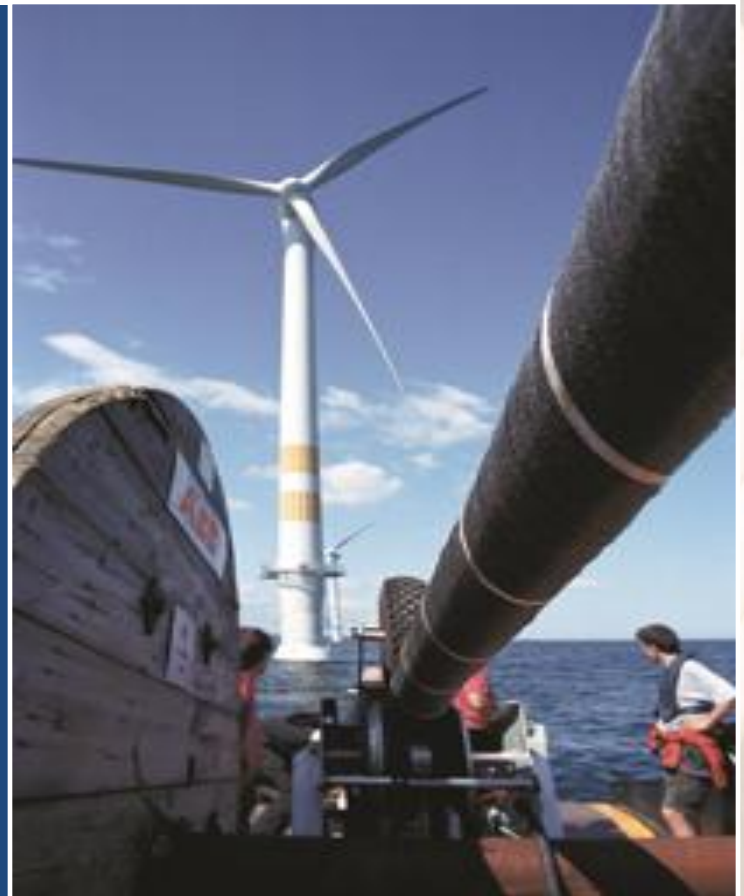


Offshore Transmission

Connecting a Greener Future

**OFTO Round 2 Launch Event
17 November 2010**



EVENT PROGRAMME

8.15am	Registration
9.00am	Main Presentation
Welcome	Alistair Buchanan CBE, Chief Executive, Ofgem
Government Perspective	Charles Hendry, Energy Minister
Offshore Regime	Bob Hull, Managing Director, Commercial, Ofgem E-Serve
Tender Round 2	Stephanie McGregor, Director, Offshore Transmission, Ofgem E-Serve
Investment Profile	Lorna Shearin, Managing Director, RBC Capital Markets
Funders Panel Discussion	Chaired by Patrick Holland, Director, RBC Capital Markets
Q&A	Bob Hull, Stephanie McGregor, Lorna Shearin
Closing Remarks	Bob Hull, Managing Director, Commercial, Ofgem E-Serve

Welcome

*Alistair Buchanan CBE
Chief Executive, Ofgem*

ofgem

**Presentation by Alistair Buchanan
CEO Ofgem**

**"RIIO": A NEW WAY TO CONNECT TO A GREENER
FUTURE**

November 17 2010

PART OF THE OFGEM PACKAGE IN 2010

CONSUMER FOCUS: Mis-selling review, 65 day rule, CAB campaign, annual statements, financial statements

LEGAL ACTIONS: Big win with Supreme Court Ruling (August 2010)

SECURITY OF SUPPLY: Assisting HMG on Market Reform after Project Discovery closed in June 2010

NEW PROJECTS HIT MILESTONES: Smart Meters prospectus and Offshore Rd1 (August 2010)

PUSHING EU FORWARD: Highly involved in “Agency”

BUT TODAY THE FOCUS IS ON RIIO

BACKGROUND TO RIIO – (1)

(1) New Network Challenges

- Top Down
- Bottom Up

(2) New Political Imperative

- Scale
- Urgency

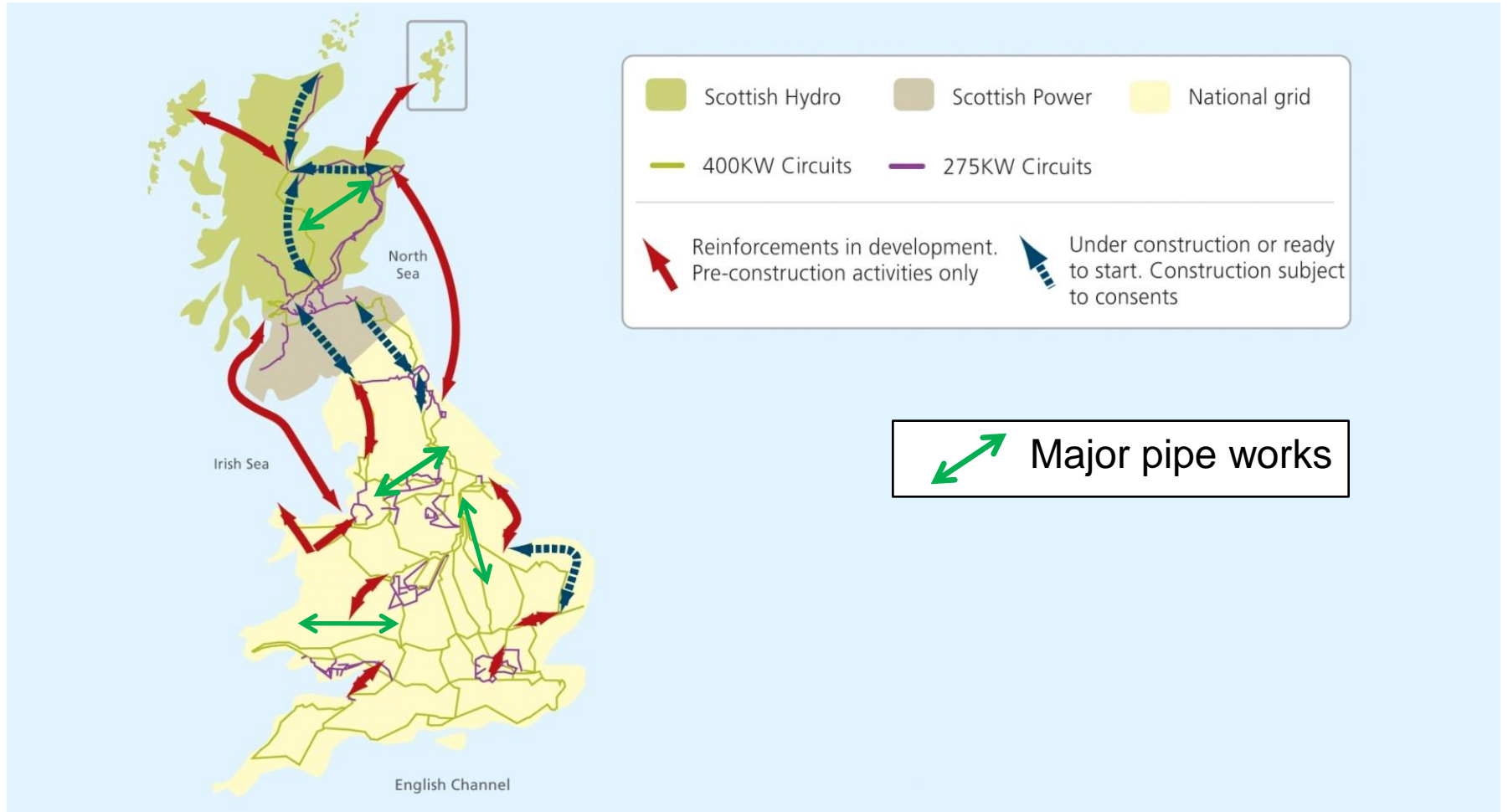
(3) Old Regime (RPI-X)

