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Dear Sam,

Overall we appreciate the benefit of the modifications you are proposing to make to the availability licence. They represent good progressive developments to the OFTO Licence.

In response to the specific questions you raised:

Question 1 – Does removing monthly availability targets lead to a simpler and better targeted incentive.

Yes, with less terms this is a simpler to implement incentive arrangement. The individual monthly weightings offer plenty of flexibility to set the appropriate monthly incentive.

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

Yes, obtaining payment for delivering more than the target availability as it is delivered will be useful in funding investments and enhanced operational costs associated with delivering enhanced availability. It provides more direct feedback than the five year banking mechanism and gives the OFTO greater confidence of recovering enhanced operational costs.

We are unclear from the illustrative example as to the proposed timing of payments. The illustrative example appears to indicate availability payments occurring within the year in which the availability credits are generated rather than the following year. This payment could be a single payment at the end of the year.

Question 3- what are the advantages and disadvantages of aligning availability payments to the end of March?

Again it is the view of NGOL that aligning payments is a useful proposal. The chief advantage being that it simplifies the algebraic implementation of the licence and reduces the overall level of complexity. The correction factor k within the licence term provides the ability to correct any forecast errors.

Question 4 – can we improve the flow of information about outages to developers within the existing industry framework?

The process as described is formal but cumbersome with many steps and handovers and formal communication between the developer and Ofo only taking place late in the process. Co-ordination of Ofo and Generator outages should take place much earlier in the process whether this is specified through formal industry codes or through good practical working arrangements between the OFTO and the generator.

Question 5 – how can we best ensure that the incentive is maintained for the length of the revenue stream?

The key risk to the performance of the assets towards the end of the licence period is likely to arise from the potential for third party damage to the assets, eg cable damage. In this case insurance is likely to be a key aspect of maintaining the Ofo network capacity and an obligation to maintain full insurances for the duration of the revenue stream will meet this objective.

For other faults non attributable to third parties the financial security is similar in ways to maintaining a warranty. The Ofo is warranting that it has the resources necessary to repair any faults that may arise in each year over the last 5 years of the revenue stream. On this basis it would be appropriate that the level of financial security required would reduce by 10% in each year. Ie a 50% bond in year 16 reducing to a 10% bond in year 20. The process for reducing the bond should be audited and subject to Ofgem satisfaction that all prerequisites have been complied with.

Question 6 – how can we account for testing of transmission assets during wind farm commissioning?

In most windfarm construction plans the windfarm commissioning stage takes place after the OFTO network has been commissioned. During this windfarm commissioning stage OFTO network outages are likely to be requested to facilitate co-ordinated testing of the windfarm and the transmission system. In addition during this stage there is the potential for actions on the windfarm to cause unforeseen events on the operation of the OFTO network eg protection operations, thermal issues. It is inappropriate that the OFTO should be incentivised to restrict commissioning of the windfarm or at risk to commissioning related equipment outages. To avoid the OFTO being exposed to the cost of this unavailability through the incentive mechanism the OFTO should be able to declare any outages during this phase as exempt from the incentive mechanism. For the duration of the exemption the transmission owner would be considered as being 100% available. This exemption process would cease once the commissioning of the windfarm has completed. A formal process could be implemented to record windfarm related outages during this stage including outages due to unforeseen events or "Risk of Trip" type activity on the windfarm. This process could be verified by the Ofo independent auditors as part of an audit process.

We are happy to discuss any of these points in more detail.

Best Regards

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