charges, and does not support equality of treatment between users as users with similar levels of redundancy onshore will not be afforded fully firm rights.

Offshore users can choose to have a firm connection (and pay the associated cost reflective charge). If they do not choose a firm connection they may lose access without receiving compensation. By exposing users to the cost of connection and restriction we believe users will make the most efficient choice for their connection. Users can decide how much they value their access, rather than depending on cost benefit analysis which uses a single static assumption of this value.

In order to use onshore design variations as a precedent for onshore connections, if CAP149 (or one of its alternatives) is approved, the principles should be applied to offshore electricity transmission. If CAP149 is not approved, the same principles shall be applied, but through the existing BCA based arrangements.

Some respondents noted that further consideration was needed regarding charging, limitations and interruptions of design variations. Work is continuing on these issues within the normal charging arrangements governance.

Recommendation One - The principles applied to customer requested design variations (as represented in the current arrangements or in the CUSC amendment CAP149) should be extended to offshore connections.

Pro-rating restricted capacity between different parties is a very simple method for sharing the capacity. The majority of respondents were satisfied with this method. It is considered that introducing a more sophisticated methodology would add

unnecessary levels of complexity. It should be noted that existing arrangements for trading and swapping TEC will apply offshore unless substantive reasons are identified not to do this.

Recommendation Two - If a restricted capacity has to be shared between parties, entitlements should be set by pro-rating the different parties' capacities.

Compensation

One of the key principles of developing the offshore regime is that onshore principles should apply offshore unless there is a good reason for them not to. Through the workshop and the consultation no good reasons have been cited why offshore transmission users should be compensated on a different basis to onshore users for a loss of access due to a problem on the onshore component of the transmission system.

Recommendation Three - Offshore transmission users should 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.

It is considered that Bid Offer Acceptances in the Balancing Mechanism and 'CAP048' payments for disconnection (ie TNUoS rebates) are not appropriate sources of compensation for standard offshore connections with an offshore access restriction. Bid Offer Acceptances do not seem appropriate since the offshore users will be on individual spurs there will not be the competition required to ensure a competitive bid price. Giving 'CAP048' payments to offshore connections would be discriminating against onshore users with similar levels of redundancy but who do not receive 'CAP048' payments.

One respondent strongly believed that if an offshore user's connection meets the minimum security standard for offshore they should have the same rights to compensation as an onshore user with a connection which meets the minimum security standard for onshore.

Ofgem and BERR have already set out the policy that compensation will not be applicable to offshore connections built to the minimum offshore security standards. With this in mind NGET continues to believe that the arrangements applied onshore when connections are not fully compliant with the SQSS set the best precedent for offshore arrangements. However, NGET also continues to consider that compensation from an OFTO incentive scheme may be appropriate, given that the OFTO would have influence over offshore network reliability.

Recommendation Four - A possible source of compensation to offshore users in the event of an offshore access restriction could be the Offshore Transmission Owner under an OFTO Incentive framework. This framework could be included in the OFTO's licence which is currently being developed by Ofgem.

Some offshore users may opt to pay for an increased level of security above the standard in the offshore SQSS. A number of respondents suggested using a sliding scale dependant on the level of redundancy in the user's connection, this was considered unnecessarily complex.

Recommendation Five - 'CAP048' style compensation payments will only be available to offshore users who have a connection standard equivalent to the minimum standard specified in the SQSS for onshore users.

The majority of respondents agreed that if any 'CAP048' compensation was due for a loss of access due to a problem on the compliant onshore component of the transmission system, the compensation should cover both the onshore and the offshore components of TNUoS charges. This would be consistent with the treatment of design variations onshore, which are compensated at the full TNUoS rate, which could in part include the costs of the non compliant assets.

Recommendation Six - Any 'CAP048' compensation should cover the onshore component of charges as well as the offshore component.

Implementation

The conclusions and recommendations from this consultation will form the basis on which drafting for the CUSC to apply under the offshore electricity transmission regime will be developed.

This drafting is expected to be a subject of Ofgem's next consultation on the implementation of the offshore electricity transmission arrangements.