- Not appropriate
- Bits gone wrong

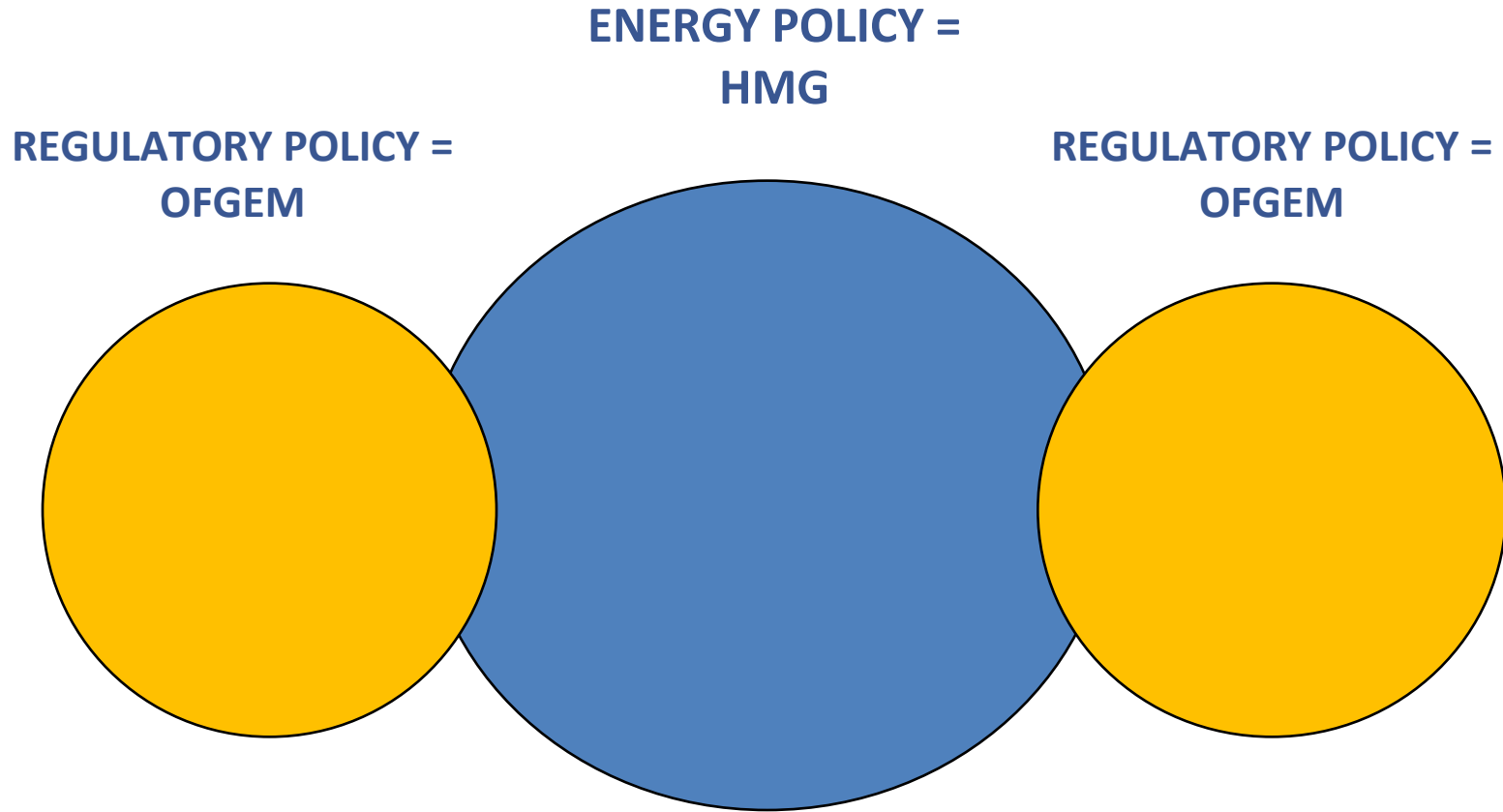
(4) RPI-X being perverted

- Interim Awards
- Sustainability Impacts

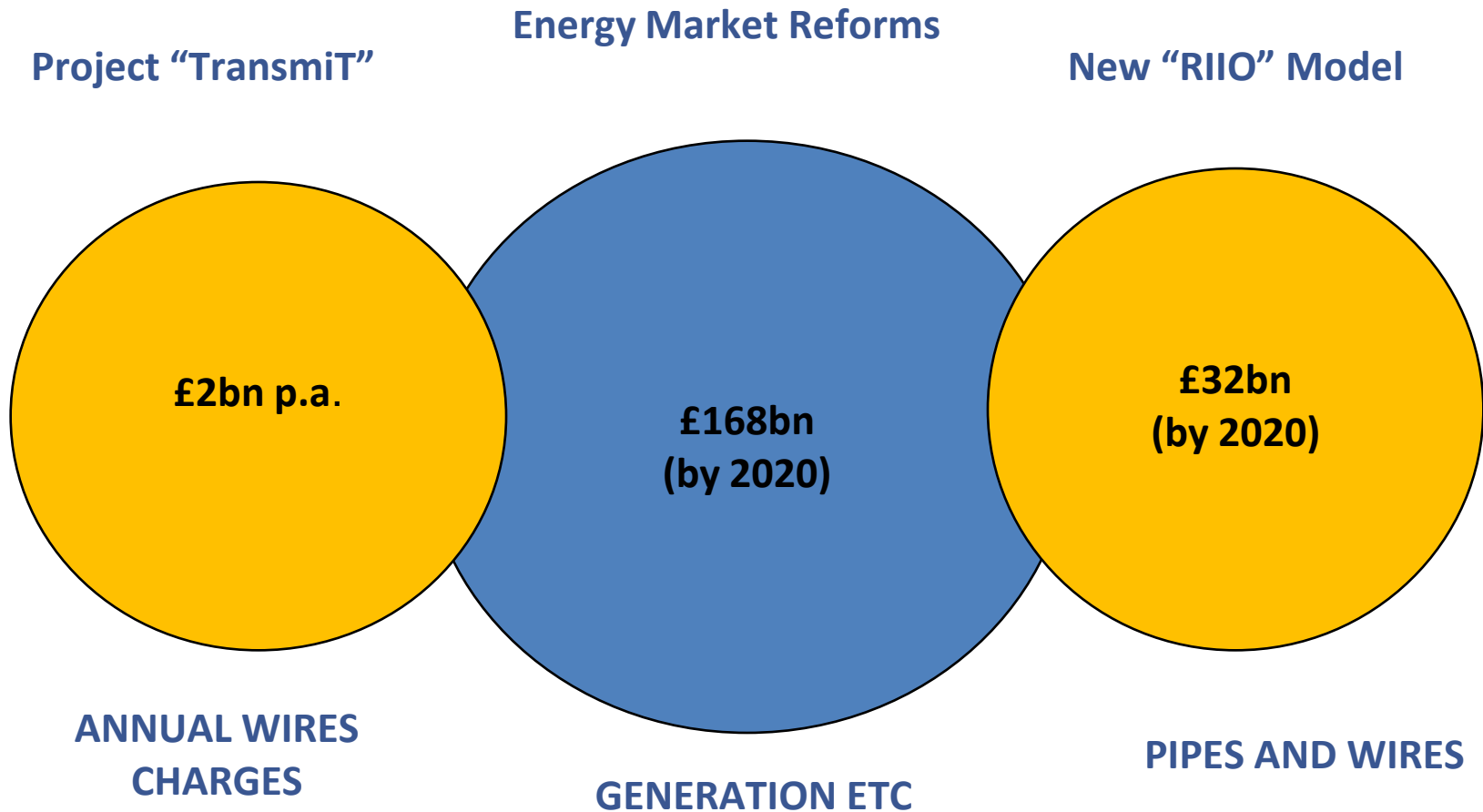
BACKGROUND TO RIIO – (2)



