

4 July 2008

Mr Robert Hull  
Director, Offshore Transmission  
Ofgem  
9 Millbank  
London  
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Dear Mr Hull

**Offshore Electricity Transmission – Regulatory Policy Update**

Thank you for the opportunity to comment on the regulatory policy statement issued on 13 June 2008. This response is made by DONG Energy A/S, 50% shareholder in the Barrow Offshore Wind Farm and sole owner of Burbo Offshore Wind Farm (each now in operation) and holding sole or shared interests in five other UK offshore wind farms in varying stages of development, including three currently under construction (Gunfleet Sands Phase I, Gunfleet Sands Phase II, and Walney Phase I). By 2012 it anticipates having an “equity” interest in excess of 1,300 MW from UK offshore wind farms. The majority of these will be connected to offshore transmission systems and its future UK business is going to be significantly impacted by the offshore transmission proposals.

We have yet to read and digest the full implications of the policy statement and its attachments, which we note run to more than 2000 pages. Whilst supportive of the proposals to introduce an offshore transmission regime, DONG Energy remains concerned about the complexity and costs associated with it, and sees nothing in the new statement that reflects the key concerns it raised in the last two consultation responses. In particular, in January we pointed out that it was inevitable that there will be an extended development period to accommodate the tender process for enduring projects which we estimated to be 12 to 24 months depending on the timing of consent in relation to annual tender rounds.

We are concerned that this comment appears not to have been considered, and there is no discussion on either our concerns or the solution we put forward ie that it should be open for the developer to design, tender and construct the offshore network and transfer it to an OFTO after completion. This would allow the tender to take place after financial close of the project and to remove this delay. It would be open for developers to tender under the currently envisaged approach should they believe there would be benefits from the OFTO taking the construction risk. However it remains DONG Energy’s view that a “self build” approach would be more attractive than tendering ahead of financial close and would be more consistent with the onshore arrangements where only “non-contestable” work is contracted by a TO or DNO.

Such an approach would also remove the problem of coordinating separate contracting and financing activities for the wind farm and offshore network and the risk of a prospective OFTO withdrawing its tender proposal at a very late stage eg just before final appointment. Whilst it is understood that in such a situation the prospective OFTO would pay the cost of the forgone tender activities, the implication for the developer's business is far more serious, as it would not only have lost all its own costs incurred through the tender process, but it would be facing a further one to two year delay on its project as the tender exercise is restarted with the next available tender window. There could be even more serious consequences from a failure of an OFTO to complete construction and in the event of withdrawal or insolvency of the OFTO during the construction period would leave the developer in a precarious position. Whilst the policy is for the OFTO to bear the construction risk, it is in practice the wind farm owner who bears the risk of non-completion given that any compensation is unlikely to be sufficient to cover the full costs of the inevitable delay to the start of generation.

It is noted that in the updated impact assessment of January 2008, one the key financial benefits supporting the case for the regime came from speedier connection of offshore renewable generation. In DONG Energy's view, such benefits will not be realised without a more flexible approach to developers constructing their own offshore connections and transferring them later to an OFTO.

We would make further comments in relation to the transmission charging proposal and lack of information on other key aspects of the regime, that is the treatment of losses and potential loss of embedded benefits by the licence exempt, 132kV connected projects. We had understood that according to NGET's December 2007 proposal the OFTO revenue stream should be recovered through a combination of the residual and locational elements of TNUoS on generators, with the costs of offshore cables and reactive compensation recovered through the locational element and other offshore transmission costs and the onshore substation/switchgear recovered via the residual element. Rather than confirming this approach, it appears that the policy statement questions the proposed treatment of costs associated with offshore substations, leaving the financial position for developers entirely unclear. The proposed allocation of costs, and intention in respect of offshore losses and embedded benefits must be clarified as a matter of urgency.

Further responses to the policy statement will be sent ahead of the deadline for comments.

Yours sincerely

PP 

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