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

Dear Hannah,

Consultation on the Generic Offshore Transmission Owner (OFTO) Licence for Tender Round 3

Thank you for the opportunity to respond to the above consultation issued 7th October 2013. I am pleased to submit this response on behalf of ScottishPower Renewables (SPR).

SPR is the UK's leading developer and operator of wind generation projects, and we are involved in almost 9GW of offshore wind development and construction. These include the 7.2GW East Anglia zone and 1.8GW Argyll Array projects both of which are under development. In addition we are jointly developing our transitional West of Duddon Sands (WoDS) project due to enter into commercial operation by 2014. Therefore we have a critical interest in ensuring that the offshore transmission arrangements are not only transparent and fair, but are also robust, realistic and reasonable in the market and circumstances in which we operate.

Where appropriate, we have listed below our responses to your questions and we hope you find them clear and helpful.

Biddable indexation evaluation parameters

Question 1.1: Are there any other options or implications you think we should consider in determining the parameters to use for implementing biddable indexation?

We appreciate Ofgem's objective in this regard with respect to protecting consumers; however, variation and unpredictability of Transmission Revenue Streams (TRS) will impact the offshore electricity generator. Therefore, we would suggest that the generator should be able to specify (in the tender data room) the indexation approach and extent of indexation that bidders should apply to the TRS bid. For example, the

generator should be able to specify a set figure or range that bidders can apply to bids, as well as the indexation series to be used (eg RPI or CPI).

Subject to our comment above, we suggest that further consideration should be given to the indexation series that bidders can apply to the TRS they bid, with the aim of maximising consistency across other key areas of the electricity market. We note that RPI is used in electricity network companies' price controls and there is an argument for maintaining consistency with this approach.

However, as part of Government's Electricity Market Reform (EMR), current CfD proposals anticipate CPI indexation of revenues. Transmission charges have a significant bearing on the viability of offshore generation projects, as does misalignment of costs and income streams, and their relative predictability. Therefore we would suggest that a consistent approach to indexation should be adopted as this will help reduce uncertainty in revenue assumptions for generators and so help to reduce cost of capital, all to the benefit of consumers.

Question 1.2: Do you agree with the rationale we set out for adopting the parameters identified in paragraph 1.6 as minded-to positions?

Question 1.3 Do you agree that using the breakeven inflation, calculated in accordance with the method described in paragraph 1.15, is a suitable market implied inflation figure to use in evaluating biddable indexation bids?

Question 1.4 Are there any other options we should consider when selecting a market implied inflation figure?

Provided there is consistent application of parameters and approach to all bids (and that these parameters do not affect the TRS), we are happy with Ofgem's rationale and approach.

Question 1.5: Do you agree with the proposed amendment to the calculation of Base Transmission Revenue (BR) to implement biddable indexation?

Subject to our earlier comments, Ofgem's proposed amendment appears appropriate.

Refinancing of external debt

Question 2.1: Are there any other options or implications you think we should consider in determining the parameters to use for implementing a refinancing gain share?

We are generally supportive of the intention and proposed approach to allowing and assessing refinancing and subsequent gain share.

Question 2.2: Do you agree with the rationale we set out for adopting the parameters identified in paragraph 2.3 as minded-to positions?

We believe that the methodologies for calculating and assessing the refinancing gain should be set out transparently and should be applied robustly and consistently in all

cases. In addition, application should be audited by an independent capital and energy market expert.

Question 2.3: Do you think the scope of the refinancing gain share, and in particular the definition of the debt to which it will apply, is appropriate?

We suggest that Ofgem should also consider and provide for the potential for gains to arise from 'internal' debt being refinanced to 'external' debt and from refinancing of internal debt.

We note Ofgem's intention to allocate 50% of the refinancing gain share to consumers and agree that the split should provide continued incentive for the OFTO to seek lower financing costs whilst also lowering cost to consumers. We assume that the refinancing gain share applicable to consumers would filter through via a reduction in National Grid's overall transmission system charges and into wholesale power prices demonstrating a competitive market in operation.

Question 2.4: Do you have any views on the proposed licence drafting for the refinancing gain share set out in amended standard condition E12-J3 (Restriction of Transmission Revenue: Allowed Pass-through items) of the Licence (Appendices 5 and 6)?