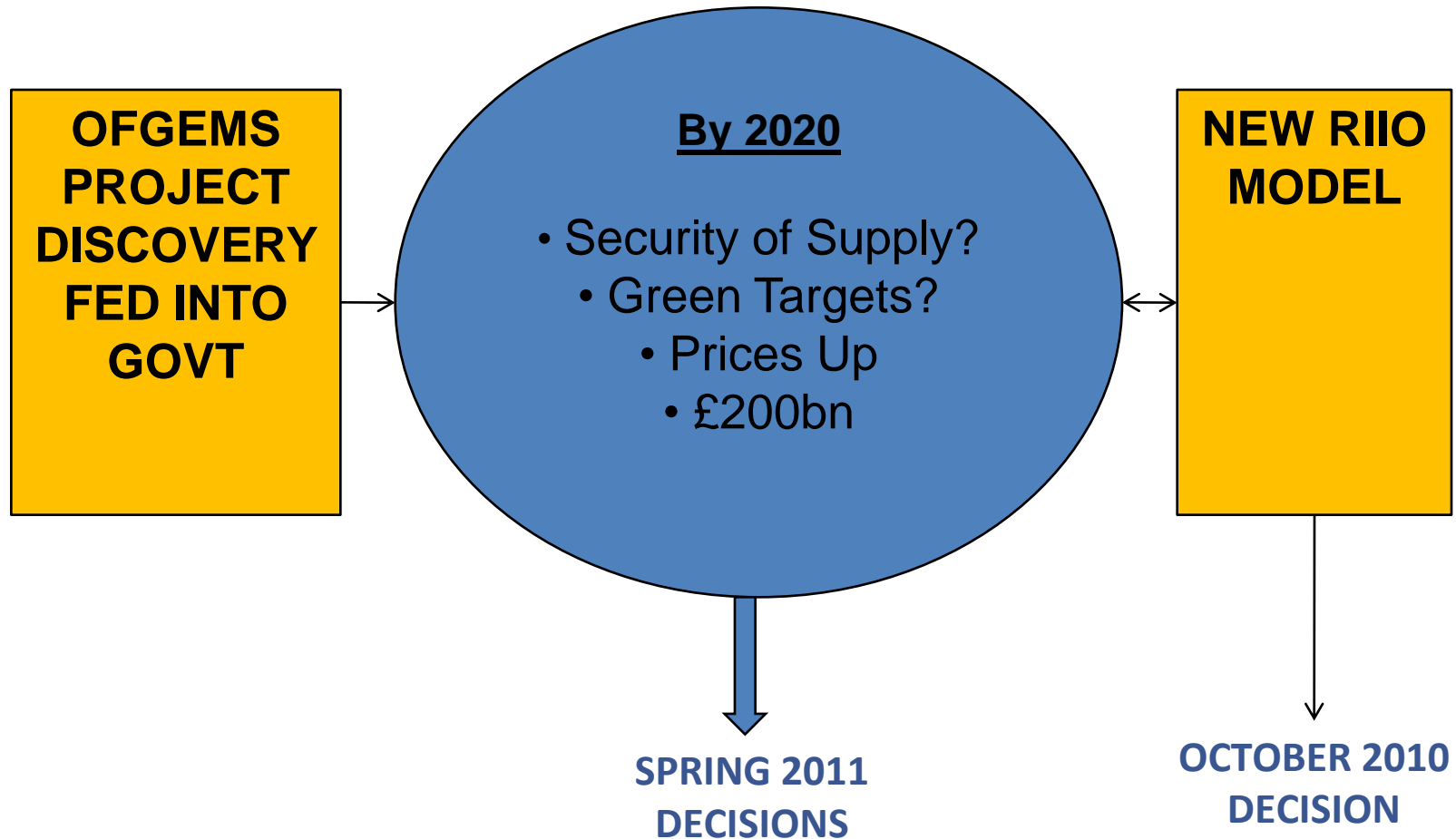
BACKGROUND TO RIIO – (3)



BACKGROUND TO RIIO – (4)



BACKGROUND TO RIIO – (5)



Government Perspective

Charles Hendry MP

Minister of State for Energy

Offshore Regime

Bob Hull

Managing Director, Commercial, Ofgem E-Serve

Agenda

- Background
- Overview of the regulatory regime
- Tender Round 1
- The enduring regime
- Summary

Background to the offshore regime

Context

- £200bn energy investment required by 2020
- Government target of 15% renewable energy by 2020
- Large proportion of this from offshore wind

Offshore Wind Generation

- Over 1GW already operational
- Further 7GW + expected to be operational by 2015
- Potential for an additional 40GW under Crown Estate Round 3

Regulated Offshore Transmission

- New regulated asset class
- c£20bn potential investment
- Ofgem run competitive tender process

Offshore Transmission – 2 key themes

Regulatory Framework

- Government decision that Ofgem will regulate onshore and offshore transmission
- Long term certainty for offshore generators – aids investment in generation
- Characteristics of onshore regime maintained offshore

