

Scira Offshore Energy Ltd

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Lowestoft, Suffolk, NR32 1DE, UK.

Mr. Richard Daniels
DTI Offshore Transmission Team

Date : 8th January 2007

Subject : Licensing Offshore Electricity Transmission – A joint Ofgem / DTI consultation

Dear Sirs,

References : 199 / 06 (Ofgem) & 06 / 1952 (DTI), Dated : 20.11.06

We would refer to the above titled consultation document sent undercover DTI's e-mail dated 20.11.06.

Herewith, in the Appendix to this letter, please find comments to the consultation from Scira Offshore Energy Ltd.

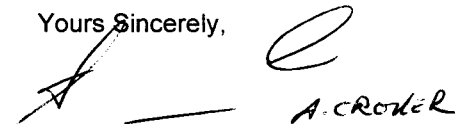
As a general summary we find that the Partial RIA document describes reasonably well the advantages and disadvantages of the 'non-exclusive' and 'exclusive' license systems when considering the current knowledge base. The conclusion that both systems are workable seems to be acceptable at this current moment in time, however, it is considered to be a premature conclusion (Ofgem) that the non-exclusive approach is to be preferred.

On the basis of available information, and especially when considering the limited knowledge that would be available to an Offshore Transmission Owner (OTO) at the time of making a Grid Connection Offer (and hence the necessary caveats that this would impose in any provided offer) it would appear at this stage that an 'exclusive' system would be preferable. However, a provision of this preference is that 'socialization' of development costs is not undertaken except where clear synergy effects result in reduced costs for an individual development.

Scira Offshore Energy Ltd. would also like to take this opportunity to respectfully comment that the issue of 'Adoption' requires urgent consideration. Procedures related to transfer of liabilities (including planned schedules, designs and existing assets) incurred prior to the introduction of the new regulatory arrangements requires to be formalized and finalized.

A very Happy New Year.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'A. Croker', is written over a horizontal line.

Andrew Croker
Grid Manager
On behalf of Scira Offshore Energy Ltd.

Appendix

Comments to Consultation document : 199 / 06 (Ofgem) & 06 / 1952 (DTI), Dated : 20.11.06

Below are Scira's individual comments to selected subject issues :

Quantifiable Comparisons of Offers

The basic statement in the consultation documents is the belief that competition in providing transmission infrastructure offshore would result in efficiency advantages. This belief is translated into an argument for non-exclusive licenses. However, at the time when a Grid Connection Offer is to be made there will be only limited individual Project Development knowledge available due to Developers requires to minimize investment prior to achieving an accepted 'Bankable Project'. Offshore Transmission Owner (OTO), Grid Connection Offers will therefore of necessity contain caveats to ensure that the OTO risk exposure is kept at an acceptable level. The practicality of qualified comparison of offers that contain, non-quantifiable, caveats is questionable.

The bid evaluation could potentially be extremely complex and it is unclear what criteria (costs, timing, risk, track-record, etc.) the GBSO (or other independent authority) would utilize in selecting the 'winning' OTO in a non-exclusive bidding round.

Limited number of non-exclusive OTO's

It is considered that the marketplace for OTO competing activities will be quite limited because of:

- the moderate number of projects (even in the longer run)
- differing timing/phasing of development plans for individual developers, and,
- credit rating, technical ability and existing organizational infrastructure required by the OTO to provide the required service.

Hence, it is questionable whether the theoretical benefits of liberalized markets materialize as expected.

Offer Guarantee

Exclusive licenses imply the obligation for the license holder to provide an offer (within a given timeframe) and as such provide security for developers / applicants. This guarantee is lacking in the case of non-exclusive licenses. In turn this risk may translate to (substantial) additional financing costs - at least in a number of cases – which potentially destroys the economic expected benefits of the non-exclusive license.

