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Giedre Kaminskaite-Salters
Offshore Enduring
Ofgem
9 Millbank
London
SW1P 3GE

17 February 2012

Your ref: 178/11

Our ref: 03/03/061/10059

Sent by email only to offshore.enduring@ofgem.gov.uk

Dear Giedre,

OFFSHORE ELECTRICITY TRANSMISSION:
CONSULTATION on TENDER EXERCISES under the ENDURING REGIME

Thank you for the opportunity to respond to the above consultation of 16 December 2011. I am pleased to submit this response on behalf of ScottishPower Renewables (SPR).

SPR are the UK's leading developer and operator of wind generation projects, and we are involved in almost 9GW of offshore wind development and construction projects in the UK. These include the 7200MW East Anglia zone and 1800MW Argyll Array project both of which are under development. In addition we are jointly developing our transitional West of Duddon Sands (WoDS) project, which is due to enter into commercial operation by 2014. Therefore we have excellent first hand experience of the OFTO tender arrangements and a critical interest in ensuring that the enduring offshore transmission tender arrangements are not only transparent and fair, but are also robust, realistic and reasonable in the market and circumstances in which we operate.

We have attached an Appendix to this response giving our detailed answers to the questions posed in the consultation. There are a number of key points that we would like to highlight, or that we believe have not been addressed in the consultation. Most of these concern providing the key stakeholders in the arrangements with greater certainty over the arrangements, process, timing, outcomes and costs and we have summarised them below.

i. ***OFTO licence and asset commissioning*** – we are concerned that a solution has not yet been developed that will allow generators (who will not be transmission licensees) to be able to test and commission offshore assets to the satisfaction of the OFTO prior to the OFTO being willing or able to accept their transfer. A clear statement on how and when this will be resolved is urgently required.

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ii. ***OFTO build should not be given higher priority to, or detract from, developing and refining Generator build arrangements*** – generators value having flexibility in the options available to them but the arrangements must be robust and workable and capable of delivering against ambitious targets. At the moment we believe that only Generator build can meet these objectives and so should continue to be the focus for further development and refinement.

iii. ***Cost recovery*** – generators require early and greater certainty that they will be able to recover the significant sums they invest efficiently in pre-construction works under both options and different circumstances. Generators may be willing to make such 'at risk' investment as they are required under the only realistic means of ensuring delivery objectives – and therefore energy policy objectives - can be met. Therefore they should not have to underwrite all of this investment.

iv. ***Key elements of the Late OFTO process are not at all clear*** – for example interactions of different parties' responsibilities. It is evident that the OFTO could force design changes that impact on consent and costs without being responsible for these costs. In addition, having to amend an application for consent or a secured consent must be avoided.

v. ***OFTO finance*** – given the current financial and investment climate and the relative immaturity of the offshore and OFTO markets, there are concerns over the ability of project financed OFTOs to secure appropriate levels of finance, especially in respect of the OFTO build option. We believe that this presents a significant risk to projects and so greater emphasis should be given to this aspect of the PQ stage of the tender process in order to ensure that only robust bidders go forward in the process. In the event that the OFTO tender process fails (and not solely as a result of finance issues) robust and timely contingency arrangements should be developed to prevent project delay. Arrangements such as those previously proposed for OFTOs of last resort should therefore be developed as a priority to address this risk.

vi. ***Staged and co-ordinated development*** – the consultation recognises that Round 3 zones will be developed in stages and that there may be efficiency in a more co-ordinated approach to this. Considerable work needs to be done to progress these arrangements not least in the areas of cost recovery and use of system charging. Without clarity and confidence in these aspects, generators are likely to be reluctant to progress with such an approach even if it could result in greater overall benefit.

vii. ***OFTO delivery and performance incentives*** – we still believe the arrangements are asymmetric and do not reflect the true impact for the generator of poor OFTO performance, either in terms of delivery or operational performance.