Competitive Tendering

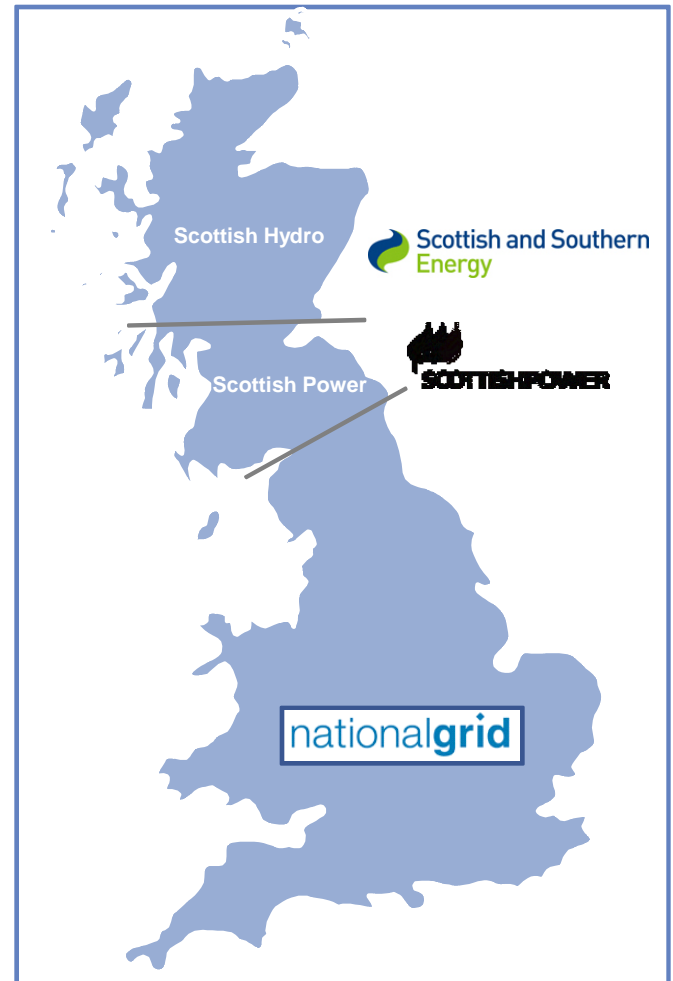
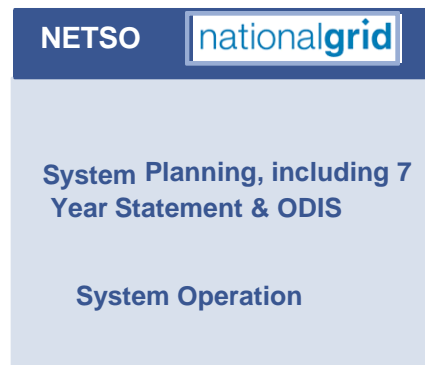
- Licenses granted to OFTOs by competitive tender
- Competition preferred to extension of onshore monopolies or merchant transmission
- Ofgem E-Serve to run tenders instead of periodic price controls
- OFTOS to bid 20 year revenues
- Long term, low risk investment profile

Transmission overview

Transmission ownership – onshore

- 3 existing licensed onshore transmission owners
- Regulated through price controls
- Nearly £4 billion of new onshore investment allowed in current regulatory period

Transmission Coordination – onshore and offshore



Overview of the regulatory framework

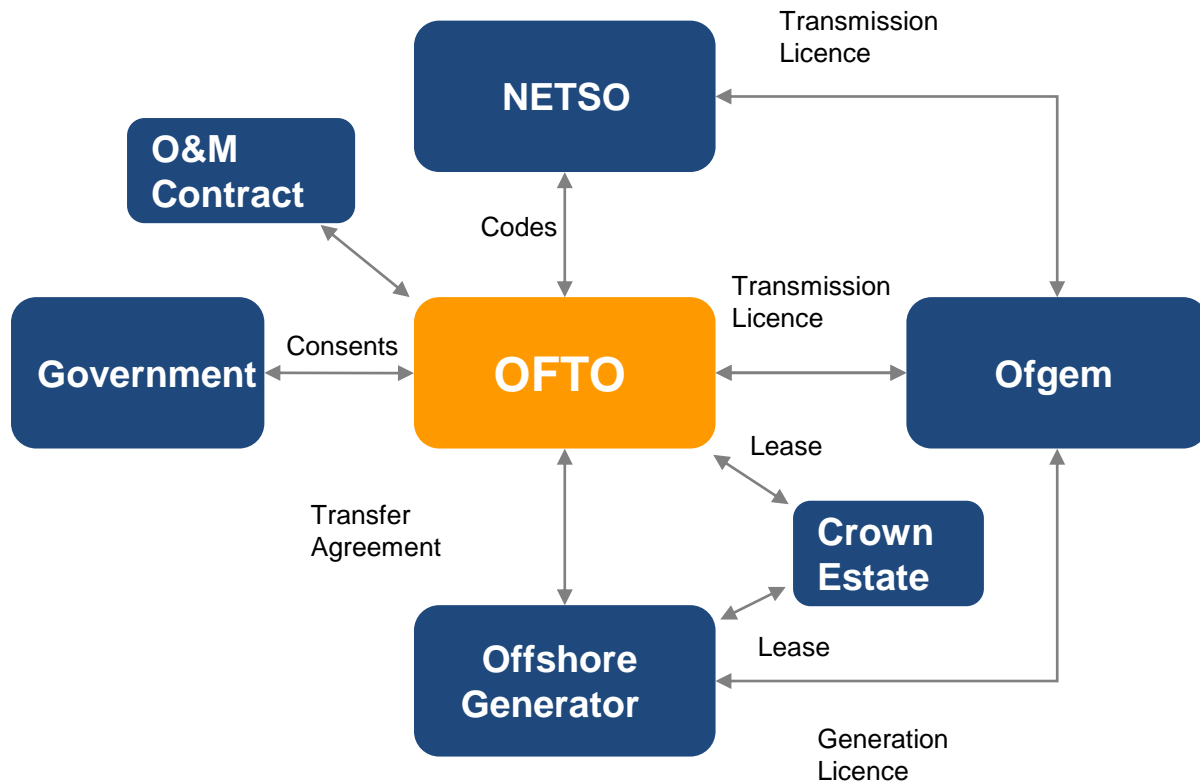
Low Risk Revenue Stream

- 20 year revenue stream
- availability based
- no automatic periodic regulatory review
- no construction, energy or stranding risk, low counterparty risk – no generator exposure
- well defined and proven regulatory regime – extending onshore precedent
- well defined tender process

Revenue Adjustments

- availability incentives and penalties capped at 10% of revenue
- post-construction revenue adjustments to reflect final transfer value
- revenue fully indexed to RPI
- cost pass through and pre-defined adjustments for Ofgem costs etc
- incremental capex up to cumulative 20%
- possible extension or re-tender at the end of the revenue stream

Commercial structure



Key Documents - status	
Codes	Updated and available on Ofgem's website
Transmission Licence	Updated Special Conditions now available on Ofgem's website
Transfer Agreement	Ofgem will publish guidance shortly Project specific versions will be provided to bidders during tender process

Key industry codes

nationalgrid

STC

The STC Code defines the high-level relationship between the GB System Operator and the Transmission Owners. It is supported by a number of procedures (SOTO Code Procedures or STCPs) that set out in greater detail the roles, responsibilities, obligations and rights etc of the NETSO and the TOs.

nationalgrid

CUSC

The Connection and Use of System Code (CUSC), which constitutes the contractual framework for connection to, and use of, National Grid's high voltage transmission system.

nationalgrid

Grid Codes

The Grid Code is required to cover all material technical aspects relating to connections to and the operation and use of the transmission system or, in as far as relevant to the operation and use of the transmission system, the operation of the electric lines and electrical plant connected to it or to a distribution system.

The Grid Code also specifies data which system users are obliged to provide to National Grid for use in the planning and operation of the transmission system

DCode

Distribution Codes

Licensed electricity distribution businesses, or Distribution Network Operators (DNOs), are obliged under Condition 21 of their licences to maintain a Distribution Code detailing the technical parameters and considerations relating to connexion to, and use of, their electrical networks.

