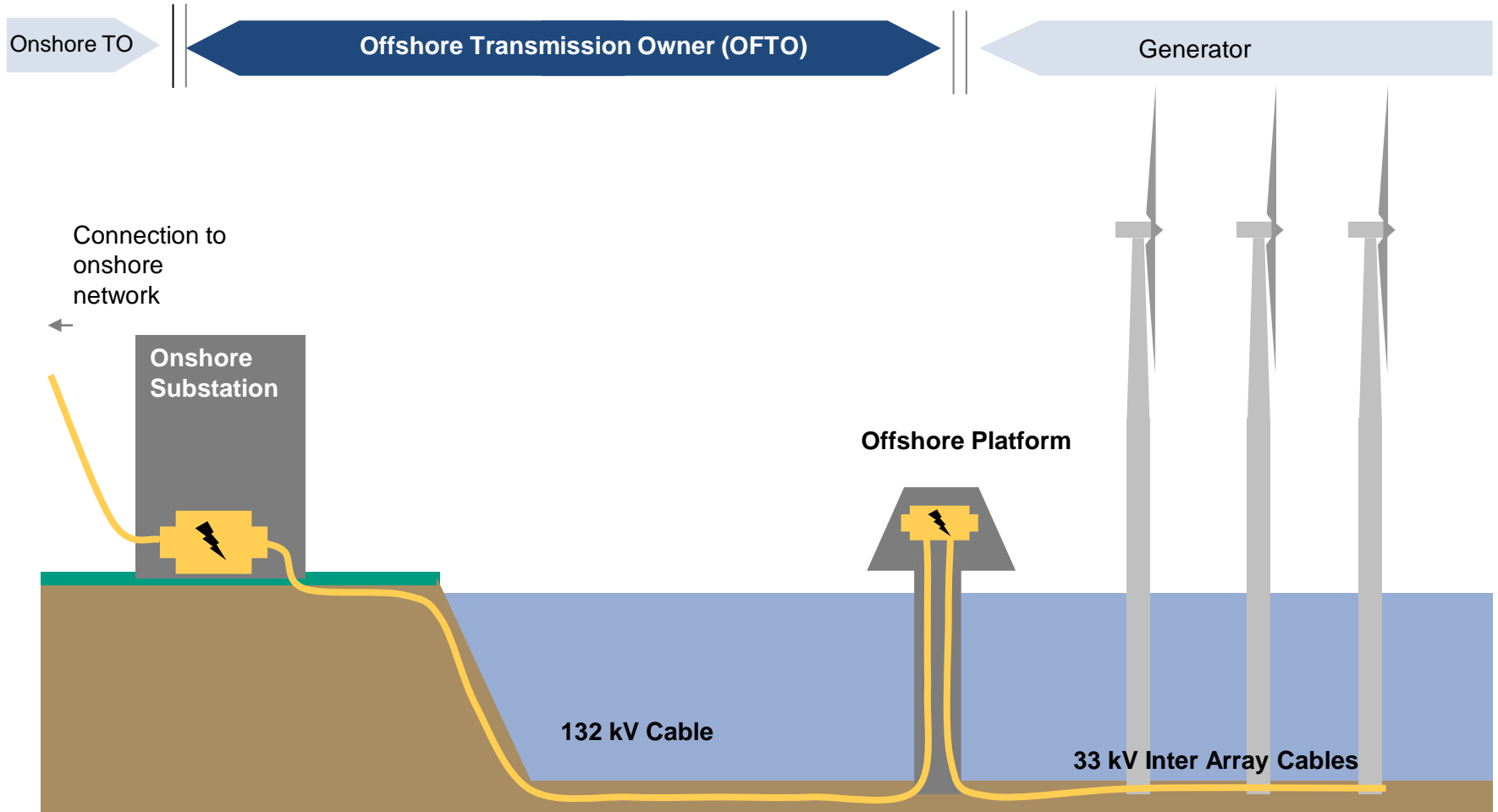


Energy  
Environment  
Efficiency

**GB Offshore Transmission Briefing**

11 January 2013

## What is an OFTO?



## Aims of offshore tender regime

### Transmission

- Enable new participants to compete and bring innovation to this market
- Realise value for money for consumers
- Ensure fit for purpose assets are delivered
- Provide regulatory certainty
  - Tender process that is rigorous, and maintains competitive tension
  - Use or replicate existing licencing and industry governance wherever possible to maintain certainty for investors and consumers