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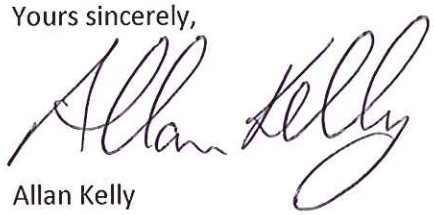
We hope you find our comments clear and helpful but we would be happy to discuss them more fully with you. If you would like to do so, please contact me on 0141 568 4748 or at allan.kelly@scottishpower.com.

Yours sincerely,



Allan Kelly
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ScottishPower Renewables

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APPENDIX to RESPONSE

GENERAL

Question 2/1 Do you have any views on the approach outlined in paragraph 2.8, namely to focus on a single 'late' OFTO build option and not to develop the early OFTO build option further at this stage?

We broadly agree with this approach as the early OFTO approach will not support timely delivery of offshore projects. However, the late OFTO approach should not distract from, be given greater focus than or take priority over, ensuring that the generator build option is refined and delivers optimally.

We also question the value that a late OFTO option offers given that capital costs are the key drivers for projects and it is debateable whether any advantage in this respect will be achieved in the late OFTO process; there may in fact be capital costs disadvantages over generator build due to late meaningful engagement with the supply chain. Further consideration should be given to a 'razor thin' OFTO option under which the generator would carry out design, consenting and tendering leaving the OFTO to manage construction and subsequent operation of the assets. This should be at least as cost effective the late OFTO option but should be more efficient and acceptable to generators and the supply chain.

In developing the OFTO arrangements Ofgem should consider how other European countries approach offshore transmission to ensure that UK generators are not disadvantaged or investment is not disincentivised.

OFTO BUILD

Question 3/1 What are your views on the proposed arrangements for triggering a tender exercise?

The generator is not responsible for managing the tender process and so it is questionable if it is appropriate for the generator to be expected to know when to trigger the tender process. This is even more relevant where there is uncertainty over the timing and duration of the tender process. For the generator to be confident in knowing when to trigger the tender, the tender process and timescales must be transparent and predictable with a high degree of certainty. Otherwise the generator is at risk of not being able to trigger the tender process at the optimum time. If this cannot be put in place Ofgem should decide when to trigger the tender process in agreement with, and to meet, individual generators' needs.

However, although there may be efficiencies in running coincident tender rounds for multiple generators projects should not be delayed as a result having to wait for others to join the tender round. In addition, this should be managed carefully to avoid supply chain and process bottlenecks developing.

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Ofgem suggest that the generator should submit a tender trigger request ".. no later than three months before the date at which the generator expects to submit its planning consent application (unless otherwise agreed)". Although we understand the driver behind this it is not clear what the consequences of not meeting this deadline will be and so it is difficult to comment on this aspect of the proposed arrangements. For example, based on experience with transitional tenders earlier appointment of supply chain may be required - is this achieved by the proposed trigger milestone? Does the proposed trigger date milestone facilitate the successful OFTO being appointed and fully established in time to place supply chain contracts immediately on the project securing consent?

Question 3/2 - What are your views on whether our proposal on generator security will ensure the appropriate level of commitment from a generator?

We understand Ofgem's aim of ensuring appropriate cost signals are given to disincentivise gaming and incentivising firm action. However, it should be recognised that the generators will already have made significant capital commitments to their projects by the time they trigger the tender and so there is little further need to try to incentivise and ensure their behaviour.

We believe that there must be some flexibility retained in the arrangements particularly in relation to the choice of build option and especially where a change of preference may be required for events entirely outwith the generator's control. Generators will have to provide security to NGET and so there must be no double counting of costs to be secured under the process. If the generator is to be exposed to such penalties they should be more closely involved in the management of the process.

Question 3/3 Do you agree with our proposed approach to the tender specification for an OFTO build tender exercise?

Whilst these items will be of relevance to the tender specification, the design will have to be carried out well in advance of consent to inform the consent application but the consent may have a strong bearing on the final design.

Ofgem suggest that the bidders can provide innovative asset design solutions but how will this be possible when the envelope for design will be defined by the planning consent? In addition, Ofgem state that the bilateral connection agreement will include any assumptions made about offshore works but it is not clear who will provide these assumptions eg NETSO or generator.

