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Dear Sam

Changes to OFTO Availability Incentive

Thank you for allowing us the opportunity for Transmission Capital to comment on the proposed changes to OFTO availability incentives for TR2. The OFTO availability incentive mechanism is a key element of the OFTO regulatory regime, and it is important that it retains the features that make the OFTO assets bankable and attractive to our investors. We very much support your initiative to refine the incentive mechanism without changing its policy intent.

In response to your detailed questions:

Question 1 - Does removing monthly availability targets lead to a simpler and better targeted incentive?

We agree that removing monthly availability targets would simplify the algebra of the incentive mechanism while still achieving the same objectives. We can confirm that the variable incentive rates in each month would ensure that our planning of outages continues to focus on low-production (summer) months.

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

We would welcome the replacement of the 5 year credit banking mechanism with the more immediate payment of availability credits in the following year. This would provide simplicity and improved cash flow certainty, and it would create a more tangible financial incentive for OFTO outperformance that could lead to an overall improvement of the availability of the transmission asset.

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

The three month lag between the incentive period and the relevant year ensures revenue certainty and minimises the risk of discrepancies between allowed revenue ($OFTO_t$) and actual revenue (AR_t). We consider that the K_t factor should be restricted to its intended purpose as a correction factor, rather than being used as part of the normal operation of the revenue mechanism. In addition we feel it would be inappropriate for Penalty Interest to be levied on the OFTO because an outage occurred in the later months of a relevant period (January, February or March).

Therefore, our view is that the current three months lag between incentive periods and relevant years is appropriate and should be maintained as such.

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

The existing industry framework should already provide an appropriate level of information exchange. OFTOs and generators can supplement this with voluntary communication arrangements that are designed for their individual circumstances and which should cover normal operations as well as abnormal situations.

We therefore do not consider it necessary to specify additional communication arrangements in the OFTO Licence. Communication through NETSO is the most appropriate avenue, and will become even more so for future situations where one OFTO may serve several generators or where one generator is linked by more than one OFTO's assets. Ultimately, there is no reason why communication via NETSO should result in any significant delays.

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

We agree that the existing performance bond arrangement (financial security equal to 50% of year 16 revenue) may not deliver an optimal value for money/risk transfer balance. We note your suggestion that an operational reserve (similar to a Maintenance Reserve Account (MRA)) in the later years of the Licence may be appropriate and we would be happy to explore options on how security over the MRA could be granted to Ofgem during the tail period of the senior debt. Alternatively, the amount of the performance bond (i.e. 50% of revenue) could build up more gradually for instance reaching 50% in year 20 instead of year 16.

In addition, we anticipate that for most TR2 projects the wind farm will remain in service after the end of the Licence term, and the OFTO will wish to ensure that suitable arrangements can be agreed for the post-year-20 period.

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

In general it is preferable for transmission assets to be commissioned prior to being transferred to the OFTO. On those occasions where it is necessary to transfer assets to the OFTO prior to the completion of commissioning work by the generator the OFTO should not be liable for asset unavailability during commissioning (i.e. we agree with the process whereby the availability performance incentive is suspended during this period as it will be during the CSA period on Greater Gabbard).

We would be happy to discuss any of the above comments with you at your convenience.

Yours sincerely,



Chris Veal
Director