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17th February 2012

By email

Dear Giedré,

**RE: Offshore Electricity Transmission: Consultation on tender exercises under the Enduring Regime (178/11)**

Thank you for the opportunity to respond to your consultation. This non-confidential response reflects the views of the Centrica group of companies, excluding Centrica Storage.

Offshore wind generation projects are becoming ever larger and more complex, reflecting the need to meet GB's ambitious renewable energy targets. A stable and transparent Enduring Regime for offshore electricity transmission is essential if planned multi-billion pound investments in offshore wind generation are to be realised.

Centrica recognises that the offshore industry is still in its infancy and has many significant and diverse challenges compared with onshore transmission, not least because of the difficulties of working subsea. It is important that Ofgem leverages all the expertise available from a broad range of stakeholders, in particular those generators who have considerable experience of constructing offshore transmission.

In addition, the bespoke nature of offshore projects should be taken into account when Ofgem undertakes its assessment of asset values. Getting the balance right will be important if innovation is to be encouraged.

The Enduring Regime needs to build confidence across all stakeholders. Ofgem should make the Enduring Regime as stable and transparent as possible and ensure the tender processes are timely, economic and efficient, to give generators and investors the confidence to commit to future projects. Annex 1 contains our full response to your consultation, including responses to your specific questions. However, we would particularly highlight the following points:

- Consumers' interests will be best served by reducing unnecessary risk in the Enduring Regime as far as possible. This is best achieved by Ofgem maintaining and refining the Generator Build option, based on experience gained from the Transitional Regime.
- The OFTO Build option has considerable uncertainty associated with it. Not all of this uncertainty can be designed out – there are structural issues within it which make it riskier, and ultimately much costlier to consumers, than Generator Build.
- Ofgem should publish clear *ex ante* guidance on the Enduring Regime tender process for both build options. For Generator Build, this should include *ex ante* guidance and comprehensive *ex post* reasoning on Ofgem's valuations of generators' capital expenditure. Evaluation methods must fully recognise the bespoke nature of individual offshore projects.
- Ofgem should develop a clear dispute settlement process and a proper route of appeal for generators where contentious tender decisions are made. Asset transfer valuations and appointments of unsuitable OFTOs should be appealable.
- Ofgem should take full advantage of industry technical expertise to assist it in its tender evaluation processes – this should include allowing proper representation for generators who already have considerable experience in offshore transmission.
- In the interests of stability, the incentive mechanisms from the Transitional Regime should be largely retained, with refinements where appropriate. However, we support the introduction of a refinancing gain share mechanism.
- We would welcome as much clarity from Ofgem as possible on offshore transmission coordination. Prolonged uncertainty will soon begin to impact on pre-construction works for future projects, which is not in the interests of consumers.

We hope you find our response useful. Please feel free to contact me if you would like to discuss our response further.

Yours sincerely,

Fiona Navesey

Head of Electricity
Regulatory Affairs

**Annex 1**

**Full response: Offshore Electricity Transmission: Consultation on tender exercises under the Enduring Regime (178/11)**

Offshore wind generation projects are becoming ever larger and more complex, reflecting the need to meet GB's ambitious renewable energy targets. A stable and transparent Enduring Regime for offshore electricity transmission is essential if planned multi-billion pound investments in offshore wind generation are to be realised.

Centrica recognises that the offshore industry is still in its infancy and has many significant and diverse challenges compared with onshore transmission, not least because of the difficulties of working subsea. It is important that Ofgem leverages all the expertise available from a broad range of stakeholders, in particular those generators who have considerable experience of constructing offshore transmission.

In addition, the bespoke nature of offshore projects should be taken into account when Ofgem undertakes its assessment of asset values. Getting the balance right will be important if innovation is to be encouraged.

The Enduring Regime needs to build confidence across all stakeholders. Ofgem should make the Enduring Regime as stable and transparent as possible and ensure the tender processes are timely, economic and efficient, to give generators and investors the confidence to commit to future projects. We would particularly highlight the following points:

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- Ofgem should publish clear *ex ante* guidance on the Enduring Regime tender process for both build options. For Generator Build, this should include *ex ante* guidance and comprehensive *ex post* reasoning on Ofgem's valuations of generators' capital expenditure. Evaluation methods must fully recognise the bespoke nature of individual offshore projects.
- Ofgem should develop a clear dispute settlement process and a proper route of appeal for generators where contentious tender decisions are made. Asset transfer valuations and appointments of unsuitable OFTOs should be appealable.
- Ofgem should take full advantage of industry technical expertise to assist it in its tender

evaluation processes – this should include allowing proper representation for generators who already have considerable experience in offshore transmission.

