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4th February 2019

Moray Offshore Windfarm (East) Ltd. ("Moray East") is a major new offshore wind generation project currently under construction 22km from the North East coast of Scotland, in the outer Moray Firth.

The 100 turbine project will have a generation capacity for 950MW and, based on conservative wind estimates, will be capable of supplying the average electricity needs of approaching 1 million UK households.

The project, which commenced development in 2010, was granted planning consent in 2014, and is a landmark in the development of renewable generation in general and offshore wind in particular. In September 2017, Moray East was awarded a 15-year Contract for Difference (CfD) by the UK's Department for Business, Energy & Industrial Strategy ("BEIS") for the delivery of 950MW of offshore wind generation at £57.5/MWh (2012 tariff-based). The wind farm is expected to be operational by 2022.

The Moray East consortium is owned by EDPR (33.3%), Diamond Green Limited (which is partly owned by Diamond Generating Europe Limited) (33.4%), ENGIE (23.3%) and China Three Gorges (UK) Limited (10%). The project financing agreements were signed on 28th November with a syndicate of commercial banks as well as EKF, Denmark's Export Credit Agency ("EKF") and the Japan Bank for International Cooperation ("JBIC"). Financial close occurred on 6th December 2018.

Moray East is pleased to submit a response to Ofgem's "Targeted charging review: minded to decision and draft impact assessment" issued on the 28 November 2018. We set out a brief summary of our response below and enclose our response to the specific questions posed by Ofgem.

Moray East recognises that there is significant change within UK energy systems as users change the way they interact with the networks. We understand that this leads to inevitable regulatory change as adaptations are made to develop the network to function efficiently and effectively. However, the pace of change and potential scale of changes threatens investment in the UK energy market, particularly in respect to the development of large scale, low cost power generation which requires stability and foreseeability.

Moray East wishes to highlight the following:

- Ofgem has not evaluated the proposed changes against any decarbonisation criteria despite its overriding objective including a requirement to ensure that consumer interests in the reduction of greenhouse gases is kept.

- Consumer benefit from this regulatory change is unlikely to be achieved as the cost of energy delivered by power generation will increase to account for both increased network costs and increased regulatory risk faced by developers and operators.
- Investor confidence will be harmed due the level of uncertainty that surrounds the charging regime.

Questions or comments can be directed to:

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1) Do you agree that residual charges should be levied on final demand only?

Moray East does not have any concern with the approach in itself of levying residual charges on final demand only.

However the impact of this alongside the treatment of the transmission generation residual needs to be fully assessed in the round and Moray East considers that there is a significant risk that reduced cost to consumers will not be achieved through the proposed changes. This is on the basis that investor confidence will be harmed by increases in TNUoS charges for existing developments and the level of uncertainty that presently surrounds charging. This in turn may increase cost of capital for large power projects, placing upward pressure on ultimate cost to consumer.

2) Do you agree with how we have assessed the impacts of the changes we have considered against the principles? If you disagree with our assessment, please provide evidence for your reasoning.

The option assessment was carried out against three principles:

"a) Reducing harmful distortions

b) Fairness

c) Proportionality and practical considerations."[1]

The principal objective of the assessment was also described as being "to protect the interests of existing and future energy consumers." The impact assessment attempted to demonstrate how the principle objective aligned with the three principles. Whilst it stated "*We have been mindful of our environmental obligations and have formally assessed the carbon impacts of proposed reforms."* it is not clear if and where the proposed changes have been formally assessed against carbon impacts. We note that Ofgem's principal objective in full is *"to protect the interests of existing and future consumers in relation to gas conveyed through pipes and electricity conveyed by distribution or transmission systems. The interests of such consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases in the security of the supply of gas and electricity to them"*[2]

Moray East does not agree with the exclusion of any principles relating to the reduction of greenhouse gases or sustainability in any form. If Ofgem is to fulfil its principles it must take into consideration the environmental impact that these changes may have.

