

By Email: [Sam.Williams@ofgem.gov.uk](mailto:Sam.Williams@ofgem.gov.uk)

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Dear Sam,

**RE: Changes to the OFTO availability incentive**

DONG Energy welcomes the opportunity to present our views on the OFTO availability incentive, particularly as a developer with experience of the OFTO process in Transitional Round 1 (TR1). We currently have four projects which fall under the TR1; these total more than 600 MW rated capacity. We also have two projects whose transmission assets will be tendered under Transitional Round 2.

This letter sets out our main comments on the design of the availability incentive mechanism, and the tender process in general. We will respond separately to the detailed issues raised in your letter dated 28th March 2011.

*Alignment of Generator and OFTO revenues*

The current OFTO incentive mechanism does not provide a strong enough incentive on the OFTO to repair a transmission outage quickly. The generators exposure to lost revenue is significantly greater than that which the OFTO will face under the incentive scheme. Whilst we acknowledge that it would be disproportionate to match the level of generator lost revenue to the OFTO, we strongly believe the incentive on the OFTO should be to minimise the generator losses.

We strongly support a mechanism that more clearly aligns the availability incentive with the generator's revenue losses. For example, the incentive mechanisms could better reflect the actual losses of a generator through varying the OFTO payments in proportion to the expected generator revenues. That is, if an outage is scheduled and performed during a time when the generator could not generate, or only operate at part load, (e.g. due to low wind speeds) the OFTO exposure could be limited. Conversely, if an outage is scheduled and performed when the generator's potential revenue loss is high, the OFTO should face a penalty with proportionally higher exposure.

A mechanism more focused on potential loss of revenue rather than technical availability would encourage cooperation between OFTOs and generators, and would mitigate the generator's concern that they will be disproportionately affected during an outage in high wind periods.

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### *Focus on OFTO's operational capabilities*

The OFTO tender selection criteria should be amended to place more emphasis on the OFTO's operational capability. We strongly urge Ofgem to revise the selection criteria to introduce an assessment of the OFTO's ability to respond quickly to an outage. We propose that at an early stage in the tender process bidders should have to prove that they can deliver at least the following as part of their O&M proposal:

- 24/7 monitoring and response: this is essential to reduce the time taken to investigate the fault and to decide on and implement the best remediation strategy;
- Contracts to ensure a satisfactory spare part strategy; and
- Demonstrate access (for example standby arrangements) to vessels, staff, and other offshore solutions.

We consider such tender qualification criteria to be necessary to ensure the highest quality OFTOs are selected and as a consequence, the risk to generators of operational down time is minimised.

### *OFTO performance*

Once an OFTO has been selected, there is an ongoing risk to the generator of poor performance by that OFTO. Aside from the impact on the generator, poor performance by an OFTO will potentially impact the OFTOs reputation and, since many of the current OFTOs are bidding for multiple projects, in the medium to long term their bid success should be affected by their previous performance. We therefore propose that a "customer satisfaction" rating, whereby the generator and/or NETSO rate the OFTO performance, should be established and the outputs used in future tender rounds.

### *OFTO of Last Resort*

DONG Energy supports the OFTO of Last Resort but has two concerns relating to the implementation of the remedy. Firstly, we understand that, in the first instance, Ofgem would consider appointing any existing OFTO licence holder as an OFTO of Last Resort, with the ultimate OFTO of Last Resort being the geographically proximate onshore transmission operator. In making its selection, we urge Ofgem to carefully consider the operational capabilities of the potential OFTOs of Last Resort: if the existing OFTO has consistently underperformed, a generator's revenues will already be severely affected, and it will be of utmost importance to ensure that any replacing OFTO is capable of remedying existing issues and maintaining a very high level of availability.

Secondly, we are concerned that the current OFTO of Last Resort process does not sufficiently set out timings and triggers for Ofgem's intervention. We urge Ofgem to consider including clear triggers for intervention in the OFTO's licence, and not leave it to Ofgem's sole discretion.

We hope that these comments are useful, but should you wish to discuss any of the issues raised here further, please do not hesitate to contact me.

Yours sincerely  
DONG Energy



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Senior Director, Renewables Operations