

Our date
2010-02-12

Our reference
AU-TNE NE-00063

Administrative officer
Øyvind Bergvoll

Your date
2009-12-18

Your reference
157/09

Ofgem
Attn.: Sam Cope, Policy Manager, Regulatory Regime Development

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United Kingdom

Consultation on the Enduring Regulatory Regime for Offshore Transmission

Statoil welcomes Ofgem's invitation to comment on the latest consultation on the Enduring Regulatory Regime for Offshore Transmission. A transparent and efficient transmission regime is vital to us as a developer of offshore wind power, and crucial to a successful delivery of UK's ambitions on offshore wind power.

We are however concerned that the proposed transmission regime will not be adequate to deliver according to intentions. We recognise that Ofgem in the Consultation Document have proposed amendments and adjustments to make the regime work more efficiently. We do however still believe that these changes are insufficient to meet such goals. We believe the proposed regime will add uncertainty and risk, add costs and introduce delays in development of future offshore wind farms.

We are of the opinion that the regime should allow a wind farm developer to plan, consent, design, build and fully commission the assets, and then at completion, transfer the transmission assets to an agreed Offshore Transmission Owner. We note that Ofgem in their consultation document rules out this possibility. We would therefore urge Ofgem to reconsider this position.

The proposed regime adds uncertainty and risk:

The transmission assets forms an integrated and important part of an offshore wind farm. The progress of design, consenting, construction and completion of the transmission asset are all major milestones and important inputs to a wind farm project schedule and design. Lack of influence and control over the design, the quality, the cost and the progress of a crucial important and integrated part of the wind farm, are therefore a significant risk to the developer. The OFTO regime as proposed, will as Statoil sees it add additional risk on top of this, by introducing additional uncertainty about cost and progress, while at the same time hinder the developer to initiate mitigation precautions. An example here is that if the developer as a mitigation precaution should choose to start design and consenting work ahead of the OFTO appointment, the OFTO is not obliged to utilise any of this work. The developer faces therefore a risk of having to pay twice for this work in addition to a possible delay.

The proposed regime adds cost:

The Crown Estate lease is granted for a period of 50 years. The developer will therefore plan to optimise the development over the whole period. An OFTO, due to the limited concession period of 20 years, will seek to maximise its profit over this period and choose solutions in accordance with this. Normally the lifetime of transmission assets are much longer than 20 years, cables and transformers typically have a life expectation of 40 to 50 years. Developer's and OFTO's preferences on technical design could therefore be substantially different and have a negative cost effect.

If a developer should choose to engage an "early" OFTO, the OFTOs during the ITT stage will engage the supply chain to finalise its design and get firm bids. This tender process will be held several years ahead of signing any construction contracts. Unless the wind farm developer is willing to take on significant liabilities prior to its own financial close, the OFTO may either include a large risk add-on in its revenue stream and re-tender later, or get firm contracts with a risk premium added from the suppliers. In

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any circumstances this will lead to a higher cost resulting in higher tariffs to the wind farm and ultimately higher cost to the consumers. We recognise that Ofgem has proposed certain measures to cope with this, but we believe that it is unavoidable to have risk add-on from the OFTO due to this.

The proposed OFTO regime as described below also require longer project execution times, resulting in higher financing cost and generally a less efficient project.

The proposed regime introduces significant delays:

To be able to do a proper design of the offshore transmission asset and afterwards run a tender process to have firm bids and commitments from the suppliers, the OFTO will need more than the 6 months anticipated by Ofgem. In our opinion Ofgem's tendering process will last longer than the anticipated 13 months. BWEA have earlier anticipated the tendering process to last from 18 (late OFTO) to 21 (early OFTO) months. We believe that this figure is more realistic.

This might result in a stand still of the consenting work for the transmission asset for close to 2 years, and depending on how the consenting of the wind farm is progressing, probably resulting in a significant and unnecessary delay. IPC has indicated that they expect to treat the transmission asset application together with the wind farm application. If so, then the consent of the wind farm might be significant delayed as well.

As a result, with the proposed enduring regime the development of Round 2,5 and Round 3 projects will be delayed and will affect the industry's ability to deliver in line with the Governments ambitions for renewable energy.

Alternative approach:

We acknowledge the Government decisions and the legislation which are put in place, but we are certain that within the frame of the EU unbundling regime and UK legislation, it will be possible to find solutions.

We would therefore, as described above, propose that Ofgem includes in the enduring offshore transmission regime the possibility for a wind farm developer to plan, consent, design, build and fully commission the assets, and at completion, transfer the transmission assets to an agreed Offshore Transmission Owner.

If this possibility is included in the enduring transmission regime, the developers will have the possibility to assess each project by itself and choose the approach which has the best chances of delivering that particular wind farm project on schedule and at an acceptable cost.

In our view this should be possible to achieve within the existing legislation. Requirements in the Grid Code should be enough to make sure that the assets are built according to recognised standards and that the assets can be expanded in the future to accommodate an offshore grid.

We would also like to comment on the issue of ensuring innovative solutions for offshore transmission. We note that most of the pre-qualified OFTOs for the transitional tendering are financial companies with their strength in providing project financing. Although these companies might bring new and innovative solutions, we are of the opinion that developers are just as adept in developing innovative and cost efficient solutions. The size and financial strength of the Round 3 consortiums cater for the capability to utilise the innovations. As a result, we do not see that the proposed solution where the developers also build the offshore transmission grid would result in less innovative solutions.

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In the future, as the offshore grid extends and becomes an interconnected meshed system, it is reasonable that the OFTO assets are owned, or at least operated, by a single company, acting as a system-architect with a responsibility to develop and operate the grid and offer access to new entrances as they occur.

We would also note that the tender process could be run more cost efficiently if the potential OFTO's are bidding on transmission assets which are fully constructed, commissioned and tested prior to transfer.

We would be happy to meet with you to elaborate our point of view should it be of any interest to you.

Kind regards
Statoil ASA



Trine Ulla
Manager Market
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