- In the interests of stability, the incentive mechanisms from the Transitional Regime should be largely retained, with refinements where appropriate. However, we support the introduction of a refinancing gain share mechanism.
- We would welcome as much clarity from Ofgem as possible on offshore transmission coordination. Prolonged uncertainty will soon begin to impact on pre-construction works for future projects, which is not in the interests of consumers.

Our responses to your specific questions are as follows:

**CHAPTER: Two**

**Question 2.1: Do you have any views on the approach outlined in paragraph 2.8, namely to focus on a single OFTO Build option and not to develop the early OFTO Build option further at this stage?**

We agree that Ofgem should not develop the early OFTO Build option further, for the reasons set out in paragraphs 2.6 to 2.8 of your consultation.

We believe that the OFTO Build option (even with connection offer obtained and pre-construction works in train prior to a tender starting) is far riskier, for both OFTOs and generators, and as such less likely to deliver Ofgem's objectives for offshore transmission, than the Generator Build option.

**CHAPTER: Three**

**Question 3.1: What are your views on the proposed arrangements for triggering a tender exercise?**

We agree that the generator should make a request to trigger a tender exercise and specify whether the tender will be Generator Build or OFTO Build. See also our response to questions 5.1 to 5.3.

**Question 3.2: What are your views on whether our proposal on generator security will ensure the appropriate level of commitment from a generator?**

As stated in our summary, our preference is for the Generator Build option as it best enables the generator to manage the risks it faces.

A generator opting for OFTO Build should retain the right to revert to Generator Build. The generator's liability for changing tender criteria (e.g. build preference) should only reflect the reasonable costs incurred up to that point. Generator liability should not be set at a penal level. A clear and transparent approach to determining liabilities would benefit all stakeholders.

**Question 3.3: Do you agree with our proposed approach to the tender specification for an OFTO Build tender exercise?**

We expect that significant challenges could arise around accommodating reasonable changes to, for example, high level design criteria. We have concerns about the flexibility of the OFTO Build option, and believe that the Generator Build option is a more appropriate route to accommodating flexibility and managing risk.

**Question 3.4: Are the proposed arrangements for pre-construction works the most appropriate for investors and generators?**

We have concerns about whether generators would be required to warrant pre-construction works, and question whether an OFTO would be content to rely wholly on the contents of the data room in any case. We believe that the coordination, logistical and timing challenges of the OFTO Build option can be far better managed under Generator Build.

**Question 3.5: What other information, if any, in addition to that referred to within the tender specification and pre-construction works sections, would be needed within the data room for the project?**

Prospective OFTOs would be best placed to comment. However, any requirements would need to be reasonable and not introduce an undue administrative burden on developers.

**Question 3.6: What do you think would be the best approach to ensuring bidders have access to and confidence in a seabed survey undertaken by the generator?**

Prospective OFTOs would be best placed to comment. However, any requirements would need to be reasonable and not introduce an undue administrative burden on developers.

**Question 3.7: With reference to the approach to seabed surveys outlined within paragraph 3.22, what might be the best approach to developing an independent generic survey specification that would be acceptable to both generators and potential bidders?**

We believe this is an example of the difficulties that arise under the OFTO Build option. The coordination, logistical and timing challenges of the OFTO Build option can be far better managed under Generator Build.

We do not believe that a generic seabed survey specification would add any value. Generators would not want to warrant their survey for the OFTO's purposes, which may be for a need arising some years later, where seabed conditions may have changed (e.g. where the sea bed is soft). It would be unwise to expend resources on prescribing processes which may never be fully fit for purpose, owing to individual project characteristics and differing developer and OFTO needs through time.

It is worth noting that the OFTO representative on the panel at Ofgem's 9th February stakeholder event did not support a generic survey, and suggested that an OFTO would want

to conduct its own survey, rather than rely on a generic generator survey throughout the life of a project.