Co-ordinated development

National Electricity

Transmission System Operator:

- Licence responsibility to develop and maintain an efficient, coordinated and economical system of electricity transmission
 - Manages the contractual interface of the NETS
 - Publishes annual Offshore Development Information Statement

Generators:

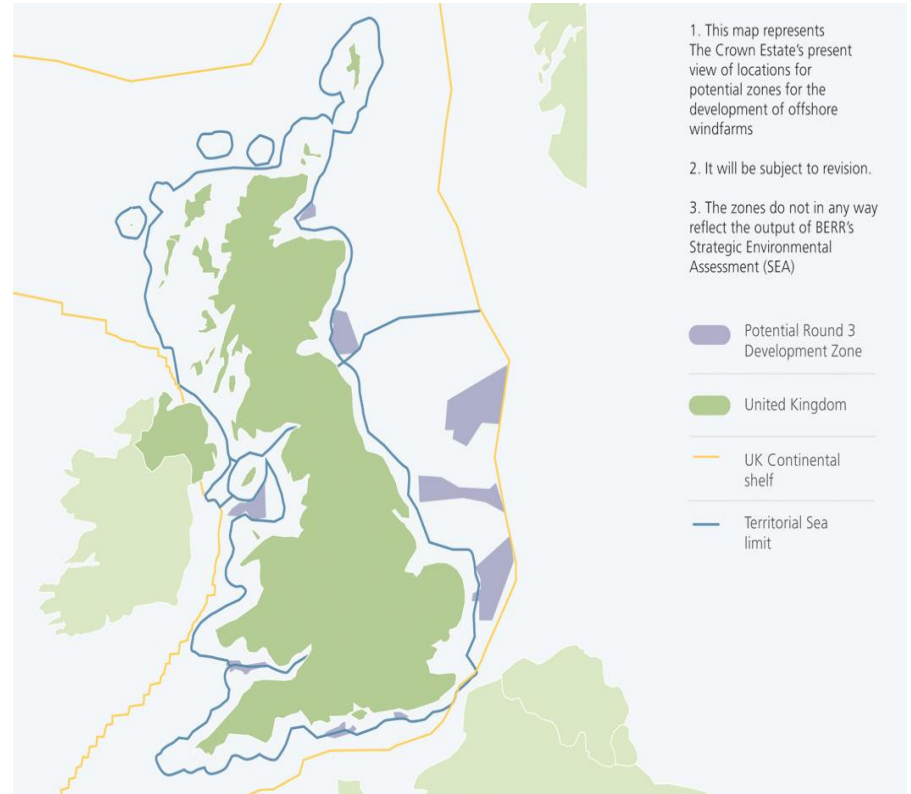
- Responsible for decisions about how much capacity to request and where

Crown Estate:

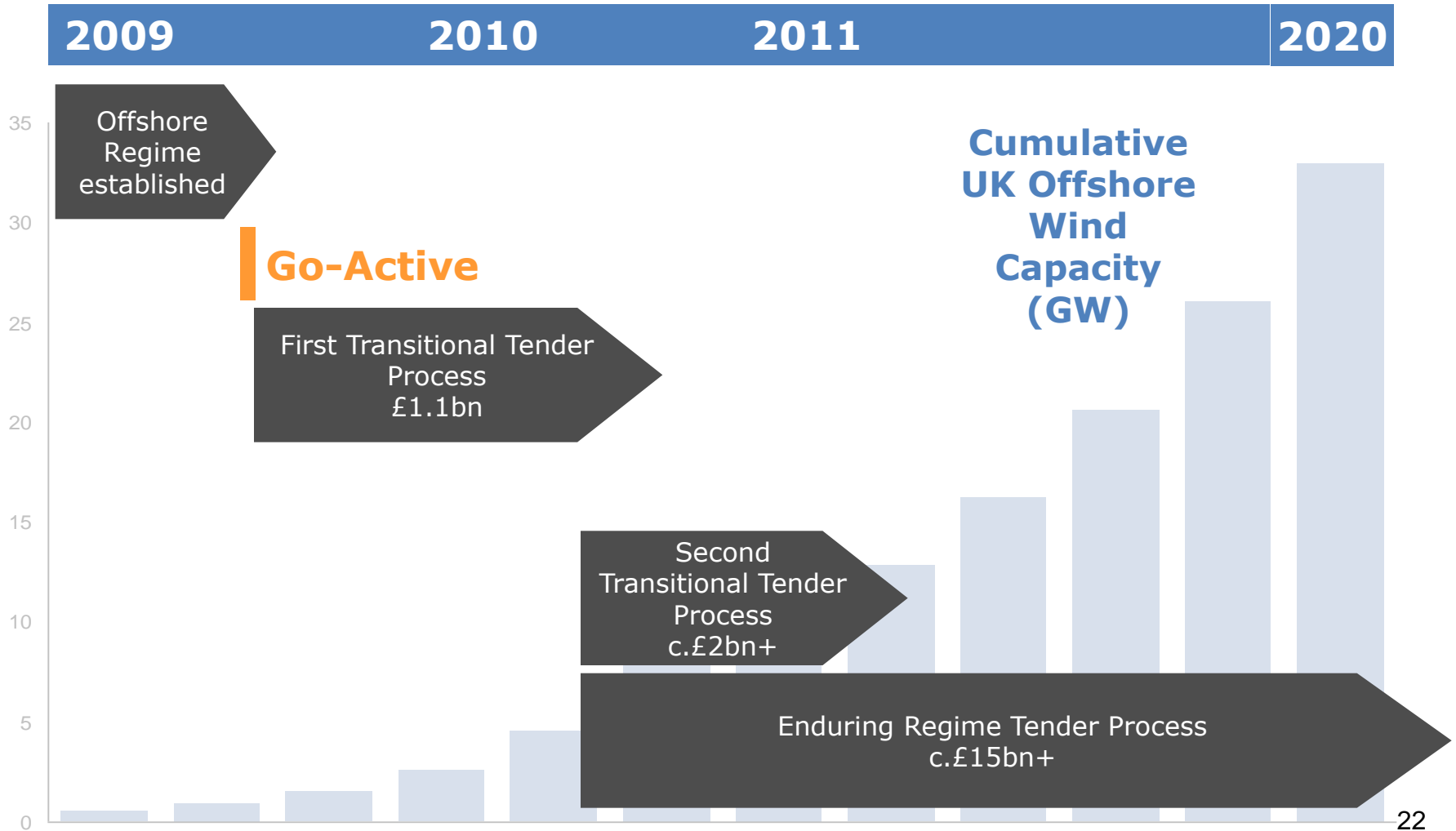
- Co-investor in Round 3 zones
- Award of cable route leases

Crown Estate Round 1 & 2

Crown Estate Round 3



Competitive tender rounds to deliver OFTOs



Tender Round 1 – headline figures

High appetite
for
investment

- £4 billion investment for £1.1 billion of assets

Tender
Round 1
savings

- Tender Round 1 expected to deliver c.£350 million savings to consumers and developers

EIB Funding

- European Investment Bank have earmarked over £300 million in funding

Tender Round 1 – key milestones

22 July 2009

Tender commenced with 9 projects qualifying as Transitional (total asset value of £1.1bn)

14 December 2009

Shortlist of 6 bidders announced

28 October 2010

Preferred Bidder selected for Ormonde

23 August 2009

Long list of 13 bidders announced

5 August 2010

Preferred Bidders for 7 projects announced

Tender Round 1 – outcomes

Project	Preferred Bidder
Barrow Gunfleet Sands Robin Rigg Ormonde	Transmission Capital
Thanet	Balfour Beatty
Walney I Walney II Sheringham Shoal	Macquarie