'Last Resort' Approach

The approach of non-exclusive licenses implies the risk of 'cherry picking' by the offshore TO's. Projects promising economically attractive, low risk, exploitation will easily get an offer. More difficult projects may get no offer at all. Without a 'last-resort' solution respective developers will have to become active themselves (license applicant) and, hence, face higher risk and consequently higher cost. This may kill even respective projects and thus endanger the targets. The mixture of a non-exclusive approach and a 'last-resort' solution is considered problematic.

In cases where there is no interest of independent OTO's to provide a connection and the developer himself is the only one being able to go ahead the combination of being generator and a regulated,

licensed TO may introduce significant legal problems, e.g. conflicts of interest may arise, when 3rd parties apply for access to existing infrastructure.

Strategic Planning

The expected advantages of strategic planning associated with exclusive licenses would appear to be somewhat speculative. Working with 'time windows' as mentioned in the consultation document is not considered to be practical. It would require a synchronization of private investments and all underlying processes (EIA, etc). Additionally, as already shown in the Econnect study¹, because of technology restrictions, the benefits really achievable are quite limited. When implementing an exclusive license mechanism it should be ensured that the argument of looking for synergies and common benefits can never be used by the OTO to extend response periods, complicate application procedures or delay procurement / implementation of transmission assets.

Socialisation of Costs

It is unclear with the exclusive option as to what extent OTO 'socialization' of development costs (e.g. within a certain zone or area) is being considered/required by DTI/Ofgem.

It is assumed that there will be no consideration of such in regard to the non-exclusive option.

Economic Justification of Non-Exclusive Approach

The economic justification of the non-exclusive approach in the consultation documents seems to be simplistic. The documents argue that the exclusive license approach potentially results in higher extra costs of offshore wind and thus electricity prices for final customers. However, the reduced planning risks of an exclusive approach results in lower financing costs for developers possibly offsetting the potential inefficiencies of an exclusive approach. In the longer run lower project costs, of course, translate into lower price for final customers electricity prices.

We are not aware, whether a respective macro-economic assessment of the cost implications has been performed and forms the basis for the documents, or to what extent such a costing exercise is considered to be practicable. However such an assessment would be a precondition for a rational choice. Without such analysis, the reduced planning risks would lead to the conclusion that there is a clear advantage in an exclusive approach.

Transition from Current Situation to Offshore Transmission Price Control

The documents seem, to a large extent to ignore a number of the major, concrete questions related to the transition from the current situation to the licensed TO business offshore. These questions have already been raised by the industry earlier.

Round 2 developers cannot wait with the design and procurement of transmission infrastructure until commencement date. The issue of how to organize transfer of liabilities or already existing assets and how to adjust a price control mechanism to pre-control investments requires to be formalized. One of the major expected advantages of regulated markets is that price drivers such as interest and depreciation periods are controlled by the Regulator. Pre-commencement investments decisions are not subject to regulation and, hence, neither are the costs. For the developers, adequate recovery of investments is highly uncertain.

¹ The Econnect: "Study on the development of the offshore grid for connection of the Round Two Wind farms", (Econnect Project No. 1312, ordered by the DTI), January 2005

If an OTO wins a license for a certain project this does not automatically imply that this license holder adopts all existing designs, plans and associated development costs (including existing investments) from the developer. Creating a formalized framework that clarifies these risks will be extremely challenging but needs to be put in place at the soonest available opportunity.

General Summary

As a general summary we find that the Partial RIA document describes reasonably well the advantages and disadvantages of the 'non-exclusive' and 'exclusive' license systems when considering the current knowledge base. The conclusion that both systems are workable seems to be acceptable at this current moment in time, however, it is considered to be a premature conclusion (Ofgem) that the non-exclusive approach is to be preferred.

On the basis of available information, and especially when considering the limited knowledge that would be available to an Offshore Transmission Owner (OTO) at the time of making a Grid Connection Offer (and hence the necessary caveats that this would impose in any provided offer) it would appear at this stage that an 'exclusive' system would be preferable. However, a provision of this preference is that 'socialization' of development costs is not undertaken except where clear synergy effects result in reduced costs for an individual development.

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