### Generation

- Enable offshore wind developments through a regime that:
  - Meets generator's requirements for timely grid connections
  - Provides flexibility for future offshore generation needs
  - Reduces generator overall transmission cost and capital need per MW

## Recap – GB Offshore Transmission to date

- **2004** - Energy Act provided for new regulatory arrangements for offshore transmission to be put in place, including competition
- **2005 to 8** - DECC and Ofgem consulted on regulatory regime. Key decisions:
  - Regulated transmission defined at 132kV and above, not merchant
  - Individual assets regulated rather than zonal allocation to TO's
  - For developer build assets, Ofgem determines transfer value
  - Asset owners/revenues determined by Ofgem using competitive tenders
  - National Grid appointed as offshore SO
  - Transitional arrangements established for Tender Rounds 1 and 2
- **2009/10** - first tender round (TR1) launched for 9 projects (£1.1bn), with 13 bidders
- **2011** – first OFTO licences granted; tenders phased for TR2 to match construction process; co-ordination project initiated with DECC and industry group
- **2012** – further TR1 licences granted; preferred bidders selected for TR2

## Recap – current OFTO regulatory framework

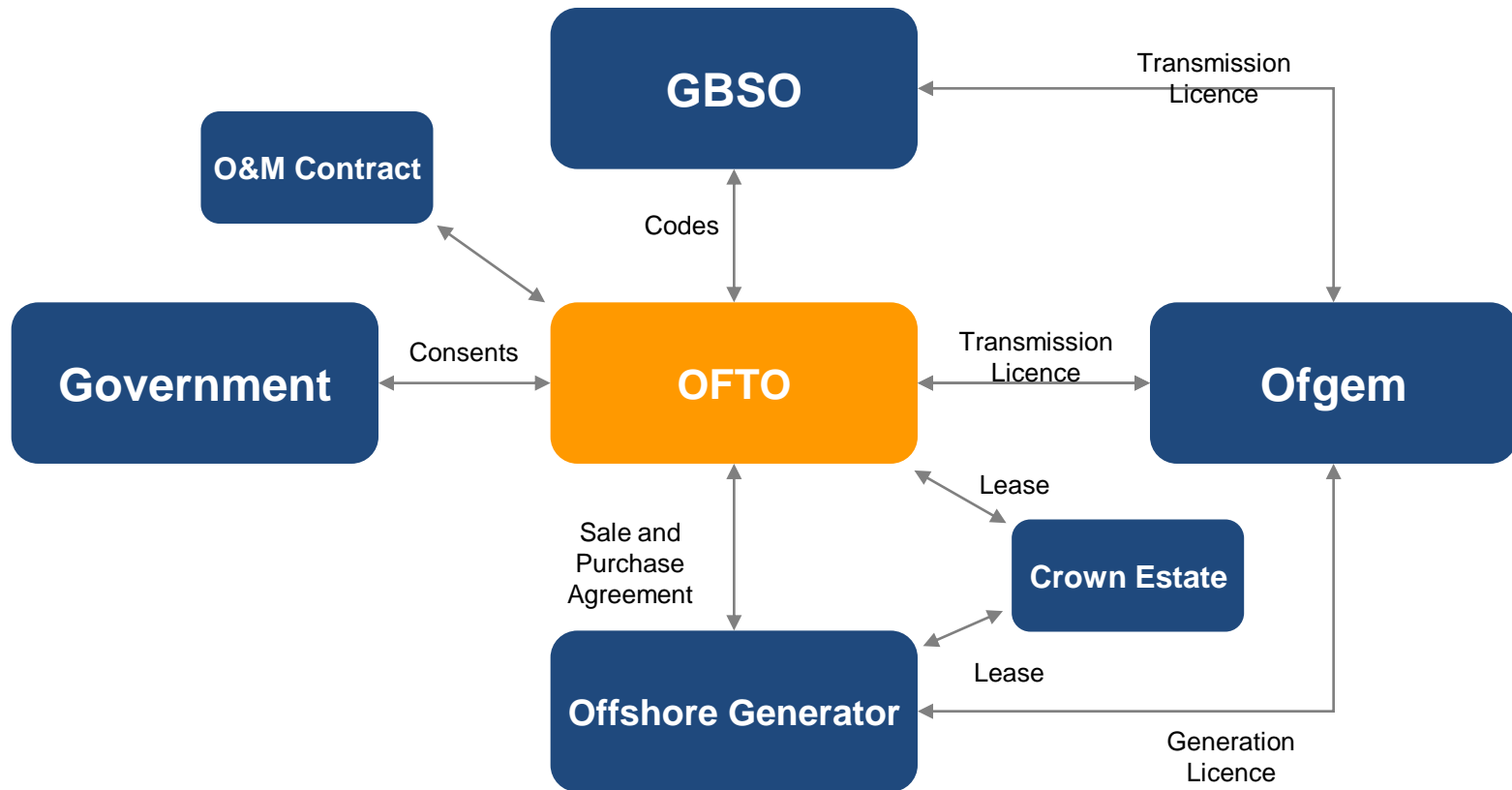
### Revenue Stream

- 20 year revenue stream
- availability based – target 98% with performance incentives/penalties
- no automatic periodic regulatory review
- no construction, energy or stranding risk, low counterparty risk – no generator exposure
- well defined regulatory regime – extending proven onshore precedent
- assets depreciated over 20 years

### Revenue Adjustments

- availability incentives and penalties capped at 10% of revenue
- post-bid revenue adjustments to reflect final transfer value
- revenue fully indexed to RPI
- cost pass through and pre-defined adjustments for rates, Ofgem costs etc
- incremental capex up to cumulative 20%
- possible decommission, extension or re-tender at the end of the revenue stream

## Recap – investment structure



## Current and future investment

### Tender Round 1 (9 projects)

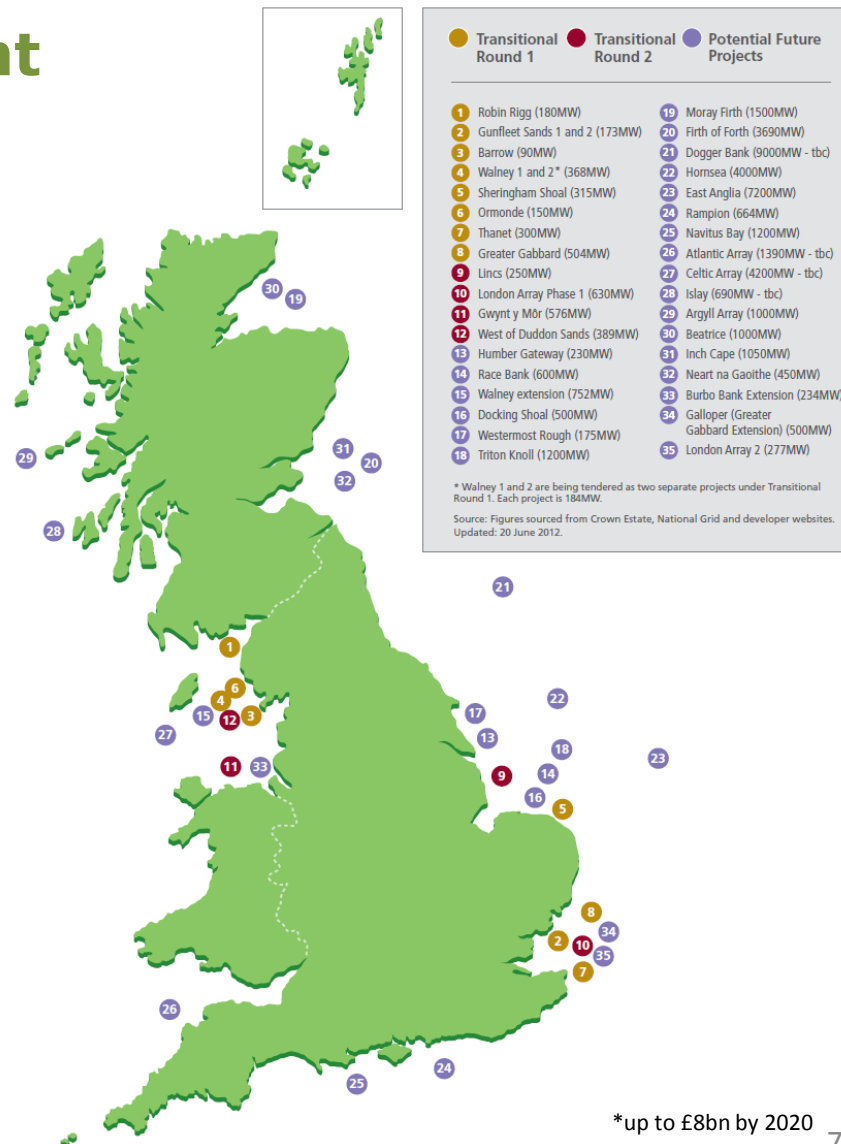
- Investment appetite: £4 billion for **£1.1 billion** of assets in TR1
- Investment to date: c.**£470 million** (including Walney 2 – September 2012)