Tender Round 1 – next steps to conclusion

Section 8a 28 day statutory licence
consultation for each project

Notification of successful bidders

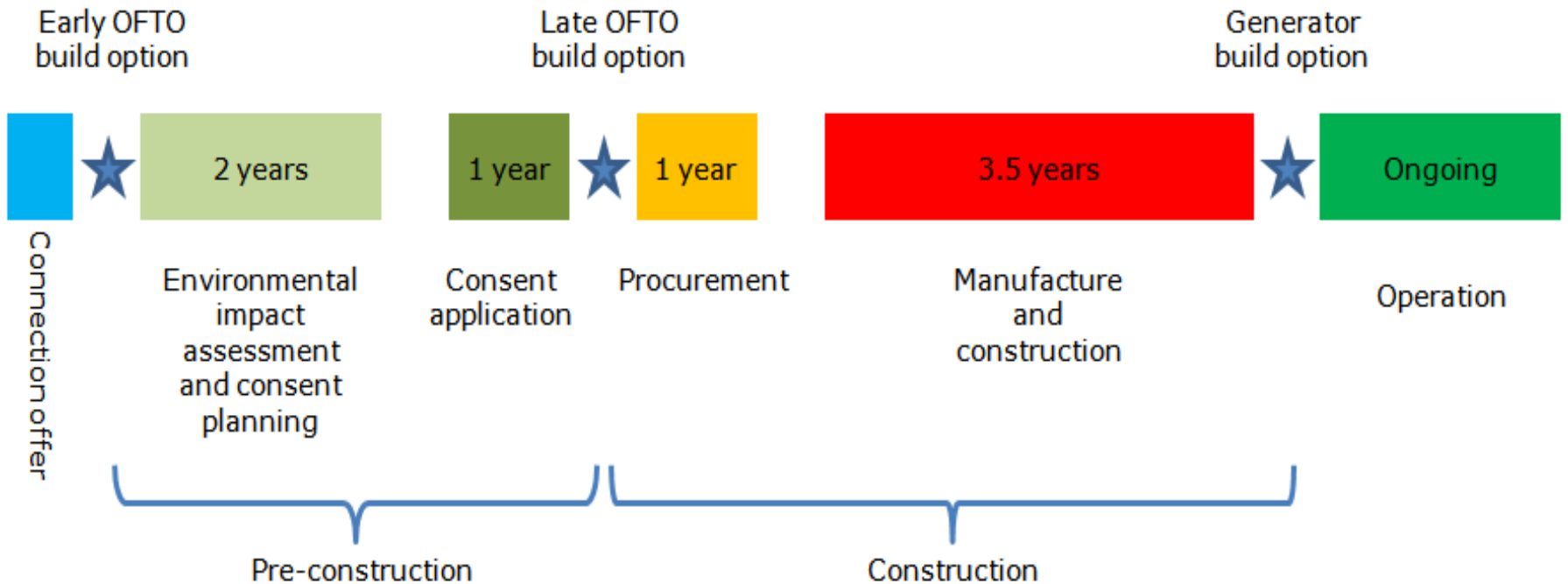
10 working day standstill period

Financial Close

Grant of OFTO licences

The enduring regime and OFTO build options

We present three approaches: Early OFTO build, Late OFTO build and Generator build



Key benefits of the new regime

- **For Generators**

- Delivers cheaper and more timely offshore grid connections
- Focused on generator's requirements; fit for purpose assets
- Flexibility for future offshore generation needs
- Reduces generators overall capital need per MW

- **For OFTOs**

- Enable new entrants to compete in this market and bring innovation
- Long term regulatory certainty and light-handed regulation
- Low risk – OFTO protected against generator failure and credit risk (and construction for transitional projects)

- **For Consumers**

- Value for money in electricity bills - £350m of savings on Tender Round 1

Tender Round 2

Stephanie McGregor

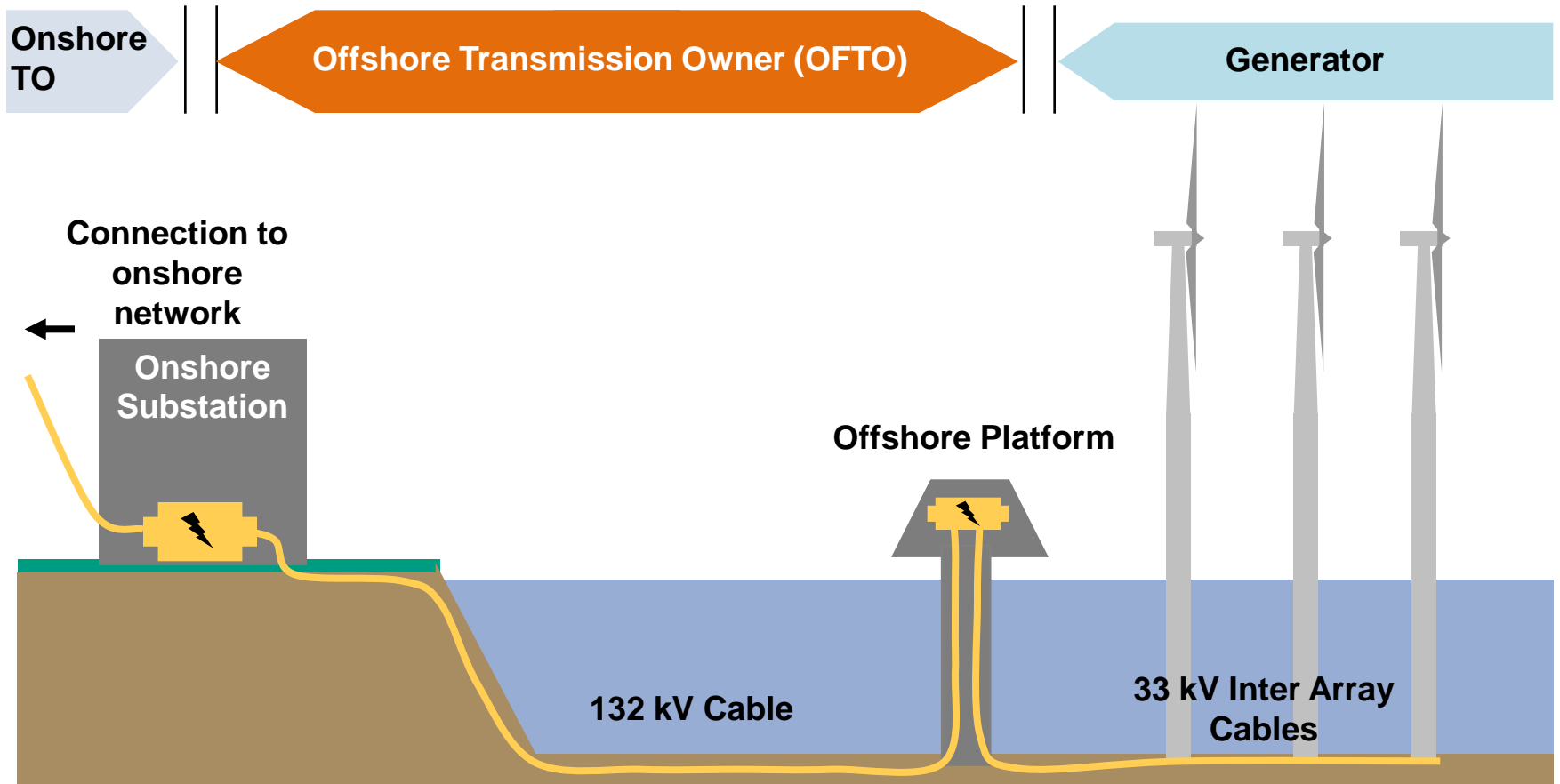
Director, Offshore Transmission, Ofgem E-Serve

