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Dear Brian,

### **Connection Arrangements for Offshore Renewable Generation: A response from The Crown Estate**

Thank you for the opportunity to respond to the Utility Regulator's consultation published on 7 March. We welcome the opportunity to engage with you at the outset of the development of a new regulatory framework for connecting offshore renewable projects, and hope to be able to share some of our experience of working within the relevant regulatory regime in Great Britain.

#### **1. The Crown Estate**

The diverse portfolio of The Crown Estate comprises marine, rural and urban properties across the whole of the United Kingdom valued in total at £8 billion (2012 figures). Under the 1961 Crown Estate Act, The Crown Estate is charged with maintaining and enhancing both the value of the property and the revenue from it consistent with the requirements of good management. We are a commercial organisation guided by our core values of commercialism, integrity and stewardship. The Crown Estate's entire revenue surplus is paid directly to HM Treasury for the benefit of UK citizens; in 2012 this amounted to around £240 million.

Our marine estate comprises virtually the entire UK seabed out to the 12 nautical mile territorial limit, in addition to the sovereign rights to explore and make use of the natural resources of the UK continental shelf, with the exception of oil, coal and gas. We own around half of the foreshore and beds of estuaries and tidal rivers in the United Kingdom. Our expertise includes marine resource management (e.g. marine aggregate extraction, marine renewable energy installations, seabed infrastructure, aquaculture and new activities such as gas storage and carbon capture and storage) and its interplay with other marine activities such as defence, energy, navigation and marine safety. We have a strong understanding of the needs of a broad range of coastal and sea users, as commercial partners, customers and stakeholders.

#### **2. Context for The Crown Estate response**

By 2020, the UK aims to generate 30% of its electricity from renewable energy sources. More specifically, Northern Ireland has a renewable energy target of 40% of electricity generation from renewables by 2020. Offshore generation is expected to make a significant contribution to meeting these targets, and this burgeoning industry is set to become a major UK manufacturing activity, bringing significant new inward investment, businesses and jobs. To help make sure this industry realises its full potential, The Crown Estate is taking a

proactive approach. This ranges from co-investment in the consenting of projects to positive engagement with statutory and non-statutory bodies, regulators, trade associations, local and national governments and representatives of the shipping, aviation and fisheries industries.

In 2012, following an open leasing round, The Crown Estate awarded exclusivity rights to two tidal energy projects and one offshore wind project totalling 800MW in Northern Ireland Territorial Waters. The offshore wind project is for 600MW off the coast of County Down and two tidal stream projects, each of up to 100MW, off the north east coast of County Antrim at Torr Head and Fair Head. First Flight Wind Ltd have been awarded development rights for the offshore wind project. Tidal Ventures have an Agreement for Lease to develop a tidal project at Torr Head and DP Marine Energy with DEME Blue Energy have an Agreement for Lease for a tidal stream energy project off Fair Head.

### **3. Overview response**

We would like to raise the following points in overview in addition to responding on some of the specific issues raised in the consultation:

- The regulatory regime established should be proportionate to the policy challenge in hand. The OFTO regime in Great Britain (GB) was, in part, developed to reflect the expected size of the offshore generation market. This is a relatively complex regime and whilst we recognise some of the benefits it has brought (e.g. in terms of enhanced competition and allowing recycling of capital), it also presents a number of challenges and is also subject to ongoing review. The Crown Estate has awarded development rights for one offshore wind site and two tidal sites which will contribute substantially towards the Northern Ireland Executive's renewable energy targets. Any potential future leasing in Northern Ireland will be subject to consultation with the Northern Ireland Executive and market appetite for additional capacity. In the light of this, it would be expected that the offshore generation market would be of a smaller scale in Northern Ireland and we believe the regulatory framework should be proportionate to that scale.
- The regulatory regime must be clear in relation to the unbundling provisions in the Third Package. Developers should not bear any regulatory risk from how the framework is designed and implemented given requirements for unbundling are set out in relevant law.
- The regulatory and licensing arrangements should be decided upon and implemented as soon as practicable to minimise regulatory uncertainty and consequently minimise any risk of delay to development.

### **4. Responses to questions raised in consultation**

We set out below responses to some of the specific issues raised in the consultation.

#### Ch. 5: Options for physical connection arrangements

We do not have a view on preferred location for transmission connection. This should be a matter for relevant parties to resolve through normal processes.