### Tender Round 2 (4 projects)

- £1.4 billion** of assets being tendered

### Future tenders

- Up to 23 potential projects
- Potential investment of up to **£15 billion\***
- Incorporates Crown Estate Round 3 projects
- Next round of tenders expected mid to late 2013
- Multiple OFTO opportunities for many wind farm projects.



\*up to £8bn by 2020

## OFTO's - Key factors for investors

### Attractive investment sector

- Clearly defined offshore transmission regulatory regime
- **Rare opportunity for new transmission entrants**
- Relatively low risk asset class (BBB/BBB+), ADSCR = c1.2
- Low counterparty risk; National Grid pays revenues

### Robust new regulatory regime

- **20 year revenue stream with limited regulatory intervention**
- Defined performance incentives (98% target) & pass through of certain key costs
- **Performance deductions capped at 10% of annual revenue**
- **OFTO protected from wind farm operating risk and risk of stranding**
- Upside potential: OPEX, non-regulated services, increased capacity

### Transparent competitive process

- **Well-defined, and proven, tender process**
- Structured to ensure level playing field and transparency
- 2 qualification stages followed by ITT stage with M&A data rooms

### Long term opportunity

- A number of phases over several years: potentially £15bn+ of assets
- **Early participation provides valuable experience**
- Enduring regime offers design and construction opportunities



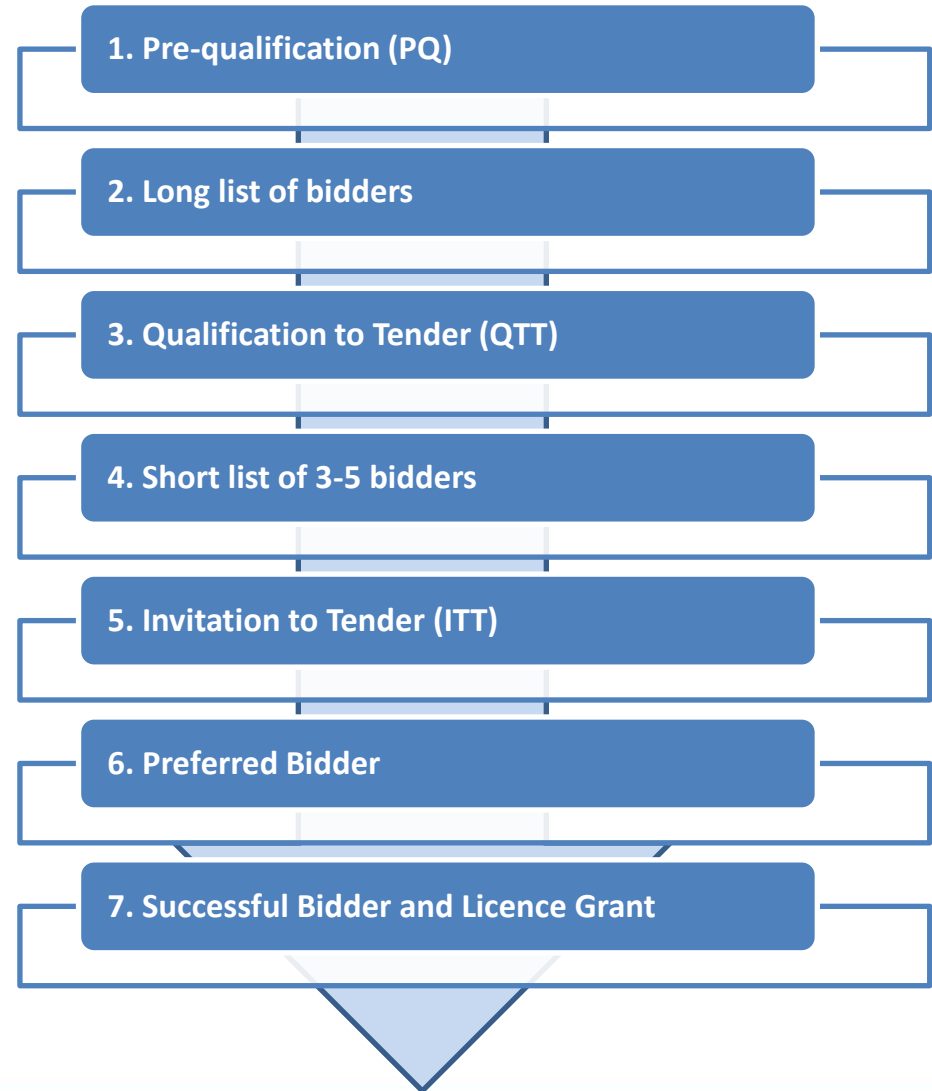
## What's the process?

