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21 February 2013

Megan Smith
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Initially by email
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Dear Megan,

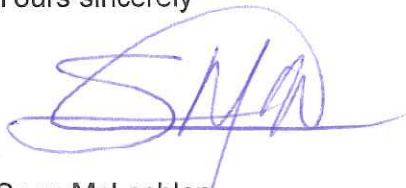
Re: Offshore Electricity Transmission: Consultation on licence policy for future tenders

Balfour Beatty Investments acting as agent for the Balfour Beatty Group Limited ("Group"), is pleased to respond to your consultation dated 30 November 2012 "Offshore Electricity Transmission – Consultation on licence policy for future tenders" (the "Consultation"). We have been appointed preferred bidder on the Thanet project, are part of the consortium appointed as preferred bidder on the Greater Gabbard project, and are currently bidding for the Transitional Round 2A and 2B projects.

We are pleased to provide a response to the Consultation and look forward to working with the Authority to develop an enduring regime structure which encourages the efficient development of UK offshore wind.

Our response is provided as an appendix to this letter. We would be pleased to discuss in further detail with you.

Yours sincerely



Sean McLachlan
Balfour Beatty Investments
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RESPONSE TO: Consultation dated 30 November 2012 "Offshore Electricity Transmission – Consultation on licence policy for future tenders" (the "Consultation"). Due 22 February 2013

CHAPTER 2. Revenue Framework

Q2.1 Do you agree that the 20 year revenue term is still appropriate for point to point systems?

The 20 year revenue period is tried and tested. We agree that the useful life of the transmission assets are in excess of 20 years however, there are mechanisms in the regulatory regime to extend the OFTO's revenue stream including running of a new tender depending on the extent of the asset life.

CHAPTER 3. Refinancing

Q3.1 What do you think are the advantages and disadvantages of each refinancing policy option? Please explain why.

We agree with the advantages and disadvantages of the two refinancing options. Ultimately the refinancing policy is dependent on the risk appetite of the procuring Authority.

Q3.2 Are there other refinancing policy options that you think we should also consider?

N/A

Q3.3 What are the benefits of OFTOs coming under common ownership and what are the associated issues that Ofgem should consider? To what extent should we capture any gains from OFTOs coming under common ownership?

For existing projects, moving to common ownership would likely be very complicated. The feasibility, in the first instance, would depend on how common ownership is defined noting that as required under the tender regulations each existing OFTO is structured with independence and ringfencing requirements in mind. To undo this would be a significant undertaking. Another thing to consider is that each OFTO may have different shareholders, with different holdings to add complexity to a common ownership concept.

For future projects, in particular for projects which are part of a network or zone then starting out with a common ownership concept in mind could provide efficiencies. The timing and phasing of projects including potential stranding of assets and mechanisms for realising later efficiencies would need to be carefully considered.

To the extent that there are gains resulting from OFTOs coming under "common ownership", benefits should go to the party taking the risk in order to promote innovation and efficiency.

CHAPTER 4. Indexation

Q4.1 What do you think are the advantages and disadvantages of each indexation policy option? Please explain why.

We agree with the advantages and disadvantages of each indexation policy option. Our preference would be for Option 1, and potentially Option 2 for the larger projects.

Q4.2 Are there other indexation policy options that you think we should also consider?

N/A

CHAPTER 5. Revenue incentives

Q5.1 Do you agree with our proposal to introduce the capacity weighting mechanism to the availability incentive mechanism?

Yes we agree with the proposal to introduce a capacity weighting mechanism.

Q5.2 Do you agree with our proposal not to introduce a penalty differential between planned and unplanned outages to the availability incentive mechanism at this time?

Yes we agree with the proposal not to introduce a penalty differential between planned and unplanned outages to the availability incentive mechanism as the OFTO is already incentivised to minimise unplanned outages.

Q5.3 Are there any further issues that you feel we should consider as part of our enhancement to the availability incentive? If so, why?

N/A

Q5.4 Going forward do you think that the use of TEC for the maximum availability will remain appropriate? If not, what project designs might TEC not be appropriate for and what alternative would there be?

Where the OFTO connection is essentially point to point, our view is that the use of the TEC for the maximum availability will remain appropriate.

Where there are multiple possible configurations of connections to the OFTO asset, ultimately the availability of the asset is a function of its ability to export power either directly or indirectly to the onshore grid.

In order to retain the concept of an availability mechanism, there is a case for the OFTO to be paid for the total of the connected export and interconnector cable maximum continuous ratings, since it

has to maintain each connection, whether or not it is used, and would, presumably, be penalised if any connection is unavailable.

Q5.5 Do you agree with our intention to remove the ICUA term and only use the ACA cost assessment term to calculate the remuneration required for providing additional capacity?

The ICUA term is understood, simple and minimises the process of implementing additional capacity. Removing this term increases the regulatory burden for the OFTO and the Authority as this would mean that any incremental capacity that can be implemented without Capex. spend would essentially need the approval of the Authority.

Q5.6 Do you agree with our intention to not introduce greater flexibility in relation to remuneration for incremental capacity at this time?

We agree that the current incremental capacity provisions should be maintained.

Q5.7 Do you believe that adding an absolute threshold for incremental capacity would be beneficial? If so, what should the value of the threshold be?

N/A

Q5.8 What are the benefits, drawbacks, risks and considerations in adapting the incremental capacity mechanism to allow Generator build of subsequent phases?

The transmission assets belong to the OFTO and any modification or addition to these assets should be undertaken by the OFTO.

CHAPTER 6. Next steps and interdependencies

Q6.1 What further areas relating to your planned or potential future projects do you think that Ofgem should consider in order to help facilitate the efficient delivery of the OFTO build model?

N/A

Q6.2 Do you have any comments on the relevance of changes to the RIIO licence on the OFTO licence?

N/A