Question 3/4 Are the proposed arrangements for pre-construction works the most appropriate for investors and generators?

The items listed by Ofgem are relevant but this should not be viewed as an exhaustive list as there may project specific needs. For example, we are aware that the IPC consent may require trial digs and geotechnical investigations. In addition, other works will be required in line with the Grid Connection Agreement, Grid Code and STC requirements (eg extensive system modelling).

We suggest that ongoing dialogue between generators and bidders (via Ofgem if necessary) should be possible to ensure that pre-construction works are carried out in such a way that OFTOs will accept the completed work, without qualification.

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Above all however, generators must have a high degree of confidence that the significant costs incurred by them in carrying out pre-construction works will be recoverable via the asset transfer valuation. Generators may be willing to make such 'at risk' investment as they are required under the only realistic means of ensuring delivery objectives – and therefore energy policy objectives - can be met. Therefore they should not have to underwrite all of this investment. In addition, consideration should be given to how generators may be able to recover such costs if the project is terminated, for example as a result of failure of the OFTO tender process or failure to secure consent. This aspect is of particular relevance and importance for the suggested 'razor thin' OFTO and generator build options where significant supply chain costs are likely to be incurred prior to construction.

Given the timing of, and responsibility for, different stages of the process, it is not clear how post consent design changes that might be made or required by the OFTO will be dealt with; in particular the costs and responsibility for the subsequent works, recognising that these may impact on the windfarm project design, consent and timetable.

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?

Generators should be aware of the need to provide bidders with as much information as possible to inform their bids. The list of data to be provided should not be restricted. For example generators should be able to submit details of any specific project or generator needs, O&M offers and system service capabilities etc.

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?

We understand the aim of a generic approach to surveys (and we assume this would apply more widely than seabed surveys eg onshore geotechnical surveys), but we question how viable and achievable it will be, especially at this early stage of offshore development experience. For this to be successful, potential and actual OFTOs would require to have some form of collective input to, and representation on, the body responsible for preparing it. We believe that it may be very difficult to deliver this, especially in a timeframe that is consistent with Round 3 project programmes.

Instead, we suggest that a similar result could be achieved by allowing greater engagement between bidders and the generator. This would allow bidders to question and understand the provenance of survey work, have access to scopes of work, final reports, models etc such that they can then undertake their own due diligence on the survey findings and bid accordingly.

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?

See answer to Q 3/6.

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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?

As a general point, we question Ofgem's view that OFTOs will be able to carry out procurement more effectively and efficiently than offshore generators, many of who will be able to secure economies of scale just as well as – if not better than – OFTOs. Until OFTOs have a critical mass of projects it is questionable if they will be able to do so better than the generator.

We believe that waiting for the OFTO to carry out procurement activities would be detrimental to the programme and may be more costly. The OFTO would be appointed too late to secure key components (such as cable and HVDC equipment), many of which require early contract placement. If procurement is carried out late, suppliers may seek to take advantage of tight timescales and therefore increase their prices, which would not offer best value for money.

If, however, the suggestion is for bidding OFTOs to initiate procurement during the tender process, we do not believe that this will achieve meaningful results. We believe that the supply chain will not be willing to commit resources to this and any offers they may make will be severely limited and qualified probably rendering them meaningless in the long term. This approach may also result in alliances forming, with the successful OFTO being the one who has secured the supply chain capacity rather than the one that is most competitive.

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?

We agree strongly that there are constraints in the supply chain. Some items, such as export cables particularly, need significant financial commitments to be made very early in the process in order to secure supply and to meet programme requirements. In addition, installation vessels are limited e.g. for offshore substation installation, requiring advance commitment.

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 believe that supply chain aspects need to be considered and managed very carefully. The supply chain needs certainty on project requirements as early as possible in order that it can make investment in appropriate manufacturing capacity and materials. OFTOs will be selected only after a competitive tender process and therefore there is no certainty for the supply chain on a long term customer base. With the current fairly limited supply chain, we doubt if the supply chain will attach much – if any - value for continuity and economies of scale in their pricing.

