

Offshore Transmission

Issue Four
February 2014

In this issue...

Ofgem to launch new
OFTO tender round

Greater Gabbard OFTO
finds an innovative solution

Licence granted for
world's largest offshore
wind farm



Robert Hull
Ofgem E-Serve
Managing Director

Innovation in Transmission

The recent period has seen a number of key milestones reached as we continue to demonstrate that the offshore regime is successfully delivering cost-effective investment and attracting new sources of finance.

In September we saw an OFTO licence granted for the world's largest operational wind farm, London Array. With a value of £459m, these are the highest value assets we have tendered under the offshore regime to date. Then, in November, we saw a highly innovative project bond financing solution for the purchase of the £317m Greater Gabbard transmission assets. In both cases the OFTOs are delivering even greater value for money for consumers than previously completed Transitional Tender Round 1 (TR1) projects. This is because their annual revenues are lower when considered as a proportion of the capital value of the transmission assets. These latest licence grants bring the total number of licences granted to date to nine - attracting over £1.4bn of new investment into the UK transmission sector.

The competitive regime also continues to evolve. In July we published a statement on future generator build tenders, which introduced enhancements based on lessons learned from previous tenders. We also confirmed our intention to introduce a gain share mechanism and biddable indexation into the OFTO licence for future tenders.

With help from our stakeholders, significant progress has also been made on key areas of policy development. We are currently consulting on non-developer-led wider network benefit investment and would encourage stakeholders to respond.

Finally, February will mark a key opportunity for new investors to compete to invest in the offshore regime, with the launch of Tender Round 3. We encourage all stakeholders interested in participating to attend the launch event or to contact us directly.

Latest news

Ofgem to launch new OFTO tender round

February 2014 sees the launch of Tender Round 3 (TR3). This marks a key milestone for the Offshore Transmission regime as it is the first tender round to be run under the enduring regime.

The transmission assets of two offshore wind farms, Westermost Rough and Humber Gateway, are being tendered during this tender round. Both are projects where the wind farm generator has built the assets.

Project Snapshot

Westermost Rough offshore wind farm is owned by WMR Limited, part of DONG Energy A/S. Situated in the North Sea off the coast of East Yorkshire, the wind farm has 35 wind turbines capable of producing 205 megawatts (MW) of electricity. The transmission system will include an offshore substation platform, offshore and onshore AC export cables and an onshore substation.

Humber Gateway offshore wind farm is owned by E.ON Climate & Renewables UK. Located off the East Yorkshire coast, it will have 73 wind turbines capable of producing 220 MW. The transmission system will include an offshore substation platform, offshore and onshore AC export cables and an onshore substation.

What's new about the enduring regime?

For TR3 we have looked at lessons learned from previous tender rounds and decided to combine the Pre-Qualification (PQ) and Qualification to Tender (QTT) stages into one Enhanced Pre-Qualification (EPO) stage. This will make the tender process simpler and quicker.

Although the TR3 projects are being built by offshore generators, using the generator build model, the enduring



- Westermost Rough offshore platform.
Image: DONG Energy

regime also gives generators the choice of an Offshore Transmission Owner (OFTO) designing and constructing the transmission assets (the OFTO build model).

We have also consulted on a number of changes to the OFTO licence for TR3 and plan to publish a revised version in early 2014.

TR3 Launch event

We will be holding an event to launch TR3 in London, on 26 February. At the launch event we will provide an update on latest regime developments, detailed information on the projects, and an opportunity for you to ask questions. To register for the event or to find out more about TR3 please contact us at offshore@ofgem.gov.uk.

Current tender rounds

Greater Gabbard OFTO finds an innovative solution

Greater Gabbard is the latest project to have had an OFTO appointed by Ofgem, bringing total investment in the regime to over £1.4bn.

On 26 November we granted the licence to own and operate the transmission assets to Greater Gabbard OFTO plc, which is owned by a consortium of Balfour Beatty Investments Ltd, Equitix Ltd and AMP Capital Investors Ltd. The consortium paid £317m for the assets.

What made the purchase unusual was how it was funded through a project bond, rather than bank debt, which has been the norm for most OFTOs to date. It was also the first project in the UK to use the European Investment Bank's Project Bond Credit Enhancement (PBCE) product. The PBCE reduces the risk for bond investors, enabling the OFTO to attract cheaper finance from institutional investors, which ultimately reduced costs for consumers. The bond had a coupon of 4.137%.

This project has demonstrated that bond financing can be used by OFTOs to finance the purchase of offshore transmission assets, widening the competition for funding solutions. The cost of running the transmission link was over one fifth lower than for the other Tender Round 1 projects completed at the time the OFTO was appointed.



