



SCOTTISHPOWER RENEWABLES

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Sent by email only to offshore.enduring@ofgem.gov.uk

Dear Megan,

OFFSHORE ELECTRICITY TRANSMISSION: CONSULTATION ON LICENCE POLICY FOR FUTURE TENDERS

Thank you for the opportunity to respond to the above consultation of 30 November 2012. I am pleased to submit this response on behalf of ScottishPower Renewables (SPR).

SPR are the UK's leading developer and operator of wind generation projects, and we are involved in almost 9GW of offshore wind development and construction projects in the UK. These include the 7200MW East Anglia zone and 1800MW Argyll Array project both of which are under development. In addition we are jointly developing our transitional West of Duddon Sands (WoDS) project, which is due to enter into commercial operation by 2014. Therefore we have excellent first hand experience of the OFTO tender arrangements and a critical interest in ensuring that the enduring offshore transmission tender arrangements are not only transparent and fair, but are also robust, realistic and reasonable in the market and circumstances in which we operate.

We have attached an Appendix giving our responses to the questions posed by Ofgem in the consultation.

We hope you find our responses and comments clear and helpful but we would be happy to discuss them more fully with you. Please get in touch with me (0141 614 3075 or at allan.kelly@scottishpower.com) if you would like to do so.

Yours sincerely,

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**OFFSHORE ELECTRICITY TRANSMISSION: CONSULTATION ON LICENCE POLICY FOR
FUTURE TENDERS**

**SCOTTISHPOWER RENEWABLES
APPENDIX to RESPONSE**

Chapter 2: Revenue framework

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

Yes, we agree that this is appropriate at this time in order to give continuity, stability and certainty in the OFTO market. However, it may be appropriate to review this in future in line with developing practical experience of generator and OFTO needs, but consideration should be given to avoiding unintended consequences.

Chapter 3: Refinancing

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

Although it may initially weaken investor confidence in the OFTO market, we believe that providing for a refinancing gain share mechanism in future tenders and licences may be appropriate subject to a further more detailed assessment of how this would be implemented. If a gain share mechanism is considered in the future it should be structured to give an appropriate incentive to the OFTO to refinance in order that at least some benefit from refinancing can be realised.

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

No comment.

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?

We believe that the benefits may come from greater likelihood of economies of scale, lower cost of capital, increased structural efficiency and lower overheads. As with a possible refinancing approach, the mechanism should be structured to ensure that the OFTOs are incentivised to proceed with such a restructuring, and so ensure that all stakeholders realise at least some benefit.

However, a possible downside to allowing such an approach is that it may create an OFTO with market dominance and this may discourage small and/or new market participants. The OFTO licences should therefore be kept under review in this regard, should these circumstances start to develop.

Chapter 4: Indexation

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

We believe that continuing with 100% RPI indexation of the Transmission Revenue Stream is appropriate, as this approach ensures certainty and continuity for OFTOs and investors and should result in lower costs of capital than would otherwise be the case. We also believe that alternative approaches will over complicate this aspect of the tender, for a relatively small, potential benefit.

Partial indexation adds further complexity in determining what elements should or should not be included in the indexation and the appropriate measurement of the necessary elements. A partial indexation approach would add a further layer of complexity to bidding and bid assessments.

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

We believe that full indexation is necessary and the appropriate way forward. However, if it is proposed to offer a degree of flexibility and choice in this, the decision should be for the generator to make by allowing the generator to specify, in the OFTO tender data room, the level of indexation they will accept. In any event, we believe that if an alternative approach was of interest to bidders, they could submit an alternative bid as a variant to a compliant bid.

Chapter 5: Revenue incentives

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

We support this approach as a step forward in ensuring offshore generators can maximise output, by providing improved operating incentives to OFTOs that should not adversely impact the OFTO's risk profile. However, we believe the detail of the proposed approach needs to be further developed to clarify how assessments of the impact of an outage on the generator's output will be made.

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?

As this seems complicated, with little evidence that it will have much effect, other than to affect the OFTO's risk profile adversely, and so their risk appetite and cost of capital, we agree that this should not be taken forward at present but kept under review as the OFTO market matures and stabilises.

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

We understand, and agree with, the intention of not introducing excessively penal performance incentives that will undermine investor confidence and so weaken the OFTO market. However, we believe that further consideration should be given to developing stronger incentives that recognise the importance to the generator of maximised availability. In particular, a major component failure, such as export cable damage or a main transformer fault could take 6-18 months to repair but during this time the generator's output could be reduced significantly. We acknowledge that these events, beyond a certain level, will be difficult to manage or incentivise and suggest a more holistic, 'bottom-up' approach that encourages the supply chain and OFTOs to focus on this aspect in design and operational phases might be appropriate.

The availability target of the OFTO asset has a major impact on the generator performance, and we believe that the actual availability should be balanced against the generation background connected to the OFTO asset. In addition, we suggest that consideration should be given to making the design standard (through the SQSS) of OFTO assets beyond 100km from the onshore connection point project specific. For the purposes of considering design options and operational performance, the 98% value is appropriate however the optimal availability value could be different, and this should be agreed/ratified as part of the tender assessment.

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?

Although the use of TEC seems most straightforward, we note that security factors and design levels also have a bearing on maximum availability. These should be considered further in determining maximum availability.

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?

Yes this is an appropriate approach as it should reduce uncertainty in the approach.

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

Yes, we agree with this approach at this time, but note that we believe there are potential benefits to be realised from allowing investment in incremental capacity, provided there is adequate certainty around allocation of stranding risk and cost recovery.

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?

We do not agree that setting an absolute threshold for incremental capacity would be beneficial. We believe it may restrict the potential for optimising the overall costs of the system, particularly in allowing flexibility in tendering for very large projects at the limits of technical feasibility or for 'smarter', integrated solutions.

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

We agree with the proposal to adapt the incremental capacity mechanism to allow Generator build of subsequent phases as this would allow the generator to assess the extra investment cost against the prospect of later projects, without needing to resolve the allocation of stranding risk from these projects.

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?

We welcome Ofgem's proposal to continue refining and developing the OFTO build arrangements as we believe that having a range of approaches to the provision of offshore grid assets is beneficial generally. We are currently developing our thinking in this regard, with a view to making OFTO build a more acceptable option for developers. In particular, we believe that for this to be possible, generators should be given greater control (over design, programme and costs) than under the current model. We will develop our thinking on this in the coming weeks and arrange to discuss our ideas with Ofgem.

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

No comment.