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Re: Consultation on the generic Offshore Transmission Owner (OFTO) licence for Tender Round 3

Dear Hannah

Thank you for the opportunity to respond to this consultation. As part of its presence in the UK E.ON is a developer, owner and operator of offshore windfarms. Where the connections for these projects are subject to the enduring OFTO generator build regime we sell the offshore transmission assets we have constructed to the eventual OFTO, appointed through the Ofgem run tender process. We have only answered those questions where we have a comment or concern to express.

Indexation of Revenue

Q1.1 – While we agree that biddable indexation is appropriate, as this has the potential to lower the NPV of potential OFTO's bids and therefore the overall cost to the consumer, we are concerned about what implications this may have for the subsequent generation transmission charge and vendors ability to obtain approval to sell their offshore transmission assets.

For the proportion of the revenue stream that is not index linked bidders could seek to recover their capital outlay sooner. This could mean that the revenue requirement is higher in the initial years, or a specific number of years, of the licence. As there is no explanation in the consultation document, it is not clear how this will feed through in to the generation transmission charges the offshore windfarm will be liable for. It would be helpful if Ofgem, with the aid of National Grid, could explain the potential implications to transmission charges.

In our view it has the potential to result in more variable cash flow requirements for the generator. Depending on the availability of the windfarm in a given year relative to the

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level of transmission charge, there is the potential for the economic performance of a windfarm to be detrimentally affected. This needs to be understood by the developer to ensure that its affects can be properly modelled in transmission charges, so that they can be explained when approval is sought to complete the sale of the offshore transmission assets. This potentially lumpiness of cash flows increases the risk on the generator and may affect the attractiveness to parties seeking to recycle capital in this class of asset to investors looking for more certain and predictable returns.

Refinancing of external debt

Q2.2 – We broadly support Ofgem’s proposals on sharing the benefits of an OFTO’s refinancing of external debt with consumers. It would be helpful, in absence of an explanation in the consultation document, if Ofgem, with the aid of National Grid, could explain how the gain share of a refinancing exercise will feed back in to transmission charges, whether the gain share is processed as a lump sum or an annual adjustment.

We hope that you find our response helpful. Should you wish to discuss any aspect of our response further please do not hesitate to contact me.

Yours sincerely



Guy Phillips
Grid Interface Executive