Tender Round 2 – legal framework

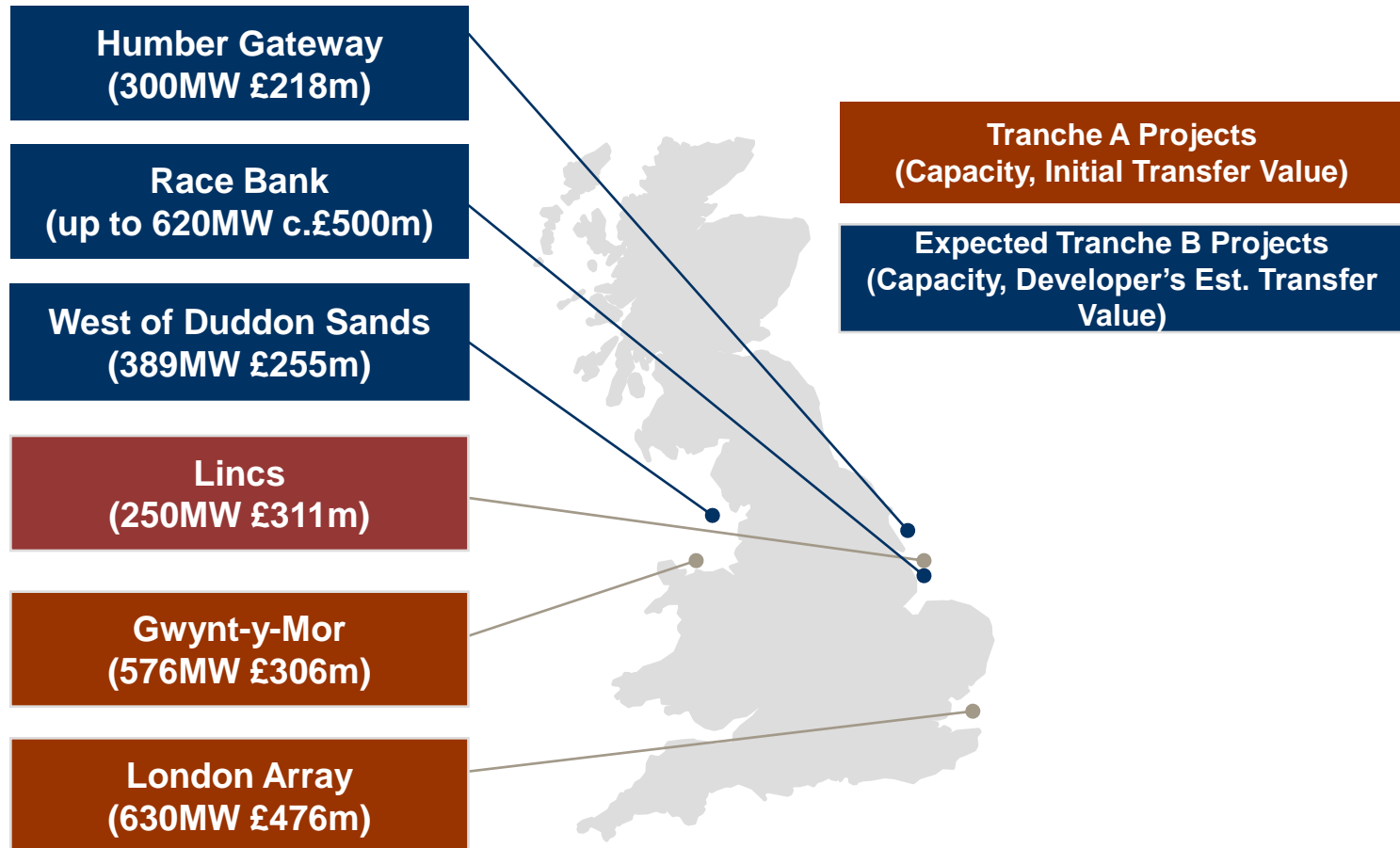
- New Tender Regulations came into force on 29 July 2010
 - *Key amendment - additional flexibility for generators to qualify into transitional regime*

- Regulations - legal framework for competitive tender process & set out Ofgem E-Serve's role in relation to Tender Round 2 to:
 - *determine the projects that qualify;*
 - *run competitive tender to determine successful bidders;*
 - *publish rules for the tender and methodology for recovering Ofgem E-Serve's costs of running the tender exercises*

Overview of the investment opportunity



Tender Round 2 – qualifying projects



Tender Round 2 – process stages



Bidders

Consortium structure, finance, size and capability track record. PIMs available.

Initial approach to financing, asset management and operations. IMs available.

Detailed proposals, including financial and management proposals. Data room open.

Refined bids on limited number of issues

Satisfy PB matters, finalise funding positions and Transfer Agreement

Ofgem

Initial pass/fail screening of bidders, based on bidder characteristics & track record

Evaluate proposed approach per project on key parameters

Evaluation of detailed project proposals and firm financial proposals

Evaluation of re-submitted proposals

Preferred Bidder satisfies PB matters, preparation for statutory consultation

Tender Round 2 – key milestones

- Tender commencement & release of PQ documents **17 November 2010**
- PQ submission deadline **10 December 2010**
- Commencement QTT stage **24 January 2011**
- QTT submission deadline **25 February 2011**
- Commencement ITT stage **Early April 2011**
- ITT submission deadline **Late May 2011**
- Preferred Bidder announcements **Late July 2011**

Tender Round 2 – PQ timetable

17 November 2010

- Release of PQ document
- Publication of PIMs

10 December 2010

- PQ submissions due

24 January 2011

Notify bidders of outcomes and publish long list

29 November 2010

- Deadline for bidder clarifications to Ofgem

13 Dec. 2010 to Mid Jan. 2011

- Evaluation of submissions – includes Ofgem clarifications to bidders

Tender Round 2 – PQ requirements

- Has the Bidder answered the following questions (and provided required evidence)?
 - *Identification information;*
 - *Organisational structure;*
 - *Economic and financial standing;*
 - *Management and operational capability;*
 - *Legal standing;*
 - *PQ certificate; and*
 - *Confidentiality issues*



Responses will be evaluated on a Pass/Fail basis

- Has the Bidder made the £5,000 PQ Payment?

Tender Round 2 – refined approach

- Principles from first tender round largely adopted for second round
- But some refinements...
 - *Two “tranches” of tenders – projects tendered when met necessary requirements, e.g. contracts, consents in place*
 - *Cost assessment – refined estimates will be provided to bidders as tender progresses, based on updated developer information*
 - *Transfer Agreement – evolution of approach with detailed guidance and principles being issued to developers*
 - *Scale of projects brings new challenges, e.g. phased assets*

Next steps

1. Tenders for 3 projects commencing today:

Gwynt –y-Mor
Lincs
London Array



2. PQ document and PIMs available on website

3. PQ submissions due 10 December 2010

4. Refinements/updates to licences & other key documents as tender process progresses



Tender Round 2 – documentation available

All information can be accessed through the Bravo website:

<https://ofgem.bravosolution.co.uk/web/login.shtml>

Documents now available here include:

- Pre-Qualification document
- Project specific Preliminary Information Memoranda
- Regime Preliminary Information Memoranda
- Tender Regulations
- Tender Rules
- Cost Recovery Methodology



Investment profile for Tender Round 2

**Lorna Shearin,
Managing Director, RBC Capital Markets**



RBC Capital Markets®

What will be the ongoing responsibility of the OFTO?