**Question 3.8: Do you agree that ensuring procurement is undertaken by the OFTO through the tender process would be the most economic and efficient approach?**

We agree that efficient and effective procurement practices will deliver best outcomes for consumers. However, we reject the apparent assumption that OFTOs will be inherently more efficient and effective in procurement than generators.

OFTOs will find that exactly the same suppliers of the required transmission equipment are available to them as are available to generators. New entrants may not have the required experience to engage effectively with the supply chain, whereas generators have valuable experience of engaging with and leveraging the supply chain from established projects. Nor will OFTOs be able to leverage the economies of scale and scope that a generator is able to, for example through procurement of combined offers for the wind farm and offshore transmission infrastructure.

We are doubtful that prospective OFTOs will be able to negotiate better terms with suppliers than generators pre any appointment as an OFTO. Generators under Generator Build will be able to engage with the supply chain more effectively and provide far more certainty to the supply chain. This will put downward pressure on costs and benefit consumers. Equally, suppliers are very concerned that per project, they will need to tender multiple offers to prospective OFTOs rather than a single tender offer. A supplier at the 9th February stakeholder event noted that these tender offers can cost up to £500k each depending on complexity. This is a clear example of how the OFTO Build option will increase costs in the construction process, which will eventually feed through to consumers.

**Question 3.9: What are your views on whether there are supply chain constraints associated with the manufacture and delivery of some key offshore transmission assets? If there are constraints, do these vary significantly in relation to project design?**

There are supply chain constraints in the market for offshore transmission components, and HVDC cables are a good example of equipment currently with a long lead time and constrained manufacturing capacity. Again we note the challenges around a prospective OFTO negotiating competitive contracts with a constrained supply chain, without being able to offer any certainty that they will actually win the right to construct the offshore transmission infrastructure.

Generators, particularly if they have a portfolio of projects, will be able to provide more certainty to the supply chain, and will be far better placed to secure firm manufacturing capacity for offshore transmission equipment on competitive terms.

**Question 3.10: What are your views on the examples of alternative approaches for supply chain engagement under OFTO Build outlined in this section?**

We agree that procurement and construction are most effectively done in an integrated way. The Generator Build option allows for this integrated approach, and avoids the need for complicated regulations that seek to manage such issues as constrained supply chains.

**Question 3.11: Are there any other approaches we should consider under OFTO Build to enable the supply chain to be engaged in time to ensure project delivery timescales are met, whilst maximising opportunities for competition through the tender process?**

The problem identified is a consequence of the OFTO Build option and cannot easily be mitigated by further rules and regulations. Generator Build would best allow for an integrated approach to construction and procurement and early engagement of the supply chain.

**Question 3.12: Should there be any restrictions on interactions between parties, either before or during a tender exercise in order to ensure fair and effective competition and best value for consumers?**

We support fair and effective competition as a principle. An open and competitive procurement process is crucial to obtaining an efficient construction cost. Whilst it is not entirely clear what restrictions might be envisaged by Ofgem in this context, we believe that existing procurement law and practice is sufficient to ensure effective competition.

**Question 3.13: Do you agree that the current 20 year revenue stream provides the best value to consumers under the Enduring Regime (OFTO or Generator Build)? If not, what alternatives should we consider?**

The 20 year revenue stream is a reasonable basis for the Enduring Regime. However, it may be the case that some assets outperform their envisaged life. At an appropriate point in time, Ofgem will need to consult on the regulatory framework for projects beyond 20 years. Clearly, if there is residual value in assets, it would be sensible to fully capture this value by continuing to operate the assets. However, any extension or retender of the OFTO licence and associated reassessment of the TRS must take full account of the fact that decommissioning costs and the capital value of the assets will have already been paid for by the generator over the initial 20 year charging period. The Availability Incentive would also need to be adapted given that the significant decrease in revenues for OFTO (post the 20 year term) would dilute this incentive.

Our expectation is that there will need to be some project specificity built in to any proposals beyond 20 years, as asset design lives are project specific.

**Question 3.14: What are your views on our proposed treatment of risk relating to:**
**- delay to licence grant?**
**- weather delay?**

The OFTO Build regime should require the OFTO to construct and make available their offshore transmission infrastructure in a timescale consistent with the needs of the generator. Generators should be able to obtain compensation for late delivery of offshore transmission assets, and compensation payable by the OFTO should not be recoverable through the TRS.