- Greater Gabbard offshore substation. Image: Greater Gabbard Offshore Winds Limited

Tender round progress update

- Tender round 1
- Tender round 2
- Tender round 3

Project name	Transfer value	Annual revenue	Bid status
Robin Rigg East and West	£65.5m	£6.5m	Licence granted (2 March 2011)
Gunfleet Sands 1 & 2	£49.5m	£6.0m	Licence granted (19 July 2011)
Barrow	£33.6m	£4.8m	Licence granted (27 September 2011)
Walney 1	£105.4m	£11.0m	Licence granted (21 October 2011)
Ormonde	£103.9m	£10.6m	Licence granted (10 July 2012)
Walney 2	£109.8m	£11.8m	Licence granted (26 September 2012)
Sheringham Shoal	£193.1m	£17.9m	Licence granted (27 June 2013)
Thanet	£163.1m*	n/a	Preferred Bidder appointed
Greater Gabbard	£317.1m	£24.8m	Licence granted (26 November 2013)
Lincs	£281.6m*	n/a	Preferred Bidder appointed
London Array	£459.0m	£35.0m	Licence granted (10 September 2013)
Gwynt y Môr	£346.0m*	n/a	Preferred Bidder appointed
West of Duddon Sands	£311.0m*	n/a	Invitation to Tender (ITT) stage
Humber Gateway	tbc	n/a	Tender commencing March 2014
Westermost Rough	tbc	n/a	Tender commencing March 2014

* Estimated transfer value





- London Array Offshore substation. London Array Limited

Licence granted for world's largest offshore wind farm

In September, we appointed Blue Transmission London Array Limited as owners of the high voltage transmission links to the world's largest operational offshore wind farm, London Array (Phase 1). With a value of £459m, these are the highest value assets to have been tendered under the offshore regime to date.

Blue Transmission, a consortium of Barclays Infrastructure Funds Management Limited and a UK subsidiary of Mitsubishi Corporation, will now maintain and operate the transmission assets for the next 20 years. The purchase was funded by bank debt with half of the debt provided by the European Investment Bank (EIB).

The project demonstrated how the competitive tender process continues to ensure value for money for consumers - the cost of running the transmission link was a quarter less than for the Tender Round 1 projects completed at the time the OFTO was appointed.

Future developments Enabling anticipatory investment

In order to make a more economic and efficient network possible in the future, we have been finding ways to enable a more joined-up approach to the development of offshore transmission infrastructure. We refer to this joined-up approach as 'coordination'.

During 2012 we consulted on a proposed framework to support Generator Focused Anticipatory Investment and Developer-led Wider Network Benefit Investment. After incorporating stakeholder feedback we published our policy decision in July 2013. The focus of the policy is to encourage investment by offshore developers, both for transmission assets which will enable coordination offshore and also for the wider benefit of Great Britain's transmission network.

On 10 January we published a consultation on options for supporting investment in transmission assets that would provide wider network benefits but which would not be built by offshore developers. This consultation, which closes on 7 March, can be found on the Ofgem website and we welcome responses at offshore.coordination@ofgem.gov.uk.



Generator Commissioning update

The Energy Act 2013 includes a technical change to the Electricity Act 1989 - the Generator Commissioning Clause.

It is designed to ensure that, following full commencement of the offshore transmission regime, developers can lawfully commission offshore transmission assets they have built, prior to transferring them to an OFTO.

During 2013 we held a workshop and published a consultation that looked at the policy proposals around implementing the Generator Commissioning Clause and the proposed code and licence modifications that will be required to enable it.

In January we set out our minded-to positions in a further consultation, which includes two documents:

- **Section 11A Licence modification consultation (for 28 days), prior to modifying the licence; and**
- **code modification consultation, prior to modifying the relevant codes.**

Following this consultation we expect to implement the necessary code and licence modifications so that they take effect later in 2014, after the Clause comes into effect.

Cost Assessment evolution

For the transitional tender rounds we developed a cost assessment process to calculate the economic and efficient costs of developing and constructing offshore transmission assets. These were assets built by generators and tendered under the regime.

As the transitional tender rounds are nearing completion, we are reviewing how the cost assessment process has worked to date, to see whether improvements could be made for future tender rounds.

In December we published a consultation, 'Offshore Transmission Cost Assessment: Development proposals', which explained our initial views on:

- **how benchmarking could be used more**
- **how we could engage with developers, and**
- **whether it might be appropriate to introduce new efficiency incentives for developers.**

Elsewhere in GB Transmission

Integrated Transmission Planning and Regulation

The Integrated Transmission Planning and Regulation (ITPR) project team published its emerging thinking consultation in June 2013.

On the 18 November 2013, it set out the project's priorities and next steps in an open letter. The letter also explained how Ofgem's work on regulating transmission that connects generation outside of Great Britain relates to the wider ITPR project, including its work on interconnection.

Moving forward, a key focus of the ITPR project will be further consideration of the regulatory options for future interconnection investment, which it intends to consult on in spring 2014. This will be followed by a consultation on initial conclusions, and an initial draft impact assessment, in summer 2014.



The consultation is open until 11 February 2014 and we encourage anyone with an interest in the cost assessment process to respond with their views.

As part of the consultation process we ran a workshop in December to discuss the development of the offshore transmission cost assessment process. The workshop gave stakeholders an opportunity to openly discuss the consultation proposals and their views will be taken into account, alongside consultation responses, as we develop our cost assessment proposals further.

We also began a review of our approach to Interest During Construction (IDC) for the offshore regime, in May 2013, to ensure it reflects current market conditions. This resulted in a final decision being published in December.