The supply chain needs certainty over project success in order that it will be able and willing to supply in the first place, and ideally cost effectively. Therefore we believe that there needs to be close collaboration between the supply chain, generators and the OFTO at the same time, although it is not clear how willing the supply chain will be to do so with multiple bidders.

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As we stated above, we believe that any supply chain offers made to bidders (eg "Non-binding, non-exclusive options") will not be meaningful or of value, especially when their products are in high demand and limited supply.

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?

We do not believe it will be possible for bidding OFTOs to engage meaningfully, or for successful OFTOs to engage early enough, with the supply chain under the late OFTO build option. Therefore, for this option to be successful, our suggested razor thin approach should be considered under which the generator would engage with the supply chain and carry out procurement.

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?

As we have noted above, we believe there will be significant benefits to delivery of projects from allowing discussions between generators and bidders, to help specification and design etc. However we recognise that this needs to be carried out within the confines of an open and competitive market and tender process and so needs careful management.

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?

We do not agree that this will always be the case. Allowing OFTOs to bid longer term revenue streams to reflect generation asset lives and generator needs should remove uncertainty and so reduce costs by giving longer term certainty. The term of OFTO bids should be specified by, and agreed with, the generator as part of the tender process.

Question 3/14 What are your views on our proposed treatment of risk relating to:
- delay to licence grant?
- weather delay?

We believe these are two very different issues that require different approaches.

Licence delay will be as a result of the tender and licencing process which the generator has little – if any – ability to influence or manage. Where the generator has acted reasonably and the licence delay is not as a result of the generator's actions (or lack of) the generator should not be exposed to additional costs arising from this delay. In these circumstances, consideration should be given to compensating generators for losses they incur as a result of licence delay.

Weather delay is a different issue which is not within any parties' control and is always going to be a significant issue for offshore wind projects. As this is a competitive tender process there are views that this risk should be assumed by the OFTO. However, we acknowledge that it is often difficult to achieve value for money by expecting suppliers to assume all weather risk. The generator therefore needs to be able to manage their exposure to weather risk as

part of the tender process such that the generator has some certainty of any exposure. Therefore the generator should be able to specify their requirements and expectations on weather risk and negotiate with bidders on this but thereafter should have very limited, if any, weather delay cost exposure.

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 consider this further and respond appropriately.

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?

Bid costs are relatively small in comparison to the overall transaction value but they do signal bidders' commitment to the process and project. We believe that – as is common in other competitive tender processes - only the successful bidder should be able to recover their reasonable bid costs as part of the asset transfer valuation.

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?

The current transitional regime has an Interest During Construction (IDC) rate of 8.5% which reflects the higher risk of procurement and construction of the OFTO assets compared to a more regulated return for operational transmission assets. It is therefore feasible that an OFTO build OFTO could refinance when assets are operational at a lower cost of debt. We believe that gain share must be allowed to encourage the OFTO to achieve lowest cost of debt to benefit the consumers through a lower TRS.

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?

In addition to our response to question 3/17, we believe that the refinancing gain share mechanism should be structured to allow the OFTO to receive some of the benefit thus encouraging refinancing at a lower cost. This benefit share is required to reflect the risk taken by investors during the procurement and construction phases but should be set at a reasonable level.

Question 3/19 Do you have any preferences from amongst the options outlined for how the PQ stage should operate?

A variant of Option 1 would be our preference, such that tender rounds would be run at least on a 6 monthly basis and more frequently if there is project demand for this.

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?

Please refer to our comments in our covering letter.

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Question 3/21 Do you have any preferences from the options outlined for how the ITT stage might operate?

We consider that none of the approaches outlined will meet the needs and objectives of Round 3 projects. In order to do so, the overall process needs to happen earlier and more quickly resulting in the OFTO being appointed significantly earlier than as currently envisaged.

Question 3/22 Are there any other ways that the ITT stage might operate to ensure its efficiency and effectiveness?

See answer to Q 3/21.

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?