The generator's potential lost value resulting from a delay to the OFTO's transmission works being constructed could easily run into tens of millions of pounds. The OFTO Build option for the Enduring Regime would need to have a robust compensation mechanism such as liquidated damages in place for late delivery of OFTO assets if it is to be credible to generators.

**Question 3.15: Are there other areas of risk which would be more efficiently managed (for consumers) through a risk sharing mechanism rather than factored into bidders' TRS bids? If so, can you suggest how these risks might be shared?**

We will set out our views on risk sharing mechanisms in full in our response to Ofgem's planned spring 2012 consultation on incentives.

We do not support a radical overhaul of incentives and risk sharing mechanisms, as this would undermine the stability and familiarity of the regime.

We support the inclusion of a refinancing gain share mechanism for the Enduring Regime (see 3.19).

**Question 3.16: Is the current approach to recovering bid costs appropriate for OFTO Build? If not, what alternative approach to recovering bid costs would you recommend?**

The current approach to recovering bid costs would be reasonable for OFTO Build. We are however mindful of the need for bidding costs, and Ofgem's expenditure on evaluating bids, to be kept to a minimum. Sharing transparency of Ofgem and OFTO costs would provide confidence that the process was economic and efficient and potentially provide opportunities to identify areas for improvement and reduce costs further.

**Question 3.17: Are there any aspects of the current transitional arrangements or within the proposals for OFTO Build, including revenue term, bid requirements and risk profile, which may prevent access to certain sources of finance in the Enduring Regime?**

We expect sources of finance to be more limited under OFTO Build, reflecting the greater levels of risk for OFTOs and generators alike. It is worth noting that the panellist representing the investment community at your 9th February stakeholder event highlighted the uncertainty around the OFTO Build option. Allowing the generator to opt for a Generator Build tender, and using lessons learned from the Transitional Regime to refine the Enduring Regime, will make projects more financeable than the OFTO Build option, with consequent benefits to consumers.

**Question 3.18: Do you have any comments on the issues associated with incorporating a refinancing gain share mechanism and how such a mechanism could be structured?**

We support a refinancing gain share mechanism in principle. Generators ought to share in any benefits resulting from a successful refinancing by an OFTO, in the same way that they bear significant risks arising from the OFTO (e.g. significant financial exposure to the operational

performance of the OFTO). A reduction in the cost of providing renewable energy from offshore wind farms (via a reduction in the TRS) is clearly in the interests of consumers. It will be important, however, that a refinancing gain share mechanism retains sufficient incentive for the OFTO to refinance.

**Question 3.19: Do you have any preferences from amongst the options outlined for how the PQ stage should operate?**

**Question 3.20: Are there any other ways that a PQ stage might operate in order to meet the objectives set out at the start of this section?**

**Question 3.21: Do you have any preferences from the options outlined for how the ITT stage might operate?**

**Question 3.22: Are there any other ways that the ITT stage might operate to ensure its efficiency and effectiveness?**

**Question 3.23: What are your views on the proposals for involving generators in evaluation of bids? In particular, what key technical aspects of bids would be most important for generators to evaluate?**

**Question 3.24: What are your views on the proposals for involving NETSO in evaluation of bids? In particular, what key technical aspects of bids are most important for NETSO to evaluate?**

Our comments here relate to 3.19-3.24.

We are extremely unlikely to opt for the OFTO Build option due to the considerable risks associated with this approach, and the limited ability generators have to mitigate those risks.

However, given the substantial exposure that the generator has to the OFTO (under either build option), Ofgem should ensure that generators are provided with opportunities for meaningful involvement in the tender process.

Ofgem should seek to be as transparent as possible throughout the Enduring Regime tender process, with reasoning for its decisions clearly set out in full.

Ofgem needs to be aware that generators' projects are unlikely to pass final investment decision (FID) in an OFTO Build scenario without a suitable OFTO being appointed. Any tender process that lacks opportunities for proper generator representation will make it harder for projects to pass FID. Given the scale and complexity of the investments required, Ofgem should create a route of appeal for the generator where a contentious OFTO appointment is made.

Offshore transmission is still a relatively new industry. Generators who have constructed projects in the Transitional Regime constitute the entire population of parties in the UK that actually have experience of delivering in this challenging and specialised field. Generator

experience and expertise should be leveraged through their involvement in the tender process, which should include (at least) the opportunity to appraise and make representations on:

- The technical competence of the bidders
- Technical aspects of the bids themselves
- The operation and maintenance (O&M) offerings of the bidders.

