

By email: offshore@ofgem.gov.uk

DONG Energy Power (UK) Ltd.
33 Grosvenor Place
Belgravia
London SW1X 7HY
United Kingdom

Tel +44 (0) 207 811 5200
Fax +44 (0) 207 811 5298

www.dongenergy.com
Company no. 49 84 787

RE: Minded-to position on interest during construction

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Thank you for the opportunity to respond to your consultation on interest during construction for offshore wind transmission assets and interconnectors.

Our ref. 131115_IDC

DONG Energy is a leading energy company operating in Northern Europe and headquartered in Denmark. It is one of the most active offshore wind operators and investors in the United Kingdom. We are currently constructing two offshore wind farms (West of Duddon Sands and Westermost Rough), operate approximately 1.3 GW, and have a strong pipeline of future projects.

We continue to support project specific application of interest during construction. As offshore wind farms get larger and further from shore more complex and innovative transmission solutions are likely to be used, with higher levels of construction risk. Larger projects would also require new financing structures and could benefit from earlier partnerships, but we have generally found the current rate of IDC too low to be able to attract co-investors at an early stage. A project specific IDC would enable offshore wind developers to attract co-investors to share the larger CAPEX burden of the transmission assets, making it easier for developers to fund the whole wind farm and transmission asset development and ensuring a timely delivery of Round 3 projects.

In the absence of project-specific IDC rates, we support Ofgem's proposed decision to fix the IDC at the time of FID. This reduces the uncertainty for projects, and the possibility of seeing the IDC reduced during the construction phase, and should be welcomed. We do not believe it is appropriate for the new cap to apply to projects where FID has already been taken. Ofgem should fix the IDC for such projects at the current rate, as a premium for the uncertainty we had had on the IDC for these projects.

Please find our responses to the detailed questions below. We are of course happy to discuss any of our responses in further detail.

Yours sincerely,

Our ref. 131115_IDC



Kunal Patel
Senior Transaction Manager
DONG Energy

Question 1: Is the use of WACC and CAPM appropriate for calculating IDC here?

We believe that WACC and CAPM are both appropriate methodologies for calculation IDC. However, we remain of the opinion that it is crucial to use appropriate benchmarks in order to arrive at the correct IDC level. We do not believe that benchmarks currently being used appropriately reflect the risk of construction an offshore transmission asset.

Question 2: Is our minded-to approach to accounting for risk bias for offshore transmission and NEMO appropriate?

Whilst the ex-post cost assessment regime is now reasonably well established it may not necessarily account for assets with different risk profiles. Assets which are constructed further offshore are inherently riskier and given continual introduction of new technologies to account for both this fact and the desire to bring down costs will likely lead to increasing disagreement over which costs are economic and efficient.

Question 3: Do you agree with our minded-to approach of applying the IDC cap and rate for offshore transmission and NEMO?

We agree with Ofgem's proposal to fix the IDC at the time of FID. This will provided welcome certainty to projects that the IDC will not change mid-construction. We do however believe that there is a case for the IDC to vary between projects to reflect the increasing diversity in difficulty and cost of transmission assets for the projects still under development.