We believe that it is critical that the generator should be involved in technical and commercial evaluation of bids – the generator has the most knowledge of the project and most at risk and so should be closely involved in this aspect of the process, even if this has to be done 'blind'. For example, the generator should be able to comment on and agree proposals by bidders that may increase the costs and revenue stream but provide benefits in terms of redundancy/availability or programme, which would be of greater overall benefit.

However, this should not be allowed to delay or extend the process and so should be accommodated in the overall process except by agreement with the generator.

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?

We believe that the NETSO's input should be limited to ensuring that bids are compliant with the relevant industry codes and to ensuring that they are consistent (in terms of design) with other offshore connection designs. The NETSO should not have a role in evaluating commercial aspects of bids.

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?

Provided generators are allowed to prepare specifications that meet their needs (for example in respect of asset design life) then we agree that variant bids that involve a substantial design change should not be allowed. However, variant bids should be allowed, either at the request of generators or initiated by bidders and might include, for example, the basis of terms for a post 20 year revenue stream.

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?

We strongly believe that the generator should recover efficiently incurred pre-construction costs at the point at which the OFTO is appointed and works and assets are transferred to

them. Ofgem's proposed arrangement seems overly complex and will require two IDC calculations, with IDC still required on the costs incurred by the generators until construction is complete. The OFTO bids should include recovery of their construction financing costs.

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?

All incentives (design, delivery, performance etc) should be fair, transparent and predictable and should align with the losses incurred by generators. Incentives should also be proportionate and appropriate – if the incentive does not benefit the generator the generator should not be subject to additional burden/risk with regards to cost or programme.

Design incentives should consider transmission efficiency, connection availability and loss of generation. Extensive offshore cable routes may be liable to higher failure rates and extended repair times, so high standard surveys and rapid return to service features and systems should be recognised and valued.

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 approach should be consistent with the regulatory principles applied generally in the industry. Ofgem ask if this provides best value to consumers and it is difficult to see how any alternative would be fair and consistent with economic principles of cost recovery but at the same time improve value for consumers.

Question 3/29 Do you agree that additional delivery incentives for OFTOs are not necessary?

There is no experience so far of OFTO build and so whilst the proposed delivery incentives may seem appropriate, they should be kept under review based on actual experience once the arrangements are implemented.

Fundamentally however, we believe that generators should not be exposed to, or disadvantaged by, poor performance and performance failures regardless of whether this is as a result of the performance of the OFTO, TO or TSO. Under normal competitive commercial tendering and contractual arrangements, liquidated damages and compensation payments are negotiated and applied. This should also be the case in the OFTO build tender and contracting arrangements in order that generators are not exposed to poor performance or contracting strategies.

Question 3/30 What are your views on what approach to decommissioning of assets would provide best ongoing value to consumers?

Although this is a longer term issue the costs and risks could be significant. It is therefore important that the principles of the approach to be adopted should be set down and understood in order that bidders can make appropriate commercial decisions.

As we have stated previously we favour a bidding approach that aligns the OFTO's revenue stream with the anticipated or design life of the generation assets. Without this, the OFTO

bids must provide for either decommissioning of the assets after 20 years – and this does not seem efficient or to offer best value for consumers – or assume risk about the future use of the transmission assets.

In addition, given the expected life of transmission and generation assets with 20 year tender and revenue stream timeframes it is conceivable that multiple OFTOs will serve the generator over the life of a project. The arrangements addressing this situation (eg post year 20 tender timing and process, valuation and transfer of assets etc) need careful consideration and development.

It is likely that the project consent (which will cover the generation and transmission assets) will impose on the consent holder decommissioning obligations and liabilities for the assets. The tender arrangements and transfer process must allow for these obligations and liabilities to be transferred to the OFTO without risk to the generator.

GENERATOR BUILD

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?

Our views on this are the same regardless of the whether the OFTO build or Generator build option is considered so please refer to our answers to questions 3/6 and 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?

We agree with this approach, particularly with regard to running multiple tender rounds every year. We suggest that tender rounds should be programmed (and run as required) at least every 6 months and more frequently as required by generator needs.

Where multiple tender rounds are proposed and if single project tender rounds are not contemplated, generators should have input to selecting their tender round to avoid them suffering excessive delay waiting for a subsequent tender round.