The NETSO's involvement in tender evaluations should be limited to what is necessary to discharge its licence (and other legal) obligations.

**Question 3.25: Are there areas on which you think allowing variant bids under OFTO Build would add value to the process and to consumers?**

We agree that prospective OFTOs should not be allowed to submit variant bids that undermine the tender specification developed by the generator – this would only add delays and cost to the process.

**Question 3.26: What are your views on generators recovering efficiently incurred pre-construction costs at the point at which the transmission construction works are completed?**

Generators opting for the OFTO Build option should be able to recover their efficiently incurred pre-construction costs as early as possible. We would welcome a clear and transparent assessment process, with reasons for Ofgem's asset valuations set out in full. Recovery of generators' pre-construction costs should include a fair level of interest for the period between the costs being incurred and reimbursement for these costs.

It would be preferable for the generator to be able to recover pre-construction costs upon OFTO appointment – there is no reason to wait until completion of transmission construction works.

**Question 3.27: Do you have any early views on the appropriateness of design incentives for transmission asset lifecycle design, eg transmission availability, quality of installation and transmission losses?**

We do not support a radical overhaul of incentives and risk sharing mechanisms, as this would undermine the stability and familiarity of the regime. However, see our response to 3.29.

As a principle, we believe design incentives should achieve a fair distribution of risk and reward between the generator and the OFTO.

Excessive levels of OFTO revenue exposure will weaken competition for OFTO licences and drive up financing costs (and consequently the TRS and costs to consumers). However, the generator's substantial exposure to the OFTO's performance under either build option is a key issue for investors. It is essential that there are proper mechanisms and incentives to deal appropriately with underperforming OFTOs in both the construction and operational phase. Without this, financing costs for generators will increase.

We support the introduction of a refinancing gain share mechanism. We will respond more fully when you consult on incentives in spring 2012.

**Question 3.28: What are your views on whether the current approach to indexation, and in particular the proportion of the TRS subject to indexation, provides the best value to consumers? How might any alternative approaches be managed?**

The current approach to TRS indexation is acceptable. Retaining it is in the interest of stability.

**Question 3.29: Do you agree that additional delivery incentives for OFTOs are not necessary?**

Generators should be able to obtain compensation for late delivery of offshore transmission assets via liquidated damages, and compensation payable by the OFTO should not be recoverable through the TRS. The generator's potential lost value resulting from a delay to the OFTO's transmission works being constructed could easily run into tens of millions of pounds. In ordinary circumstances, developers would seek contractual protection from all of its counterparties for late delivery of assets, and the OFTO Build option should reflect this standard practice. The OFTO Build option for the Enduring Regime will need to have a robust compensation mechanism in place for late delivery if it is to be credible to generators.

Risk of late delivery of transmission infrastructure by the OFTO is another reason why we believe that Generator Build is a far better option, with far more scope for the generator to manage the risks it faces.

**Question 3.30: What are your views on what approach to decommissioning of assets would provide best ongoing value to consumers?**

The OFTO should be responsible for decommissioning offshore transmission infrastructure at the end of its useful life, and the TRS is an appropriate place to capture this cost.

In time, Ofgem will need to consult on the regulatory framework for assessing offshore transmission infrastructure on a project by project basis at the end of the 20 year TRS. Clearly, if there is residual value in assets, it would be sensible to fully capture this value by continuing to operate the assets, rather than decommission them straight away. However, any extension of the TRS must take full account of the fact that decommissioning costs and the capital cost of the assets will have already been paid for by the generator over the initial 20 year charging period.

Our expectation is that there will need to be some project specificity built into any proposals beyond 20 years, as asset design lives are project specific. The Availability Incentive would also need to be adapted given that the significant decrease in revenues for OFTO (post the 20 year term) would dilute this incentive.

**CHAPTER: Four**

In general, we would like to reiterate our opening comment:

- Consumers' interests will be best served by reducing unnecessary risk in the Enduring Regime as far as possible – the best way to do this is for Ofgem to maintain and refine the Generator Build option, based on experience gained from the Transitional Regime.

