

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

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Company no. 49 84 787

Dear Sam,

21 April 2011

**RE: Changes to the OFTO availability incentive - response to detailed questions**

Our ref. 110421\_OFTOincentive

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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 response to your six specific questions posed in your letter dated 28 March 2011. We responded separately on the 8 April setting out our remaining high-level concerns regarding the design of the incentive mechanism.

**1. Does removing the monthly availability targets lead to a simpler and better targeted incentive?**

As we mentioned in our letter dated 8 April, we do not think that the OFTO availability incentive mechanism for the TR1 projects provides a strong enough incentive on the OFTO to repair a transmission outage quickly.

We strongly support a mechanism that more clearly aligns the availability incentive with the generator's revenue losses. Using one availability target instead of two will simplify the mechanism, and we believe that basing the target on generator's expected revenue could provide a clearer incentive for the OFTO to schedule and perform outages at times when the generator's exposure to lost revenue is the lowest.

**2. Would the incentive better meet its policy intent if we replaced the credit banking mechanism?**

We agree with Ofgem that the ability to bank credits for 5 years in order to offset penalties can reduce the incentives to remedy outages. The proposed system allows the effects of outages to be felt more sharply than with the previous system since the OFTO loses revenue over a shorter timescale. We believe that

the increased volatility this introduces to the OFTO's yearly revenues will strengthen the pressure on the OFTO to remedy outages.

We understand by 'policy intent' Ofgem to mean the OFTO maintains high levels of availability across the length of the revenue stream. The new proposal would maintain the incentive level to the end of the term without the complexity of the previous system.

#### **4. Can we improve the flow of information about outages to developers within the existing industry framework?**

We would expect the timing and extent of an OFTO's planned outages to be coordinated closely with the generator. Whilst there are existing provisions in the Industry Framework Documents that ensure data flow between parties, including the OFTO, TSO and Users, it would be helpful to have direct communication between the OFTO and generator in the event of an unplanned outage.

In the short term, it is possible for the generator to monitor and manage the export of the wind farm through its SCADA and operational systems and so the immediate impact of an unplanned outage can be seen. However, information relating to the nature and duration of an unplanned outage are important for longer-term planning.

At present, these data flows are not easily determined in the current framework and we believe it would be valuable to have an obligation on the OFTO to communicate directly with the generator in these circumstances.

#### **5. How can we best ensure that the incentive is maintained for the length of the revenue stream?**

DONG Energy considers it to be of utmost importance that any incentive mechanism has equal weight for the duration of the 20-year licence period. We believe that this can best be achieved by requiring the OFTO to maintain an operational reserve to cover major repair works towards the end of the asset life.

We consider an operational reserve to mean the OFTO having secured:

- Cash reserve and contracts for fault identification and repair works, or
- In-house technical capabilities (which should be agreed between the OFTO and the generator at the transfer of the assets), or
- An O&M contract covering the whole asset life.

The operational reserve would ensure that the OFTO is able to perform major repair works even towards the end of its 20-year licence.

**6. How can we account for testing of transmission assets during wind farm commissioning?**

We agree with Ofgem that the availability incentive should take effect after the assets are transferred to the OFTO; to apply the incentive during the commissioning would add unwarranted complexity during an already difficult project phase.

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

A handwritten signature in black ink, appearing to read 'Danielle Lane', with a stylized flourish at the end.

Danielle Lane  
Regulatory Affairs Manage