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cc: Paul Hawker, BERR
both by email

Your ref 84/08 & URN 08/730

Our ref R&M 08-01-010-10031

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Dear Sam,

OFFSHORE ELECTRICITY TRANSMISSION – A JOINT OFGEM/BERR REGULATORY POLICY UPDATE (JUNE 2008)

ScottishPower Renewables, as part of the world's largest renewable electricity generator, welcomes the opportunity to respond to the latest consultation (of 13 June 2008) on the proposed Regulatory arrangements for offshore transmission.

We acknowledge and welcome the significant progress that has been made in developing the regulatory regime for offshore transmission. However, we note that there are a number of key elements of the proposed arrangements that are less well advanced (such as the tender arrangements, charging etc) and we look forward to the proposed further consultations which will help form part of the complete framework.

We have a number of concerns over the proposed arrangements as follows:

1. Whilst we are fully behind, and committed to progressing, the work being undertaken to develop the current proposals, we are still not certain that they will deliver the most efficient and effective arrangements overall. For example it may become apparent that prospective OFTOs' interest in, and appetite for, 'point-to-point' connections is less than it would be for an arrangement that allowed them to bid for a number of connections in an area, under a single tender. In this case, it would seem preferable to adapt the arrangements to suit the market. We therefore welcome Ofgem's comments at the recent Offshore arrangements communications seminar that they will reflect on the experience learned under the development, implementation and operation of the Transitional arrangements while developing and implementing the Enduring arrangements so that the Enduring arrangements will better fit the needs of the market.

This may require a different approach to managing the development and delivery programme for the Enduring arrangements in parallel with the Transitional arrangements. This should be considered carefully to allow maximum flexibility in the final arrangements.

2. Ofgem's recent letter asking NGET to reconsider charging arrangements (in particular the allocation of costs between locational and residual elements) is contrary to the previous proposals and has created new uncertainty - and therefore cost and risk - in the industry, along with potential inconsistencies between the onshore and offshore arrangements. Just as the industry has committed to developing the proposed arrangements, Ofgem must avoid creating uncertainty and risk in the arrangements if the industry is to continue to make good progress against an already very challenging programme timetable.
3. The proposed pre-conditions for initiating the tender process are stated to be signature of the NGET BCA and Crown Estates lease arrangements. In respect of the latter, the CE lease will not be concluded until consent is given for the windfarm. Therefore if such a pre-condition is deemed to be necessary and appropriate then it should be based on signature of the CE Agreement to Lease and not on conclusion of the lease arrangements.
4. There is little experience of offshore transmission in the UK and therefore we have concerns over the high level of skills and commercial and practical experience that will be required to deliver and manage the arrangements effectively and efficiently in such a challenging and developing industry. In view of this general lack of experience, we believe it is unrealistic for Ofgem to be solely responsible for making certain of the decisions they propose to be able to make, if the arrangements are to deliver against key aims of facilitating the growth in offshore wind generation and achievement of energy policy aims.

In particular we refer to setting the revenue stream period; extending the revenue stream period; setting pre-defined, and making case-by-case, revenue adjustments and setting OFTO delivery and performance levels along with incentives. Such decisions will impact on the prospective OFTOs' view of risk and therefore the risk premium applied to their bids. Accordingly, they have the potential to affect the viability of the generator's project significantly. Therefore, we believe that these aspects of the bid should be subject to negotiation between Ofgem, the OFTO and the generator in order that the optimum outcome can be achieved, that best reflects the overall aims of the parties and is in line with their respective attitudes to, and appetites, for risk. In order to facilitate this, the generator must be a party to the tender process and negotiations.

5. The current onshore STC arrangements are not ideal in that they exclude the generator from direct and meaningful participation in discussions and negotiations between the TSO and the TO, despite the generator being the customer and facing much of the risk inherent in the provision of the grid. This can often lead to stalemate, frustration and delays. In a similar approach to the tender process, we believe that it would be more efficient overall if the generator is allowed to be party to these negotiations to prevent this happening in the offshore arrangements.
6. The skills, experience and objectives of the tender process and assessment team will be key to the efficient and effective application of the tender process arrangements. We are encouraged by Ofgem's commitment to ensure that appropriate people will be recruited for this process. However, a relatively small delay in the tender process could have a much more significant delay to the project

(for example, it could lead to projects missing seasonal construction windows or grid outage windows). Therefore, the tender team should be set appropriate delivery objectives and performance incentives in order that the process is managed optimally against the overall aims of the project and not only in pursuit of, for example, economic efficiency.

7. The generator's loss as a result of delay or poor availability of grid could be much more than the proposed 10% of the OFTO revenue stream, depending on when the non-availability occurs and its duration. We think that incentive levels should reflect the particular circumstances of the project to reflect, for example, the windfarm programme, the TUoS charges, the stage in the project's lifetime, the time of year, appetite for risk etc.

We also believe that symmetric incentives may be appropriate in certain circumstances. Subject to the windfarm programme and windfarm availability, early delivery of the grid and higher grid availability will advance the benefit brought by the project and could be rewarded.

We therefore suggest that the setting of performance levels and the form and level of incentives should be the subject of commercial negotiation between the parties involved, including the OFTO and the generator. This would enable the parties who are exposed to the risk - and/or are best placed to manage it - to agree how to allocate and value it. This would avoid conservative risk premiums being applied to cover standard, pre-set criteria which do not necessarily reflect the reality of the project and the parties' respective views of risk.

We would welcome the opportunity to clarify or expand on any of our comments on this consultation so please get in touch if you would like us to do so.

Yours sincerely,

Allan Kelly
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ScottishPower Renewables