### At Pre-Qualification stage.....

- Ownership and organisational structure
- Experience of infrastructure ownership, operation and financing – not just in transmission
- An ability to fund a multi-million pound infrastructure investment
- Corporate credibility and legal standing

### And beyond for QTT and ITT.....

- Sound methodologies for managing and operating transmission systems
- Sound ownership structure
- Understanding of the regulatory framework
- Understanding of the assets to transfer
- Ability to secure funding when required
- Pricing



## The OFTO story so far.....

Project name	Transfer value	Annual revenue (TRS)	Bid status
1.Robin Rigg East and West	£65.5m	£6.5m	Licence granted (2 March 2011)
2.Gunfleet Sands 1 & 2	£49.5m	£6.1m	Licence granted (19 July 2011)
3.Barrow	£33.6m	£5m	Licence granted (27 September 2011)
4.Walney 1	£105.4m	£11.6	Licence granted (21 October 2011)
5.Ormonde	£103.9m	£10.6m	Licence granted (10 July 2012)
6.Walney 2	£109.8m	£12.5m	Licence granted (26 September 2012)
7.Sheringham Shoal	£182.2m*	n/a	Preferred Bidder appointed
8.Thanet	£163.1m*	n/a	Preferred Bidder appointed
9.Greater Gabbard	£316.6m*	n/a	Preferred Bidder appointed
10.Lincs	£281.6m*	n/a	Preferred Bidder appointed
11.London Array	£428.4m*	n/a	Preferred Bidder appointed
12.Gwynt y Môr	£346m*	n/a	Invitation to Tender (ITT) stage commenced
13.West of Duddon Sands	£310.9m**	n/a	Pre-Tender stage



\*Estimated transfer value  
\*\*Developer's estimated value

## Offshore Transmission: regime design

- The Offshore Transmission Regime is well established
- We are looking at evolutionary changes to the regime
  - learning from past experiences
  - meeting future challenges
- The regime will continue to:
  - provide value for money for consumers
  - be attractive to investors



