

Dear Sirs;

Offshore Electricity Transmission: Updated Proposals

We offer the following observations in connection with Ofgem proposals to managing the tender process for identifying offshore transmission owners (OFTOs), and the regulations that would support the process. This also includes draft Pre-Qualification, Qualification, Tender Regulations and Invitation to Tender:

Representatives of this organisation have attended the external seminars and briefings - to include the recent the DECC/ Ofgem Offshore Transmission External Communication Session on 7 April 2009 - attended with over 90 participants.

At time of writing, the summary of the question and answer sessions - 7th April - appears not to have been published;

We confirm two aspects we consider require further attention;

1. Unknown Unknowns - Risk assessment to the OFTO - Incentives and Adjustments - 7 April 2009

The current volatility in the Energy Market as a whole governing level of excess and corresponding level of insurance and re-insurance premium across the spectrum of statutory and all risk exposure is driven by independent market forces: Specific to subsea power cables, this is showing levels of exceptional volatility at premium exposure with potential to impact severely on fund and contribution projections for a given OFTO business model;

In exceptional cases, driven by the insurance and reinsurance market, internal examination of corresponding in-house models for given energy risk may see the complete withdrawal of cover in all classes associated with energy and sub-sea risk; the recent heavy losses incurred within the Petroleum Energy and Subsea Interconnector market supports this propensity for fundamental shift in cover criteria: this further applies to business interruption and asset replacement conditions

The regulated maximum cap on revenue flow over a twenty year OFTO licence, exceptional fluctuations in premium cost and level of excess over the life of a licence, viewed as an unknown-unknown (quote - seminar 7th April) potentially gives rise to unquantified instability for a given economic model;

The absence of limits to reasoned values covering asset and liability protection gives rise to re-evaluation terms for a given OFTO financial underwriting; extensive fluctuations to this regime, as described above, when viewed as a variable factor during the life of a project, will result in excessive contingent values for given OFTO model at the outset; adopted by the majority of OFTO applicants, it will give rise to a excess contingent levy being applied over the term of the licence: - this does not serve the interest of the consumer or the OFTO.

Our view suggests risk mitigation and corresponding cost allocation should be driven by a transparent formula for all OFTO applicants - enabling OFGEM to re visit on a quantified basis, for reasons beyond the reasonable control of all

parties - ie. factors in excess of that expected in a reasoned economic model at the time of application;

2. Supply Chain - Subsidiary & Third Party services to the OFTO throughout the Licence regime;

In granting of an OFTO licence, notwithstanding full examination of all qualifying criteria deemed appropriate for a successful applicant to be awarded the OFTO licence, OFGEM /BERR implement steps to throughput stability to the supply chain of all components associated the installation and term serviceably of the licence; this will assist technology transfer and development to drive a quality regime within a given performance criteria for the life of the licence; should an OFTO elect to replace specialist or other component after award, the licence will call for OFGEM sanction after examination of the replacement proposal in order to ensure continuation of a minimum qualitative standard;

This will contribute to long term investment security within the supply chain - enhance technological and component product development within the OFTO regime - and correspondingly benefit the consumer as a whole.

yours faithfully,

Michael Brooks