We also urge Ofgem and DECC to resolve the uncertainty around commissioning of offshore transmission infrastructure by generators under the Generator Build option. Commissioning of offshore transmission assets by generators under Generator Build is a key step in the delivery process. Unnecessary regulatory barriers to commissioning of offshore transmission infrastructure are not in the interests of consumers and should be swiftly removed.

**Question 4.1: What are your views on whether there are benefits under Generator Build to the generator undertaking the seabed survey against a comprehensive generic survey specification agreed by industry?**

We do not believe that a generic seabed survey specification would add any value. Generators will need to undertake a site specific seabed survey for construction in the first instance. We would not want to warrant the survey for other purposes, for example for the OFTO's purposes some years later, where seabed conditions may have changed (e.g. where the sea bed is soft). It would be unwise to expend resources on prescribing processes which may never be fully fit for purpose, owing to individual project characteristics and differing developer and OFTO needs through time.

It is worth noting that the OFTO representative on the panel at your 9th February stakeholder event did not support a generic survey, and suggested that an OFTO would want to conduct its own survey, rather than rely on a generic generator survey throughout the life of a project.

**Question 4.2: Do you agree with the approach that Ofgem continues to run tender rounds for groups of projects, not necessarily limited to one per year, or would you recommend an alternative approach?**

Timing of tender rounds needs to be sensitive to the needs of the generator's specific projects in terms of timing and cashflow. Provided that a generator can trigger a tender process, and an OFTO can commence operation of the transmission infrastructure in a clear and reliable timeframe, consistent with the generator's project timescale, then grouping of tenders is acceptable. It is crucial, however, that the OFTO sales process does not form part of the critical path for projects, and flexibility must be maintained.

We are mindful of the need for bidding costs, and Ofgem's expenditure on evaluating bids, to be kept to a minimum. Ofgem should ensure that the tender process is not unnecessarily costly or time consuming.

**Question 4.3: Do you think there are further efficiencies we could make to the tender process and the transaction procedures for Generator Build which would increase their**

**efficiency and provide greater certainty to bidders and funders?**

We hope that experience from the Transitional Regime can be used to develop clear and reliable tender timetables and more stable deadlines for key stages of the tender process. This will help the generator and prospective OFTOs to manage their resources more effectively, thus reducing the cost of the process and benefiting consumers.

Experience of the Transitional Regime to date strongly suggests that the following improvements to the tender process and transaction procedures should be made for the Enduring Regime (particularly the Generator Build option):

- Provision of detailed *ex ante* guidance from Ofgem on its process for evaluation of generators' capital expenditure, particularly:
    - much greater clarity on Ofgem's methodology for assessing asset values
    - a clear definition of "economic and efficient" as applied to transmission asset procurement and construction practices
- Full *ex post* reasoning for Ofgem's interim and final decisions on asset valuations
- Development by Ofgem of clear dispute settlement processes and serious consideration of a proper route of appeal for the generator where outcomes are contentious. Asset valuations and appointments by Ofgem of unsuitable OFTOs should be appealable.

**Question 4.4: Are there any changes to the information supplied in the data room which would improve the efficiency of the process for Generator Build?**

We are happy with the data room and recognise the benefits of a fairly standardised format to prospective OFTOs. However, it would be helpful to have the ability to create subfolders, within the high level format determined by Ofgem, to make the data room easier to populate and use.

**Question 4.5: What are your views on the benefits of involving generators in evaluation of bids as outlined in this section?**

We strongly support generator involvement in the tender evaluation process. The Enduring Regime exposes offshore generators heavily to the OFTO's performance. Generator Build allows the generator to manage the construction risk, but generators remain heavily exposed to the OFTO's operational performance. As bearers of a large share of the OFTO's operational risk, generators should have a right to proper representation throughout the tender process in lieu of a due diligence process as would apply to any other asset sale.

In practical terms, generator involvement in the tender process should include (at least) the opportunity to appraise and make representations on:

- The technical competence of the bidders
- Technical aspects of the bids themselves
- The operation and maintenance (O&M) offerings of the bidders.

We would also welcome a greater degree of transparency and clarity of reasoning for Ofgem determinations throughout the tender process. In addition to building in meaningful opportunities for generator representation, Ofgem should seriously consider whether a defined route of appeal would be appropriate where a contentious OFTO appointment is made. This could include, for example, cases where, following representations by the generator and consideration by Ofgem, the generator still has significant concerns in relation to the technical competence of a provisional OFTO appointee.

