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Our Ref: OS01-018306
Your Ref178/11

Response by email to: offshore.enduring@ofgem.gov.uk

17 February 2012

Dear Ms Kaminskaite-Salters,

Re: RES-Offshore response to Offshore Electricity Transmission Consultation on tender exercises under the Enduring Regime

RES is one of the world's leading renewable energy developers working across the globe to develop, construct and operate projects that contribute to our goal of a sustainable future. RES has been an established presence at the forefront of the wind energy industry for over two decades. Our core activity is the development, design, construction, financing and operation of wind farm projects worldwide. With a portfolio of more than 5GW constructed and several thousand megawatts under construction and in development, RES continues to play a leading role in what is now the world's fastest growing energy sector.

RES Offshore has successfully developed projects under both Round 1 and Round 2 and assisted our client, Centrica Energy Renewable Investments Limited, in winning development rights to the Round 3 'Irish Sea' Zone. Furthermore, our senior managers have been involved in more than twenty offshore wind projects. RES is therefore suitably well placed to comment on the 2012 Consultation on tender exercises under the enduring regime.

Thank you for the opportunity to respond and provide input into the design of the enduring regime. This consultation response supports the comments and sentiment of the submission by Renewable UK. As well as the general opinion on the Enduring Regime expressed in the body of this letter, responses to the consultation questions, which are in addition to those expressed by Renewable UK, are given in an appendix.

We support Ofgem's efforts to refine the Generator-Build option based on the experiences from the Transitional Round. For those developers able to finance the installation of the transmission assets we consider that the Generator-Build option is preferable. The following characteristics of the OFTO-Build model continue to make it a less preferable option to the generator:

- Additional interface risks posed by having the construction of the transmission assets handled by the OFTO;
- Having to incorporate the tender process into the preconstruction programme. This results in the generator either having to delay elements of the project programme, or renegotiate elements of project design with the appointed OFTO, which were progressed in parallel to the tender.

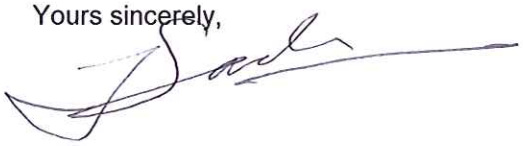
It is RES' opinion is that it is right for the enduring regime to continue to have the option for Generator-Build. This is due to the intrinsic reduction in risk to Generators, OFTOs, and subsequently consumers, that comes with the combined construction of the offshore transmission and power generation assets.

With respect to both the Generator-Build and OFTO-Build models, we request that Ofgem ensure rules of the Enduring Regime are refined in-line with the following principles:

- The selection processes are clearly defined to all participating parties in advance of initiating a tender;
- Defined contingencies are created should the tender process fail at any point;
- Timescales for events and the consequence for non-compliance are clearly defined; and
- The responsibilities for actions and costs throughout the tender process are assigned to the most appropriate body (bodies).

We hope that these comments are taken into consideration given the potential impact which the Enduring Regime will have on renewable energy projects in the future.

Yours sincerely,



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Appendix to RES Consultation Response on the Enduring Regime

RES agrees with the responses to the individual questions provided by Renewable UK, in their submission to this consultation. Where we have additional comments, we have included them below for Ofgem's consideration.

Chapter 2

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 it is not appropriate to progress the early OFTO-Build option. The definition of the transmission and the generation assets are heavily interlinked at the early stages of the project's development and should be progressed together to ensure the most efficient delivery. We equally agree that it is not appropriate for OFTOs to propose guaranteed financial solutions so far in advance of the asset's construction and operation.

Chapter 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?*

A generator should be able to withdraw from an OFTO-Build process once it has been initiated, if instead it chooses to follow a Generator-Build path. The costs the generator is then liable for should be in line with the reasonable costs incurred up to that date. The costs should not be set as a deterrent to switching or aim to penalise the generator for taking such an action.

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

It would need to be ensured that works which the generator needs to progress alongside the tender process could be suitably incorporated to the designs of the appointed OFTO.

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

We are concerned that the generator may be required to provide warranties against the pre-construction works submitted to the Data Room.

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?*

The Data Room may also include any proposals or statements of intent that the generator may wish offer the OFTO regarding the coordination of procurement, construction or O&M services.

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 do not object to discussing the possibility of determining a standardised seabed survey, if it will benefit the industry. However, were such a standard to be created it would need to be flexible enough to allow for project specific requirements.

Such a standard would need to be based on the existing requirements on generators, such as those from UKHO/IHO or The Crown Estate for example. This would then need to be supplemented with input from generators and OFTOs.

Any such standard should not be used as bench mark for the derivation of 'efficient costs' when the Generator claims to recover its costs.

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 do not agree that OFTOs are inherently more efficient than generators in sourcing suppliers.

Generators need to be engaging with the supply chain at an early stage to identify risks and obtain data which helps inform project design. Should the generator identify a risk of a component not being available at the require time (if it were left until the OFTO were appointed) the regime should allow for the generator to take the necessary risks to secure that component.

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

Please see response to Question 3.8.

Question 3.14: *What are your views on our proposed treatment of risk relating to:*

- delay to licence grant?
The nature of the delay in granting the licence should be taken into account and when determining the relevant course of action. Should any party be responsible for such delays then costs should be apportioned appropriately without necessarily affecting the details of the bid.

- weather delay?
We do not see why generators should accept a portion of the cost associated with the late delivery of the transmission asset, as weather risk is an element which should be appropriately planned for in the construction programme. Such delays may impact the connection date which has its own financial implications for the generator.

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?*

Fees should be set such that the costs of the tendering process are met. It may be more suitable to apply a generic mechanism that returns portions of fees to applicants, whatever the build model, once Ofgem have covered the costs of the tender round.

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

- We agree with option 1, by separating the PQ from the project specific tender the project tenders can be initiated sooner with a shorter tendering period.
- We agree PQ events should be held no less frequently than yearly.
- Bidders would need to be prequalifying for Generator-Build, an OFTO-Build or both tender models as Ofgem could use the same pool of PQ'd OFTO for all bids in that period.
- If Ofgem do not run a round because they perceive no projects will require it in the next period, there will need to be a contingency should one come forward to request a tender.

Question 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?*

In the majority of cases we expect the OFTO to be bidding for project specific transmission assets. Therefore generators should be involved in the tender review period to ensure that the proposed bids are consistent with the intentions of the wind farm.

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?*

Whilst Grid Code and STC compliance are stipulated in the tender specifications, the conformity with this requirement will need to be ensured. We ask that Ofgem consider the most appropriate way of ensuring bids are both Grid Code and STC compliant as part of the tender process.

Chapter Four

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?*

Please see response to question 3.7.

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?*

Where efficiencies can be demonstrated, then grouping tender exercises into rounds would be beneficial. However, each project should be issued with an initiation date meaning that it is not left waiting longer than a specified period before a tender round is started.

Chapter Five

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

The definition of these terms should, as far as is possible, be consistent with the terminology that is used by the consenting authorities to avoid confusion.

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?*

Specifically separating out each phase would not be in the best interests of the projects and it also has the potential to work against the aims of developing coordinated networks. This matter is greatly linked with the consenting strategy undertaken and therefore the generator should have the final say on the strategy by which site/zone phases are split between tendering rounds.