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OFFSHORE ELECTRICITY TRANSMISSION: CONSULTATION ON THE ENDURING REGIME

Statkraft is Europe's largest generator of renewable energy. We have a pipeline of more than 9000 MW of offshore wind power under development and construction in the UK territorial waters together with our partners. Statkraft would welcome a well functioning regulatory regime for offshore electricity transmission, and we are very pleased to respond to this latest consultation on the enduring regime.

Grid is the critical issue for meeting the renewable energy targets. A well functioning framework is therefore of key essence and the success of offshore wind development will rely on a regime which facilitates companies to develop their projects with a satisfactory risk level.

As a member of the BWEA we are supporting their response to this consultation, in addition this response letter outlines additional company viewpoints on the enduring regime.

The following represents the key points Statkraft wants to address, it might not correspond to the specific questions made for this consultation, but a reference to the questions related to our points are made where applicable.

- Ref. Chapter 2

OFTO of last resort for the enduring regime – We have found no reasoned argument given to address the issues raised in the responses to the open letter about the need for an OFTO of last resort for the enduring regime, except for a reference to a previous conclusion. The points raised in the open letter are still valid, and this consultation could not be regarded as concluded without a reasoned argument why an OFTO of last resort will not be put in place, especially given the context of government targets and the failure to appoint OFTOs being a significant potential barrier.

- Ref Chapter 3

Ofgem appears in the consultation to ignore the proposal from industry to extend the existing transitional round method to the enduring regime, stating that DECC have previously ruled on this and it is beyond the scope of the consultation. Statkraft is of the understanding that the OFTO regime is supposed to view developer choice as a key principle, and therefore the option to contract the connection assets and transfer to the OFTO post-contract and possibly post-construction should be left open to the developer. This is valid not only for round 2.5 projects and should be a permanent feature of the enduring regime. We strongly advise Ofgem to revise the position on this item as closed. We feel that, should Ofgem so advise DECC, they would be likely to reopen discussions on this point.

- Ref Chapter 4, question 5 and 6, and Chapter 7, questions 1 and 2

For early appointment OFTO to work, the process needs to undo the knot of the ability for an OFTO to bid a firm price at early appointment without pricing in huge amounts of risk - since the firm price bid won't be based on firm contracts with the suppliers. A wind farm developer will in most cases not have made the investment decision at this point in time. In order to make it palatable, a contingency mechanism needs to allow relatively easy comparison between OFTO bids. Statkraft therefore think that the enduring regime will need to go down a route of having a **fixed set of contingency items that can be varied at a later date** (on agreement from OFTO, Ofgem and developer).

- Ref. Chapter 4 question 1,2 and 7, and Chapter 5 question 1 and 2, and Chapter 6 1 and 2

It is very likely that developers will look for late OFTO appointment due to the likelihood that the developer must post cancellation securities for the entirety of the OFTO's expenditure. However, this causes a conflict with the expected lead times for key items.

A developer will be better placed to establish a proper pipeline of projects than an OFTO, which will have to operate on a project by project basis, and will have a shorter time to complete the necessary works. If developers are allowed to start the design and procurement process before an OFTO is appointed, this will aid in achieving timely connections, reducing risk and cost of connections, which should be the ultimate goal. This would also be in line with the existing onshore arrangement where developers are allowed to extract the contestable works from the grid connection agreements, which again results in a higher degree of transparency and competition in the supply chain market.

Thus, there needs to be a mechanism whereby the developer can secure key items of the supply chain before the OFTO tender process, then make these available to all the bidding OFTOs in a non-exclusive arrangement through the data room. We

would propose a mechanism whereby the **developer can book slots with key supply chain elements**, which could be transferred over to the winning OFTO. If the bidding OFTOs chose not to take this up and could still meet the required timeline, the developer could use this slot for another part of its portfolio or look to dispose of it as any other asset. This would give the developer more control and certainty over the timeline for its project connection.

- Ref Chapter 5 questions 1,2 and 3

There needs to be **negotiation and dialogue between OFTO and developer in the timing of placing large orders**. The developer needs to be sure that the OFTO won't order expensive equipment (and hence ramp up the cancellation liabilities on the developer) before the actual wind-farm has reached an investment decision. At the moment Statkraft believe the developer actually has no mechanism to influence this once the OFTO is appointed.

- Ref. Chapter 8 questions 1, 2 and 3

The consultation suggests that a bidding OFTO may be well placed to propose an innovative variant connection point to the National Grid Connection Network. We feel that the NETSO has the most complete picture of the best location for each project to connect from a strategic point of view, to balance out technical issues, balancing issues, cost to consumer, cost to the OFTO and cost to the developer. Hence they have been appointed to draw up the ODIS, a process which we support. It is therefore difficult to see how an OFTO can propose a fully justified alternative connection point to the transmission network that improves on the strategic proposals from the NETSO. If the OFTO can come up with a better solution, then surely the NETSO has failed to design the most optimum network. It would be better to put **effort into ensuring the best strategic network is designed**, rather than risk an OFTO being able to propose a differing connection location at a very late stage, leading to delays to schedule and the writing off of design and consenting costs to date.

There is a big risk to the developer if a variant bid makes consenting and design work carried out up to that point by NGET and the developer invalid. We have concerns regarding the pre-construction work which will be regarded as efficiently incurred costs. If an OFTO wins the competitive tender with a variant bid that negates or invalidates work on consenting of routes, it is expected that the work to date would not be eligible to be claimed. If not eligible, this represents a significant risk to the developer in beginning consenting and design work unless it has some comfort that the OFTO will not change physical connection locations and selected cable routes. If consenting activities for the selected variant options do not commence until after OFTO tender is complete, then timetables for delivery could be significantly impacted by a number of years.

The process on how variant bids are assessed is not outlined in detail and much more clarity on this issue is needed. What are the conditions for accepting a variant that causes a timing delay or triggers a complete re-start of consenting works, can

a variant be accepted just because it may deliver a slightly lower-cost solution for the transmission works? In this situation a developer might face costs and time delays that are serious to the overall project economics and schedule, and which might in the end be a risk that the developer is not prepared to cover.

Yours sincerely,
for Statkraft AS



Oluf Ulseth
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