The proposed changes are likely to have a disproportionate impact on renewable generation as any increase in transmission network use of system (TNUoS) charges in £/kW terms will have a greater impact on generation with lower load factors, which renewable generation tends to have. Thus the proposed changes can be expected to have a significant impact on the future deployment of renewable generation.

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[1] Targeted Charging Review: Minded to decision and draft impact assessment

[2] Powers and Duties of Gas and Electricity Markets Authority (GEMA) the governing body determining the strategy and policy for Ofgem, https://www.ofgem.gov.uk/publications-and-updates/powers-and-duties-gema

6) Do you know of any reasons why the expected consumer benefits from our leading options might not materialise?

The focus of the options assessment has been on the immediate/direct cost of network charges to consumers but it is not clearly demonstrated that all potential consequential effects on the cost of energy have been considered. For example:

1. There is currently significant activity in the regulation of network charges with multiple consultations, forums and working groups looking at different areas of the charging regime. This is likely to have the effect of generating investor uncertainty in the UK regulatory system and with this comes increased cost of capital for future generation projects across technologies.
2. Removal of value from existing operational projects will also have a consequence with respect to investor confidence and cost of capital. It may also place upward pressure on wholesale energy prices given that many operational projects are partially or wholly remunerated through sale of power into the wholesale market.

In the case of Moray East, the project secured a CfD in 2017 and the level of change that is presently being proposed, and the potential impact on the investment cases for projects such as Moray East, is beyond what is reasonable if the UK wishes to provide a stable regulatory framework and encourage investment. The proposed changes, depending on final implementation and the outcome of other ongoing processes, may significantly erode the value of the Moray East project as a whole, which will impact negatively on investor confidence across the industry. This will drive the cost of energy up as investors look for a greater return and/or make greater risk provision for future projects, against a backdrop of perceived increased regulatory uncertainty.

If investor confidence in the UK's regulatory framework is to be maintained, with the associated benefits in terms of cost of capital and ultimately cost to consumers, the regulatory framework must consider the ability of users to respond to the signals that are sent through network charges. In the case of TNUoS, there is a risk of locational signals becoming amplified without adequate account being taken of cost reflectivity or the ability of projects to respond to those signals.

10. Do you agree with the conclusions we have drawn from our assessment of the following? a) distributional modelling b) the distributional impacts of the options c) our wider system modelling d) how we have interpreted the wider system modelling? Please be specific which assessment you agree/disagree with.

We do not agree with the assessment that Ofgem has used.

The Frontier Report[3] clearly states that "*renewable build is locked down between scenarios as per the "background" FES scenario."* Moray East disagrees with this approach. Whilst we understand that there are many areas of uncertainty within any model, limiting one of the key impacts cannot be an effective way to assess the overall impact of the changes.

3 Distributional And Wider System Impacts Of Reform To Residual Charges, Frontier, November 2018

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As stated in the response to question 2, the proposed changes can be expected to have a significant impact on deployment of renewable generation and therefore the assumption used for the assessment in relation to renewable build is unrealistic.

15) Do you agree with our minded to decision set out? If not please state your reasoning and provide evidence to support your answer.

We do not agree with Ofgem's minded to decision.

The proposed changes may have a number of consequences that are either unintended or have not been considered in the impact assessment, the most damaging of which is the harm to the renewable generation market across the UK. There is a risk of excessively amplified location signals instead of providing proportionate, predictable location signals which take into account investment decisions made on the basis of prior signals. In addition investor confidence will be reduced as these proposals erode the value of projects already in existence. Further to this the consumer savings that Ofgem so desire for the consumers are unlikely to be achieved as wholesale energy costs are driven up as a result of the uncertainty of UK regulation at a time when investment in the UK should be a priority. Furthermore the success of the CfD as a low cost energy route to market is being undermined as a result of charging uncertainty.

Ofgem's indications on BSUoS deliver yet more uncertainty into the industry. A BSUoS taskforce has already been set up to look specifically at the charging mechanism and results of this should be known prior to Ofgem making partial reform in the meantime. BSUoS changes are seen as further uncertainty and risks further increasing investment costs.

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