Macquarie Capital (Europe) Limited
A Member of the Macquarie Group of Companies

Ropemaker Place
28 Ropemaker Street
London EC2Y 9HD
UNITED KINGDOM

Telephone +44 20 3037 2000
Fax +44 20 3037 2017
Internet www.macquarie.com/eu

26 April 2012

Jon Parker
Ofgem
9 Millbank
London SW1P 3GE

MACQUARIE

Dear sir

OFFSHORE TRANSMISSION: CONSULTATION ON POTENTIAL MEASURES TO SUPPORT EFFICIENT NETWORK COORDINATION

We would like to thank you for providing us with the opportunity to respond to your consultation. Please find below the response of Macquarie to Ofgem's consultation in relation to efficient network coordination.

Macquarie is an active, independent player in the offshore transmission market and welcomes the intended move to support coordination of offshore transmission. Macquarie believes the structure presented in the consultation is going in the right direction to support anticipatory investments. In particular, it is key that the party who seeks the benefit of the anticipatory investment (presumably the end consumer) should also bear the stranded asset risk. Where relevant, we have sought to provide specific responses to your questions below.

We would be delighted to discuss these thoughts in an open and constructive manner with Ofgem.

Chapter 2

Question 1: What are your views on whether:

a) the connection process (including the relevant industry framework) supports the design of an efficient and coordinated network?

b) the NETSO needs further powers to develop an efficient network?

c) there are any barriers to the NETSO taking on an enhanced role in network development?

Question 2: Do you agree with the proposed objectives for a reformed network planning document? Would other changes be useful?

We don't have specific comments except that it will be necessary to find fair incentives for the NETSO to take on an enhanced role in network development or to consider establishing an independent design authority which could focus on identifying assets that should be shared or oversized, as well as on planning, design and coordination. The NETSO, offshore generators, local TOs, OFTOs should all be involved and consulted by this independent authority. This authority should have a key objective of taking all network planning statements into account in order to ensure consistency.

If the NETSO remains the central system planner, its responsibilities should be clarified in its licence and should include all of the above.

Chapter 3

Question 3: Do you agree with our initial proposal for a definition of AI and that the types of AI set out are those that need to be captured in an approach to AI?

The definition of AI: "*capital expenditure that supports anticipated future network requirements, rather than the immediate needs of a single offshore generation phase*" seems appropriate.

Question 4: Do you agree with our initial proposed objectives and regulatory design principles for an approach to AI? Are there some which you see as more important than others?

The last objective relating to the flexibility of the regulatory framework should refer to flexibility not only to cater for projects specificities but also for changes in circumstances over time. All these objectives seem material and of equal importance to implement efficient coordination.

Question 5: What are your views on use of the connection application process as the platform for identifying AI opportunities? Could there be a need for AI to be identified outside of the formal connection offer process?

Question 6: Do you envisage that changes to industry codes and licences are necessary to enable the connection offer process to identify AI?

Question 7: Are there barriers to cooperation in connection offers being agreed where a development involves more than one generator? What actions do you consider are warranted to address these?

Question 8: Are there other parties that should be able to identify opportunities for AI?

Our only comment on the identification of AI is that where a development involves more than one generator, there should be a clear framework to ensure an efficient coordinated connection to the NETSO and the management of consequences of delays or cost overrun.

Question 9: What changes may be needed to ensure that assets that provide wider network benefits are designed, constructed and operated to provide a longer asset lifetime?

Question 10: What are your views on whether a longer revenue stream for assets that have wider network benefits could create better value for consumers?

Question 11: What are your views on the best way to deal with possible interaction between assets with differing lengths of tender revenue streams?

The easiest way to ensure a longer asset lifetime seems to be a clear requirement in the connection offer as mentioned. An extension of the revenue stream could bring some value (a rough and very preliminary estimate shows a 0.5 to 1.5% decrease in TRS).

Question 12: Do you agree with these high-level user commitment and charging principles for AI?

Question 13: What areas of the transmission charging regime may need to change to facilitate AI in the offshore transmission network?

These high level principles seem sensible.

Question 14: Is there a need for greater, earlier clarity on how including AI within the scope of works might be treated under our assessment of costs?

Question 15: What are your views on the potential form of these Ofgem assessment stages? Should it be optional for generators to go through the gateways where they would be undertaking the subsequent works?

Question 16: Do you agree with the proposed high-level criteria for use by Ofgem if considering whether AI would be economic and efficient?

The criteria seem sensible. We note that having an independent design authority could help in these discussions.

Question 17: What are your views on the appropriate timing of the possible Ofgem assessment stages?

Question 18: What information should in your view be provided as part of any published guidance that supports AI approval?

Question 19: Should there be additional requirements to share information with Ofgem to help streamline Ofgem's assessment of AI for project? What information should be included?

The proposed timing seems sensible. It is key to ensure that Ofgem's assessments lead to a clear revenue / cost recovery for the party undertaking the investments (i.e. this party does not bear any stranding risk). In any case, it should be designed to avoid any delay in construction due to this process of approving AI.

Question 20: What are your views of the different options for who should undertake pre-construction works for assets that are driven by wider network benefits?

Question 21: Could OFTOs potentially have a role in undertaking pre-construction works for assets significantly driven by wider network benefits? How might this work?

Question 22: Do your views of the attractiveness and feasibility of an early OFTO build option differ for assets that are driven by wider network benefits?

Question 23: Are there changes that can be made to enhance the incentives on offshore generators in undertaking pre-construction and construction works for assets that are driven by wider network benefits?

Question 24: What would be the impact on the attractiveness of the Generator build option for assets that have wider network benefits if additional delivery incentives are incorporated? Should the OFTO build option be the main focus for this type of asset?

We agree with the statement that option 2 and 3 are the most likely to provide the best value to the end consumer.

Our views on the OFTO build option / Generator build option do not differ for assets driven by wider network benefits if required delivery incentives are incorporated. In this case, the advantages and draw backs of each option should remain the same.

Question 25: What are your views on how any distinction between "offshore generator focused" and "wider network benefit" assets should be made?

Question 26: What role could commercial contractual arrangements have in ensuring that pre-construction assets are passed to the relevant party and the first developer can recover their costs?

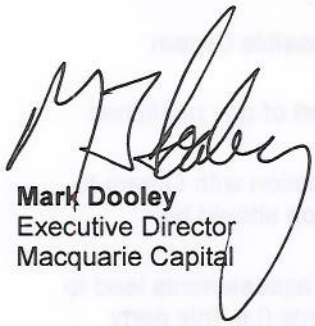
Question 27: What changes may be needed to support the process? What would be the impact of requiring an OFTO to hold assets for future generators?

As long as the relevant party (OFTO or else) recovers the costs of negotiating commercial contractual arrangements, holding pre-construction assets and transferring them to the relevant party when required, the impact of the process for transfer of assets should be minimal. However clear guidance on the recovery of these costs should be given at the outset (and it should cover potential increased costs for the relevant party due to delay in receiving the pre-construction assets).

Question 28: Will commercial arrangements and industry codes and licences provide sufficient access rights for shared assets? If not what changes may be needed to support the process?

Question 29: Are there any other issues with shared assets that need to be considered?
N/A

Yours faithfully
Macquarie Capital (Europe) Limited



Mark Dooley
Executive Director
Macquarie Capital