

By email
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Dear Sam

Offshore Electricity Transmission – An Open Letter on the Enduring Regime

Thank you for the opportunity to provide early views on the imminent consultation on the Offshore Electricity Transmission Enduring Regime. This non-confidential response is on behalf of the Centrica group of companies excluding Centrica Storage Ltd.

Centrica believes that adjustments are required to ensure that the enduring arrangements will be suitable to most efficiently facilitate the scale of investment envisaged for offshore wind projects.

As an offshore wind developer, Centrica needs to be assured that:

- A competent, efficient, cost-effective and consistently high performing OFTO will be appointed for projects the developer wishes to progress;
- The process of appointing an OFTO will not result in overall delays for commissioning;
- Construction, required repairs and any transfer or revocation of OFTO licence will be completed in a timely manner such that no generator asset is stranded;
- Phasing of projects can be accommodated in a simple manner; and
- The charging regime is predictable, transparent, fair and not subject to frequent change.

We therefore urge that, in considering the enduring regime, Ofgem:

- Explores the option of appointing an OFTO per zone and/or per phased project;
- Considers how best to accommodate low regret strategic investment;
- Works with industry to develop an improved OFTO availability incentive;
- Includes an OFTO of last resort mechanism;
- Consider the length of the revenue stream. With the extended terms of the Crown estate leases, it would make sense to more closely align the length of the revenue

stream with the expected life of the wind turbines. This would minimise the need for a reappointment of the OFTO or a re-tender exercise.

We discuss areas raised in the letter in more detail below.

Lessons Learnt

Centrica welcomes Ofgem's flexibility to undertake lessons learnt from the initial tender rounds and to apply improvements into future tenders. This exercise should incorporate feedback from all stakeholders.

Timing of OFTO appointment

Centrica supports consideration of the timing of OFTO appointment. However, the focus in the letter is on OFTO risk and the user commitment arrangements. Ofgem should also recognise and consider the risks to the generator/their investors. Early OFTO appointment could lead to the OFTO seeking many variations from the supply chain which would take significant resource to design and price. This highlights the need for developer input into the selection of the OFTO, as otherwise it would leave the developer at significant risk of receiving a design that is sub-optimal or not to its satisfaction. Centrica therefore welcomes Ofgem's willingness to consider developer involvement in the OFTO selection process.

If a developer decides in favour of a late OFTO appointment and therefore to do much of the consenting and design before going to tender, then the supply chain is not being engaged by its customer. The OFTO, when actually engaging the supply chain, might then find that lead times are significant due to global demand and the changing economic climate, reducing the attractiveness of the proposition. Under this option, the developer also risks significant sunk costs and no OFTO coming forward. Therefore we believe it remains essential that there is an OFTO of last resort mechanism in the enduring regime and that Ofgem should consider this option in its December consultation.

Preconstruction work

To ensure the developer does not undertake work for which it cannot recover its costs, Centrica would welcome clear criteria of what pre-construction work undertaken by the developer can be recovered from the OFTO.

Future capacity increases and anticipatory investment

Centrica agrees that there should be consideration of the treatment of future capacity increases and to re-evaluate the 20% cap on incremental capacity. Consideration should be given to how the revenue streams (and availability incentive) pre and post the incremental investment are decided and how customer interests are protected.

There needs to be a mechanism by which low regret anticipatory investment can be made. The size of future projects are such that phased construction is likely to be common. The enduring regime should accommodate phasing requirements such that these projects are not deterred and the regime facilitates the most economic and efficient designs and build programmes. To this end Ofgem should consider adjusting the selection criteria to put a

degree of weight on accommodating phased developments flexibly where the developer has indicated they desire this. This would ensure that it is not just the cheapest point to point connection that is awarded the licence, but the OFTO that can deliver the best overall solutions.

The availability incentive

Centrica agrees that changes may be required to the availability incentive to ensure it is suitable when there is offshore interconnection.

In addition, Centrica would like to thank Ofgem for recently providing additional information on the interpretation of the OFTO special licence conditions which included the spreadsheet to calculate OFTO revenues. Centrica has reviewed this documentation and believes that improvements can be made to the current availability mechanism proposed. Given it is clear that the annual cap on OFTO allowed revenue at risk will be 10%, improvements could be made to ensure the strongest incentive is achieved from this 10% level in combination with the banking mechanism. Centrica believes that the detail of the availability incentive should be included in the enduring consultation and this could also feed into improvements for the current tenders.

Charging

It is essential that a predictable, transparent and fair charging mechanism is developed for projects that will be phased or will share assets. This area needs to be addressed and discussed in the December consultation.

Additionally, Centrica does not believe that it is currently clear how some pass through items of OFTO revenue will translate into TNUoS. For example, it should be clear that the Temporary Physical Disconnection Term in the generic OFTO special licence conditions is an element that should be socialised across the generality of customers as it would be perverse that the generator ultimately pays the full amount of its own compensation for an outage on the offshore transmission line.

Other Areas

Centrica welcomes the following areas being considered in the enduring regime in the December consultation:

- Appropriate sharing of refinancing gains; and
- Subject to the detail of any such agreement, Centrica supports the concept of asset transfer agreement to ensure the developer recovers its preconstruction works costs. There needs to be prompt, detailed and accurate guidance in this area with due consideration to commercial drivers.

Centrica would like to reiterate our thanks to Ofgem for the visibility of the areas in the upcoming consultation and for the opportunity to comment on these. We look forward to the consultation.

If you have any questions or comments relating to this response, please contact me on the number above or at chris.stewart@centrica.com

Yours sincerely

By e-mail

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