The tender process and timings must be clear, transparent and adhered to firmly, in order that generators and the supply chain have certainty over timeframes.

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?

Ofgem and all participants should evaluate and communicate lessons learned from the Transitional tender rounds, generally, but especially for the generator build option. To support this, Ofgem should publish some 'case studies' ('anonymised') to give examples of good and bad practice.

Every opportunity should be taken to improve certainty for all parties, particularly with regard to the asset valuation and transfer process and timing. In particular, a solution to the OFTO

licence and asset commissioning and transfer issue is urgently required if the tender arrangements are to be successful.

A particular aspect that we believe would help would be to require disclosure of all 3rd party agreements, with the selected OFTO bound to accept them, by a specified point in the program.

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?

As stated above, every opportunity should be taken to learn and communicate best and poor practice from the Transitional tender rounds. It would be helpful for the above mentioned case studies to be published and kept under review, supported by typical FAQs and TQs from other tender rounds.

Question 4/5 What are your views on the benefits of involving generators in evaluation of bids as outlined in this section?

Our views on this are the same regardless of whether the OFTO build or Generator build option is considered so please refer to our answers to question 3/23.

We believe strongly that the process will be much more efficient and effective – and supported by generators - if generators are afforded full participation in the bid evaluation stage. This should include commercial and technical aspects, especially in considering variant bids.

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?

We believe that allowing generators to pursue an SPV 'share sale' transaction will improve the process. This approach should facilitate a cleaner simplified transaction, and with the majority of contracts having been placed by the SPV little novation will be required, thus reducing risk.

We recognise that a share sale approach will also present challenges but we believe that the benefits will offset the work required to resolve them.

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?

As we have stated in our answer to question 4/7, a share sale will promote a 'cleaner' and simplified transaction that should reduce risk. The project costs can be more readily tracked within the SPV thus helping the asset valuation and transfer process. As the SPV will carry out procurement, transferring agreements, warranties etc to the OFTO will be more straightforward and should reduce risk. There are different challenges from a share sale approach (for example treatment of the capital gain arising at the point of sale as a result of IDC) but we believe the benefits of this approach will make it worthwhile developing appropriate arrangements.

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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?

Please refer to our answers to questions 3.14, 16, 17, 18 , 28 and 30

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?

Please refer to our answers to questions 3/13 and 3/17 above. In addition, we believe that the lack of clarity in some key aspects of the arrangements will undermine the appetite for investment. However, given that the OFTO will not be exposed to development, design or construction risk, it is likely that OFTO finance will be more readily available – and at lower cost - than under OFTO build.

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 believe that there will be less opportunity for refinancing under the generator build option as the OFTO will not have to finance construction. However, as experience of operating offshore transmission assets grows it may be possible (or necessary) to refinance. In this case our views are similar to the approach for OFTO build ie the OFTO should be able receive some of the refinancing benefit to encourage refinancing at a lower cost.

PHASED or STAGED CONSTRUCTION

Question 5/1 Are you satisfied with the practical relevance of our definition of the terms 'phase' and 'stage'?

We have no comments on this.

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?

The proposed approach seems reasonable but we would prefer to consider it more widely within industry based on practical examples of the Round 3 proposals.

The tender approach in this respect will also need to consider the generator's consenting and contracting approach. For example, if multiple stages/phases are consented under a single DCO and a single set of landowner agreements, we believe it will be challenging to split them into separate tender exercises. Similarly, if multiple stages/phases are constructed under a single agreement it may be difficult to split into separate OFTO tenders.

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?

We feel that these arrangements will be best developed by considering the practical requirements and potential needs of individual Round 3 zones and that they should be

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sufficiently flexible to accommodate changing project requirements that may develop as surveys and investigations, designs and contracting strategies are completed and experience grows. For example, could the initial stages/phases of a zone be undertaken as Generator build but subsequent stages/phases undertaken as OFTO build?

We also note that the arrangements need to address dealing with an interconnector between projects (phases) or oversized assets to cater for future, more efficient/integrated overall design. This would support the case for establishing an independent Design Authority.