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By email

Dear Emily,

**RE: Draft Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2012 for consultation (120/12)**

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 projects are becoming ever more complex as their scale increases in response to GB's 2020 renewables target. The next generation of GB offshore wind projects seeking FID will require unprecedented levels of financial commitment from developers. In a constrained capital market, perceived risk around cost assessment for Generator Build OFTO assets augments what is already a major investment challenge.

As stated in previous consultation responses, we strongly support the timely provision by Ofgem of detailed *ex ante* guidance on the Generator Build cost assessment process and clearer dispute settlement arrangements for contentious cost assessments. We believe that these changes, if applied robustly, could play an important role in improving the offshore wind investment climate.

**We recommend a provision in the Tender Regulations that requires the Authority to conduct cost assessments in accordance with guidance published by the Authority.** We consider this to be a relatively straightforward way of giving developers greater certainty around the cost assessment process and the steps they could take to mitigate cost recovery risk to the extent possible.

We understand that Ofgem intends to publish guidance imminently, with a more detailed consultation on its application to follow in advance of the first Enduring Tenders taking place.

Our proposed change to the Tender Regulations should not therefore amount to a substantial new deliverable for Ofgem, as cost assessment guidance is already in train.

We believe that any forthcoming guidance on cost assessment should have as its main objective the mitigation of perceived risk in the cost assessment process. Whilst we would welcome the opportunity to comment on a draft in due course, we initially suggest that Ofgem's guidance includes the following:

1. Ofgem's high level interpretation of economic and efficient process, so developers are clear about the kinds of things Ofgem expects to see in the course of the design, procurement and construction of a project.
2. Details around Ofgem's intention to take account of projects' "lifecycle costs" (e.g. transmission losses) in its cost assessments and the implications of this for developers.
3. A commitment to allow developers to seek ad hoc guidance / direction from Ofgem on, for example, "lifecycle" design decisions in advance of developers having to take such decisions in the live project environment.
4. A commitment to come to a preliminary view of costs submitted by a developer for assessment prior to coming to a final view of the economic and efficient costs that ought to have been incurred.
5. A commitment to a deliberative process in the course of assessing costs submitted by a developer for assessment, including:
  - Provision of reasons to the developer for Ofgem's preliminary view on the developer's submitted costs, including any supporting analysis and/or reports.
  - A sufficient period of time for the developer to make representations on Ofgem's preliminary view. The period should allow for clarifications and discussions between the developer and Ofgem, as well as written representations.
  - A commitment by Ofgem to take the developer's representations into account and explain how the representations have been taken into account.
6. A commitment to publish a cost assessment report in conjunction with Ofgem's final view of the economic and efficient costs that ought to have been incurred in connection with the relevant OFTO asset(s).

For the avoidance of doubt, we recognise that the current cost assessment process does not

preclude representations from the developer on the Authority's view of its costs. However, in the context of reducing perceived risk around the cost assessment process, we believe there is significant value in an explicit provision in the Tender Regulations for cost assessments to be undertaken in accordance with guidance, to enhance clarity, transparency and consistency.

Finally, we note that some offshore wind projects already in train have had to take project decisions without the benefit of guidance. We would expect Ofgem to take this into account where relevant.

Please feel free to contact me if you would like to discuss our response further.

Yours sincerely,

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