Ofgem's proposed amendment generally appears appropriate but we suggest that the drafting should provide for an obligation on the OFTO to provide certified documentary evidence in support of its refinancing gain calculation. In addition, we would propose a further obligation be placed on the OFTO to advise Ofgem reasonably in advance that it intends to take forward a refinancing consideration.

Availability incentive – capacity weighting mechanism

Question 3.1: Do you have any views on the drafting of the capacity weighting mechanism in the generic OFTO licence?

As noted in previous responses to consultations we have stated that whilst the OFTO availability incentive does provide a signal to OFTOs this signal is very small compared to the impact of system outages on the generator.

We are concerned that the aim of this revised incentive mechanism is to reduce (in absolute and relative terms) the penalty applied to OFTOs for smaller capacity outages. We do not consider that a complex weighting mechanism would offer additional benefit over the 1:1, proportional penalty mechanism and agree with the objective of incentivising smaller capacity outages relative to larger capacity outages but consider that the existing mechanism is the absolute minimum incentive level that should be applied to OFTO performance for small capacity outages. Further, we believe that the mechanism should be weighted more strongly to disincentive larger capacity outages.

The impact of smaller capacity outages beyond the target availability level can be as severe as those in the region of months, i.e. the loss in availability and production is the same. We would seek that any controlling mechanism would positively discourage any deviation from the availability target at even at low levels.

Notwithstanding this, we suggest that the mechanism and procedures should incorporate provisions to ensure that the OFTO is obliged to liaise closely and timeously with the offshore generator to use best endeavours to coordinate planned transmission system outages with the generator's operating plans and forecasts. Where the OFTO does not do so, the generator should be able to refer the OFTO's particular performance to Ofgem for assessment against this requirement and if it is found to be inadequate the availability incentive penalty should be more onerous than that currently proposed.

Question 3.2: Do you agree with our rationale for setting the proposed values of a and b at $a=1$ and $b=1.3$?

Question 3.3: Do you agree with our approach to use the same values of a and b for all projects in TR3?

Subject to earlier comments, we believe Ofgem's approach to be reasonable. However, given the significance of this element of the offshore transmission framework we suggest that the approach should be subject to regular review and further refinement as necessary to ensure that it achieves the desired purpose of providing appropriate incentive to the OFTO to maximise offshore electricity generation.

Financial security

Question 4.1: Do you agree with our proposed requirements for the credit rating of the financial institution holding the financial security?

We agree with Ofgem's aims of ensuring that OFTOs are sufficiently incentivised to maintain their transmission system particularly throughout the final 5 years of the OFTO TRS period. We note Ofgem's proposal for the OFTO to lodge security with an institution with a credit rating at least equivalent to A⁻ as assessed by the proposed rating agency. This appears to be misaligned with the requirements on Users of the National Electricity Transmission System who face more stringent credit rating requirements this (see Appendix 1 of CUSC section 3), however, there would be an increased cost associated with security provided by a financial institution with a higher credit rating. As the security arrangements are to cover the final 5 years of the OFTO revenue stream a proportionate approach should be considered and the proposed security arrangements should be sufficient.

Question 4.2: Do you agree with our proposal to increase the value of the financial security in line with base transmission revenue?

We agree with this proposed approach.

Question 4.3: Do you have any views on the licence drafting proposed in Part B of amended standard condition E12-J4 (Restriction of Transmission Revenue: Annual Revenue Adjustment)?

We suggest that further consideration may be needed of the implications and application of this requirement to an OFTO of Last Resort, who might be appointed during the final 5 years of the original TRS period.

Sulphur Hexafluoride (SF6) emissions reporting

Question 5.1: Do you agree with our decision to introduce a reporting requirement on SF6 emissions?

The offshore electricity industry should continue to play its part in protecting the environment across all areas of activity. We therefore welcome Ofgem's decision to introduce this reporting requirement.

Question 5.2: Do you have any views on the licence drafting of amended standard condition E12-J12 (Sulphur Hexafluoride Reporting Requirements)?

Question 5.3: Do you have any views on the proposed approach to reporting emissions?

We have no comment on these two areas.

Other licence drafting changes

Question 6.1: Do you have any views on the licence drafting changes made to the generic OFTO licence for TR3?

Other than our earlier comments on proposed licence drafting changes, we have no comment on these proposed changes.

We would welcome the opportunity to discuss our responses more fully with you and if you would like to do so, or if you require any further information from us, please contact me on 0141 614 3101 or at Lindsay.McQuade@scottishpower.com

Yours sincerely,



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