**Question 4.6: Do you have any suggestions on amendments which would improve the efficiency of the process for finalisation of transfer documentation and which would maximise value to consumers?**

The transfer process is a complicated and high value transaction, and will inevitably take time. However, we would reiterate our comments that experience from the Transitional Regime should be drawn upon to facilitate the transfer documentation process.

**Question 4.7: What do you consider might be the implications of a share sale approach as opposed to a transfer of assets as has been seen to date?**

There is merit in facilitating a share sale approach in the Enduring Regime. There may be practical and financial benefits to a share sale compared to an asset sale, and the regime should be flexible enough to accommodate all available options.

**Question 4.8: Do you agree that the current split between costs priced into the TRS and those allowed as pass throughs provides best value for consumers?**

We are content with the current distribution of pass through items and costs priced into the TRS. Maintaining it is in the interests of stability.

**Question 4.9: Are there any aspects of the current arrangements for transitional tender exercises or within the changes we have proposed above, including revenue term, bid requirements and risk profile, which may prevent access to certain sources of finance under Generator Build?**

From a generator's perspective, greater certainty around asset transfer valuations would have a positive impact on the availability and cost of project finance. Ofgem could make a significant contribution to this by seeking to give generators as clear and early sight as possible of their processes and determinations in this area.

Provision of detailed *ex ante* guidance from Ofgem on its process for evaluation of generators' capital expenditure, particularly:

- much greater clarity on Ofgem's methodology for assessing asset values
- a clear definition of "economic and efficient" as applied to transmission asset procurement and construction practices
- Full *ex post* reasoning for Ofgem's interim and final decisions on asset valuations

would benefit of all stakeholders, not least the financial community. There is currently no

general guidance on how Ofgem makes its decisions on the economic and efficient cost of transmission assets, and this lack of transparency already has a material impact on investment certainty and project financeability.

**Question 4.10: Do you have any comments on the issues associated with incorporating a refinancing gain share mechanism for Generator Build and how such a mechanism could be structured?**

We support a refinancing gain share mechanism in principle. Generators ought to share in any benefits resulting from a successful refinancing by an OFTO, in the same way that they bear significant risks arising from the OFTO (e.g. significant financial exposure to the operational performance of the OFTO).

We recognise that the sharing mechanism should not discourage an OFTO from refinancing *per se*. However, the sharing mechanism should lead to a reasonable downward adjustment in the TRS following a successful refinancing, which would require a term in the algebra of the OFTO licence. This will ultimately reduce the cost of providing renewable energy to consumers.

**CHAPTER: Five**

**Question 5.1: Are you satisfied with the practical relevance of our definition of the terms 'phase' and 'stage'?**

**Question 5.2: What are your views on the measures we propose to determine whether a stage or phase within a site/zone qualifies for a single tender exercise?**

**Question 5.3: What are your views on whether running a separate tender exercise for each phase within a site/zone would best meet the objectives of the enduring regulatory regime?**

Our comments here relate to 5.1 to 5.3.

We recognise that there may be substantial offshore development sites/zones where the certainty that various development phases will actually take place could vary. As such, the need for offshore transmission infrastructure (and consequently a tender process) to connect each phase of generation could also vary.

We would want to avoid situations where a generator has good reasons for seeking to trigger a single tender process for a defined phase(s) or stage(s) of transmission assets, and delays were caused by an unwarranted Ofgem determination that multiple tenders should be run (or vice versa).

Generators' and consumers' interests are aligned and best served by ensuring that offshore generation is able to dispatch its energy as quickly, reliably and cost effectively as possible. Generators, (especially those with extensive experience and expertise in offshore wind) are

therefore highly likely to request a tender scope that best meet consumers' interests. This being so, we hope that Ofgem will not be overly intrusive in determining what phases and stages should or shouldn't be bundled into particular tenders. We would also reiterate our general point that full clarity around process and reasons for determinations by Ofgem during a tender process would be helpful, to build confidence in the Enduring Regime. This principle applies to the specific questions in Chapter 5 and more widely.

We understand that there will be further consultation on offshore transmission coordination and we will respond in more detail on the issues raised in Chapter 5 as part of that response.

If you would like to discuss any aspect of this response, please feel free to contact me.

Fiona Navesey

Head of Electricity
Regulatory Affairs