It will be important however to define ownership boundaries as early – and as clearly – as possible to ensure all parties can understand operational requirements and minimise interface risk. We believe the approach to defining the interface point should follow the standard onshore principles as far as possible between generation and transmission infrastructure, in order to minimise changes required to standard codes and procedures.

We do not have a view on the appropriate onshore infrastructure (e.g. whether a near shore substation is required). This should be determined in accordance with existing connection rules and technical requirements. However, in determining infrastructure needs, we believe consideration should be given to consentability of the onshore network assets. This follows on from some negative experience in GB with respect to substations associated with offshore wind. The Crown Estate recently published a new resource on transmission infrastructure which is aimed at planning and consenting communities, in part to improve knowledge and understanding of infrastructure needs. This resource is available via the following website: [www.transmissioninfrastructure-offshoregen.co.uk](http://www.transmissioninfrastructure-offshoregen.co.uk). We would be happy for the Utility Regulator to share this resource as appropriate with other relevant stakeholders.

#### Ch 6: Ownership, Responsibilities and Licence Arrangements

Our understanding of unbundling provisions in the Third Package is a single entity may not control both operational generation assets and operational transmission assets and that an entity may not control either an operational generation or operational transmission asset and at the same time exercise rights over a operational transmission or operational generation asset respectively.

We note that there appears to be some ambiguity in the document with respect to the classification of the assets between the offshore generation project and the onshore point of connection. For example, on page 29 it suggests these could be classified as ‘offshore connection assets’ and therefore it would be compliant with the unbundling provisions for the developer to own these whereas at other points in the document the same physical assets are referred to as being ‘transmission’ – ownership of which by the developer would not be compliant with the unbundling provisions as we understand them. Definition of these assets will be crucial as to the ownership model that is adopted. We recognise this definition is a matter for the Utility Regulator to determine, but would strongly recommend that the legal position is categorical at the outset given this is a new regulatory regime being established. This is important so that offshore generation developers do not bear any undue regulatory or compliance risks in this regard.

Notwithstanding the above, on balance we do not consider it proportionate that an OFTO-type regime (i.e. with third party ownership) is introduced in Northern Ireland given the complexity this would introduce to a relatively small market and the set up and ongoing costs that would likely be incurred. If the assets are determined as transmission assets, we believe that the most viable option is for the assets to be owned and maintained by NIE (potentially following construction by the offshore generation developer as part of a combined offshore project, which follows the ‘Generator Build’ OFTO model). If this model were to be adopted, we would like to see NIE subject to a form of availability incentive to incentivise O&M over the lifetime of the asset.

In a scenario where the transmission assets are developed by the developer in the first instance, this will necessitate a sale to/adoption of the assets by NIE. In order to preserve incentives, this sale should be achieved

at a fair value. Whether this is achieved through a commercial negotiation (under appropriate regulatory oversight) or through a regulator-led process (similar to Ofgem's cost assessment process) is a matter we cannot comment in detail on – but we do believe a principle of fair value should be adopted.

In developing the appropriate ownership and licensing arrangements, we would also ask that consideration is given to experience in GB on facilitating anticipatory investment in transmission. This is a current debate in GB and whilst it may not be immediately applicable in Northern Ireland, there may be some key learnings that are relevant for future-proofing the arrangements, for example with respect to enabling the oversizing of transmission assets under certain conditions.

Separately, we note the proposed arrangements for distribution voltage connections (which would be applicable to the two tidal projects) and have no specific comment on these – these appear appropriate.

#### Ch. 7: System Security, LCTA, Cost Allocation and Charging Arrangements

We have no specific comments on the issues raised in this chapter.

#### Ch. 8: Changes to the Connection Application Process and the NI Queue

We strongly support the principle to enable offshore generators the ability to seek connection capacity and be placed on the ITC analysis list on basis of development rights awarded by The Crown Estate. This would be essential in order to enable developers to progress the consents for necessary offshore and onshore works for offshore generation projects, and is a vital component of any financial investment decision for a renewable energy project.

#### Ch. 9: The Need for Changes to the Grid Code

We have no specific comments on the issues raised in this chapter.

### **5. Conclusions**

We trust that you find these comments helpful in developing your thinking on the appropriate regulatory and licensing regime for offshore generation projects. We would be happy to discuss the issues raised in this response with you further if required. Please contact me on the above details as need be.

Please note that all of this response may be put into the public domain.

Yours sincerely,



Richard Clay  
**Transmission Manager**