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Dear Megan

Offshore Electricity Transmission: Consultation on licence policy for future tenders

Thank you for the opportunity to respond to Ofgem's consultation published on 30 November 2012.

SSE is broadly in agreement with Ofgem's proposals and, in particular, welcomes the introduction of refinancing gain sharing which is a fairer approach for the energy consumer, particularly given the initial risk associated with the design and build of the assets is not undertaken by the OFTO under Generator Build option.

I hope this response is helpful. If you would like to discuss our comments in more detail then please contact me.

Yours sincerely

A handwritten signature in black ink that reads 'Lesley Gray'.

Lesley Gray
Regulation

Consultation Response

#	Question	Our Response
Chapter 2: Revenue Framework		
Q2.1	Do you agree that the 20 year revenue term is still appropriate for point to point systems?	<p>At present there is no evidence that would support the introduction of an alternative revenue period, therefore 20 years would seem appropriate.</p> <p>In relation to coordinated networks, we note that this is being assessed separately. Clearly if there is a need to support other OFTOs then the revenue period may have to be longer to support this continuing requirement.</p> <p>We note that additional consideration will be given to the situation where the useful life of the assets are longer than 20 years. We agree with Ofgem that it is appropriate to review this matter in accordance with individual project circumstances rather than seeking to prescribe the policy at this early stage.</p>
Chapter 3: Refinancing		
Q3.1	What do you think are the advantages and disadvantages of each refinancing policy option?	<p><u>Option 1</u> We do not agree that retaining the transitional regime policy would be fair or appropriate.</p> <p><u>Option 2</u> We consider that this is a fair and appropriate option, and is consistent with approach taken in relation to onshore transmission.</p> <p>In relation to the cons raised by Ofgem, we are unaware of any evidence suggesting that bidders would price expected refinancing gains into their bids. This is because, at the bid stage, it is extremely unlikely that refinancing gains would be foreseeable. We are also unaware of any evidence suggesting that investor appetite would be affected by a gain-share approach. Investors will take their investment decision on the basis that there will be no refinancing gains – as a gain of this nature cannot be guaranteed.</p> <p>We recognise that there may be additional administrative costs associated with this option, however this is justifiable in order to achieve a fair and proportionate approach to refinancing.</p>
Q3.2	Are there other refinancing policy options that you think we should also consider?	There are no alternative policy options that we would suggest.

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?	SSE can see no real difference between a refinancing and a merger – any resulting gains should be shared in the same way.
Chapter 4: Indexation		
Q4.1	What do you think are the advantages and disadvantages of each indexation policy option?	<p>SSE supports the continuation of the transitional regime policy of 100% indexation as this is consistent with the approach taken for onshore transmission and is the simplest option to manage.</p> <p>Options 2 and 3 introduce uncertainty and would prove complex and more difficult to administer. We cannot see a significant benefit in introducing a different approach for offshore transmission.</p>
Chapter 5: Revenue Incentives		
Q5.1	Do you agree with our proposal to introduce the capacity weighting mechanism to the availability incentive mechanism?	Yes, SSE supports the proposal to introduce the 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 at this time?	SSE recognises that the combination of the capacity weighting mechanism together with a penalty differential may not in practice provide significant additional benefit and we note Arup's findings in that regard. SSE does consider that it is important to encourage OFTO's to minimise unplanned outages in particular. As also indicated in our answer to Q5.3 below, SSE believes that there should be scope for the availability incentive to be reviewed at an appropriate interval and modified if the weighting mechanism does not successfully incentivise OFTOs to avoid unplanned outages.
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 believe that this issue should be capable of being reviewed again in light of practical experience.
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?	We agree that the use of TEC for the maximum availability will remain appropriate for point-to-point systems. However a more tailored approach may be required for coordinated systems. This will depend on the individual circumstances of the projects involved. Ofgem should therefore ensure that there is an ability to amend the maximum availability for coordinated systems should this be shown to be appropriate.
Q5.5	Do you agree with our intention to remove ICUA	Yes

	term and only use the ACA cost assessment term to calculate the remuneration for incremental capacity at this time?	
Q5.6	Do you agree with our intention to not introduce greater flexibility in relation to remuneration for incremental capacity at this time?	SSE has not presently developed a view on incremental capacity.
Q5.7	Do you believe that adding the absolute threshold for incremental capacity would be beneficial? If so, what should the value of the threshold be?	SSE has not presently developed a view on incremental capacity.
Q5.8	What are the benefits, drawbacks, risks and considerations in adapting the incremental capacity mechanism to allow Generator build of subsequent phases?	SSE has not presently developed a view on incremental capacity.
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?	<p>The challenges to the OFTO build model were discussed in the developer responses to Ofgem's December 2009 consultation and we do not intend to revisit these issues here. However, most important is the removal of uncertainty and risk relating to delivery of the OFTO assets. This is important to safeguard the financiability and, ultimately, the feasibility of generation projects.</p> <p>SSE considers that the challenges to the OFTO build model – the underlying reason for the retention of the Generator Build option in the enduring regime - should already be well understood by Ofgem. SSE believes that until the concerns of the developer community, raised in 2009, are properly addressed, the OFTO build option will continue to be under utilised in practice.</p>
Q6.2	Do you have any comments on the relevance of changes to the RIIO licence on the OFTO licensee	There should be consistency as far as possible between the onshore and offshore regimes. As part of the changes to the onshore transmission licence due to come into effect from 1 April 2013, two new standard conditions will be introduced to these licensees, namely B23 Data Assurance Requirements and B22 Requirement for Sufficiently Independent Directors. We understand the risks that these two conditions are intended to mitigate and believe that similar risks also apply to offshore transmission and therefore do not understand why a distinction is being made in their application to onshore but not offshore transmission



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