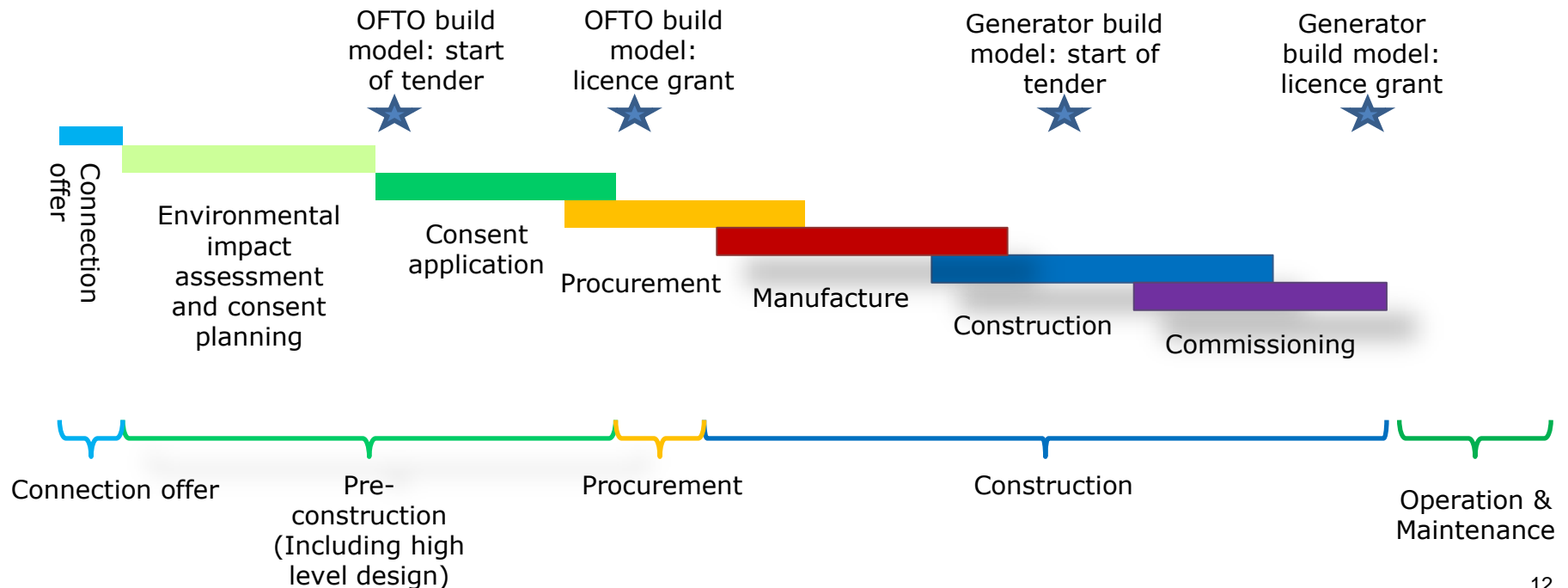
# Offshore Transmission: competitive regime design

## Two options for building transmission links

**Option 1: Generator Build** - Competition for Finance, Insurance, O&M

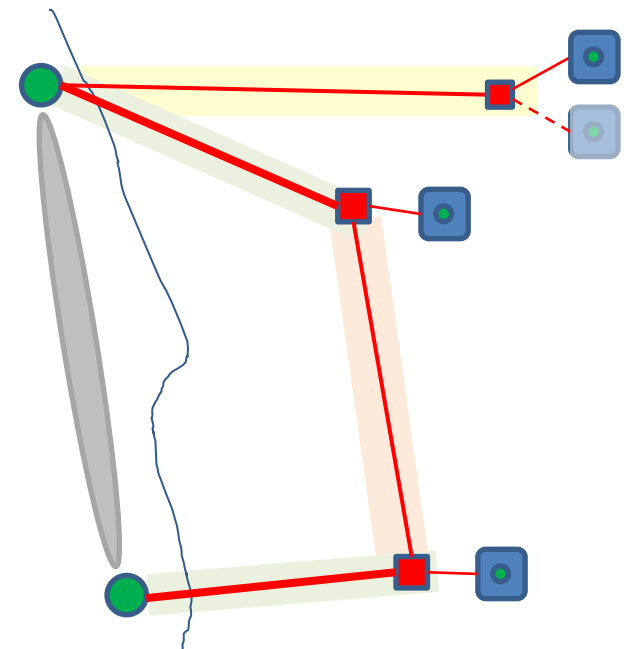
**Option 2: OFTO Build** - Competition for Asset design, Construction (Procurement and Project management), Finance, Insurance and O&M

Revised tender regulations in early 2013



## Coordinated network development

- Consultation on a framework for coordinated network development – late 2012
- Focusing on:
  - possible changes to user commitment rules to support oversizing
  - introducing a new gateway process for anticipatory investment
  - anticipatory investment would apply to potential offshore assets that would provide wider network benefit



## Offshore transmission - summary

- Clearly defined offshore transmission regulatory regime, comprising 20 year revenue stream with limited regulatory intervention
- Well-defined, and proven, tender process with a number of phases over several years: potentially £15bn+ of assets
- Competition expected to deliver savings of c£350m for TR1 and increased savings expected for TR2
- Enduring regime offers design and construction opportunities
- Opportunity for new UK transmission entrants

**Attractive  
investment  
sector**

**Robust new  
regulatory  
regime**

**Transparent  
competitive  
process**

**Long term  
opportunity**

# Any Questions?





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