O&M for cable,
substation and
offshore platform

Risk Management

Operational
Performance

Compliance

Decommissioning

Future capacity
development (up to
20%)



Investment Highlights

Opportunity to enter UK transmission

- Rare opportunity to enter the UK transmission sector for new entrants
- Strong political and regulatory support for UK offshore transmission

Robust and transparent competitive process

- Structured to ensure fair and transparent process
- Qualification stages followed by ITT stage with data room access
- Light resource required for PQ / QTT stages

Long term opportunity

- Up to £20 billion of new transmission assets
- Early participation will provide valuable experience for the enduring regime

Investment Highlights (2)

Long term revenue stream from GBSO

- 20 year regulated revenue stream
- Revenue stream not dependent on utilisation of transmission capacity or wind farm performance

Low risk assets

- No construction risk for assets in the transitional regime
- Limited ongoing O&M requirements; service may be offered by developers
- Existing subsea cables demonstrate high reliability

Opportunities for upside

- Efficiency savings, lower costs
- Revenue from additional services – increased capacity, non-regulated services, reactive power, availability performance
- Positioning in market for major future growth

Allocation of key risks between stakeholders

Generator

- Turbine failure
- Wind unavailability
- Energy risk (price, volume)
- Network specification
- Decommissioning of turbines

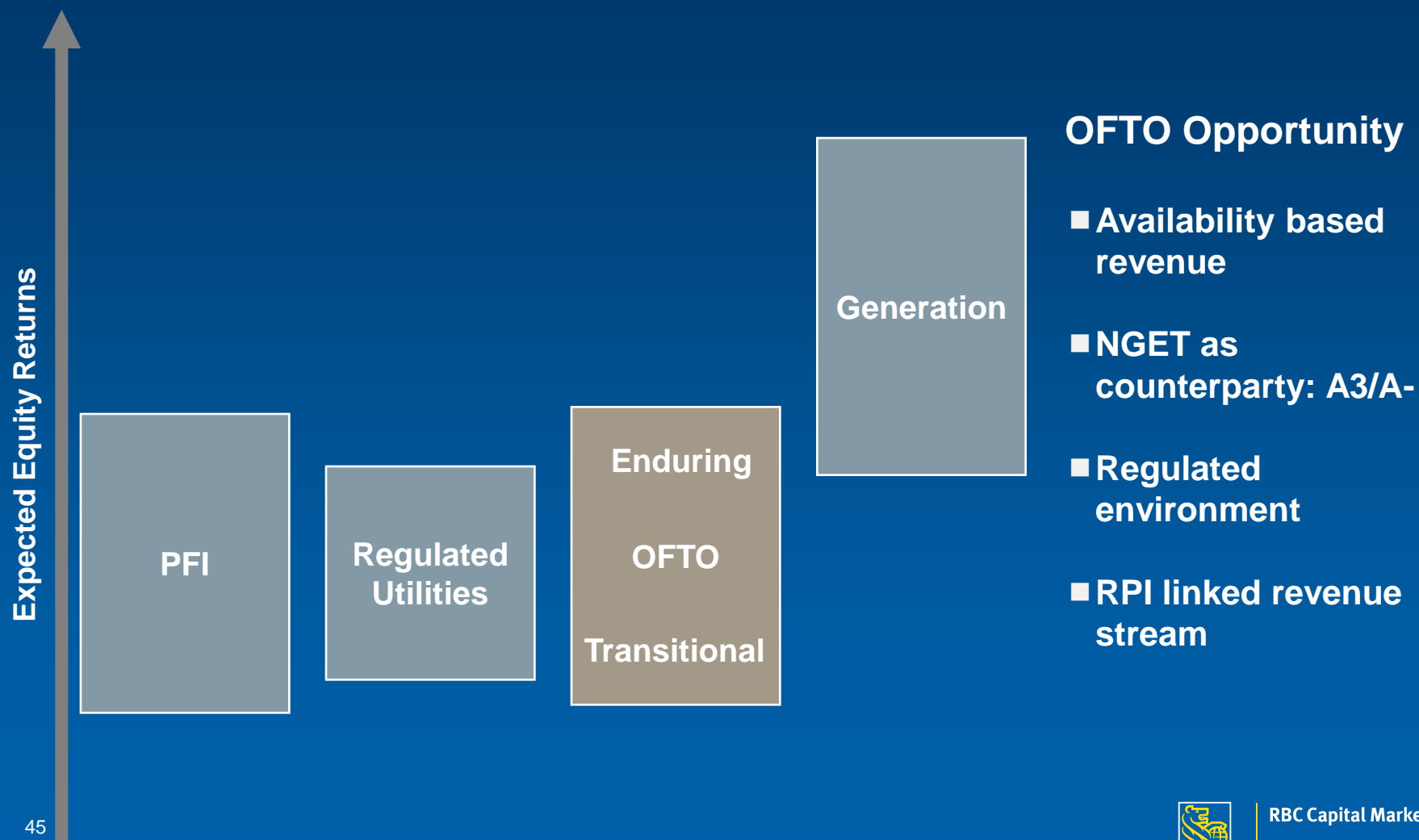
Consumers

- Generator insolvency or abandonment
- Credit risk of non-payment of charges by offshore generator

OFTO

- Operating risks
- Financing risk
- Decommissioning of transmission assets
- Construction (for enduring regime)

Potential Returns Against Comparable Opportunities



Significant Investor Appetite Demonstrated in Round 1

- Launched in 2009
- Preferred Bidder (PB) consortiums incorporate a strong track record in infrastructure
- PBs utilising debt financing
- New entrants to UK transmission

QTT
Autumn 2009

ITT
Spring 2010

PB
August 2010



What Have we Learned During Tender Round 1?

- Regime and structure of processes now established
- Transitional OFTOs attractive to infra investors, strategics focused on enduring regime
- Resource requirement for bidders is light in early stage - PQ / QTT stage
- Financing banks now familiar with OFTO regime
- Expertise gained in transfer mechanics
- More clarity on insurance arrangements

First Transitional Tender Process — Debt

- A wide group of commercial banks participated in the process
- Lenders provided significant commitments at ITT bid stage
- Funding sources expected to include commercial banks and EIB
- Potential for refinancing of bank debt in the capital markets

Indicative Commercial Debt Terms	
Tenor	up to 19 years
Min DSCR	~1.20x
Pricing	~200bps stepping up
Reserving requirements	Operational reserves/facilities to cover expected liquidity requirements

Tender Round 2 Assets are Larger

Tranche A – November 2010		
Gwynt-y-mor	576 MW	£311m ¹
Lincs	250 MW	£306m ¹
London Array (P1)	630 MW	£476m ¹
Subtotal	1,456 MW	£1,093m¹
Tranche B – Expected 2012		
Humber Gateway	300 MW	£218m ¹
West of Duddon Sands	389 MW	£255m ¹
Race Bank	Up to 620 MW	c.£500m ¹
Subtotal	1,309 MW	£973m¹
Total	2,765 MW	£2,066m¹

Round 2 assets are on average more than twice the size¹ of Round 1

Funders Panel Discussion

Chaired by Patrick Holland, Director, RBC Capital Markets

- *Gareth Miller, Barclays*
- *Emmanuel de Blanc, BNP Paribas*
- *Alan White, Lloyds*

Q&A

Bob Hull, Stephanie McGregor and Lorna Shearin

Closing Remarks

Bob Hull

Managing Director, Commercial, Ofgem E-Serve



ofgem E-Serve

Promoting choice and value
for all gas and electricity customers