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Sam Williams
Ofgem
9 Millbank
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Email: offshoretransmission@ofgem.gov.uk

Your Ref:

8th April 2011

Dear Sam,

Re: Letter Dated 28th March 2011 regarding 'Changes to the Offshore Transmission Owner (OFTO) availability incentive'

This letter gives a brief summary of Warwick Energy Limited's (Warwick's) early comments in response to the above open letter / consultation document on Offshore Electricity Transmission. This response is not confidential.

Warwick welcomes any consultation on key aspects of the OFTO regime – and the availability incentive is an issue of particular relevance. A major feature of the OFTO regime is that generators become reliant on a third party OFTO for access to the National Electricity Transmission System. The loss of control of key electrical assets is therefore a major concern for generators and developers alike. The incentive scheme and any associated punitive measures are the only means of ensuring adequate OFTO performance and are therefore of critical importance to overall success of the OFTO regime. In summary Warwick is concerned that the proposals do not provide a suitable balance between generator and OFTO risk and that the scheme is unduly biased in favour of OFTOs.

A more detailed response including responses to specific questions raised in the Ofgem letter is given in the attached document.

I would highlight the following issues in particular:

- As a developer Warwick is concerned that the proposed incentive structure is strongly biased in favour of OFTOs. This is because the proposals are largely based on the proposals for TR1 – which have been a source of widespread concern amongst generators and developers alike;

- In particular availability targets are relatively low and it should be straightforward for OFTOs to exceed these for most OFTO networks;
- Inclusion of rewards for the OFTO for exceeding the simple hours of availability target for activities which should be regarded as “*business as usual*” appears inappropriate. It sends the wrong signals to OFTOs, and simply provides OFTOs with an additional revenue stream for acting in accord with good industry practice;
- The targets are set in hours – there does not appear to be a direct link to the actual loss of generation output / revenue used as a measure of availability. Warwick believes that loss of power production and / or generation revenue should be used to drive incentive penalty regimes. This would also provide a better reflection of the intermittent nature of wind generation and system design / redundancy;
- Incentives for transitional rounds should be set on a project specific basis to reflect actual system design and ratings as well as reasonable generator expectations;
- It is reasonable to expect OFTOs to match maintenance to available power production and in most cases this should virtually eliminate lost production for most OFTO network designs which have some redundancy built in (albeit at reduced power output);
- The incentive scheme should be returned to the original asymmetric design proposed by Ofgem. In particular there should not be a positive increase in OFTO revenue for exceeding an already low availability target;
- Clarification of the process to deal with a poorly performing OFTO is needed. Measures taken could for instance include – increasing amount of revenue exposed to the incentive scheme, preventing OFTO from bidding in future tender rounds, claw-back mechanisms for neglect of assets towards the end of the revenue stream and re-openers on the tender revenue stream;
- Recognising that financial penalties may in themselves not provide correct signals other punitive measures should be considered in addition to license revocation;
- If an OFTO performs very badly or fails then there should be a formal mechanism introduced to allow the generator to step in to run the OFTO network pending appointment of an alternative OFTO via either a tender round or OFTO of last resort mechanism. This would help minimise disruption as a result of OFTO failure;
- The above mechanism should include some suitable form of derogation or temporary license to allow the generator to operate a transmission asset;
- Process and timetable to instigate license revocation against poorly performing OFTOs should be clarified. This should include defining the process and trigger points for action which would help quantify risks for all parties;
- The incentive scheme is currently limited to real power availability. Consideration should be given to reactive power services since OFTO reactive compensation equipment is wholly funded by generators and may be a source of revenue.

The preferred outcome from this consultation is that a full and proper review of the incentive scheme is carried out. This should include re-balancing of risk / penalty between generator and OFTO since the existing proposals are skewed strongly in favour of OFTOs.

I trust the comments are clear however please do not hesitate to get in touch if you require any clarification on any of the points made.

Yours sincerely,



pp Mark Petterson
 Director
 Warwick Energy Limited