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Sent by email only to: offshore.costassessment@ofgem.gov.uk

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Offshore Transmission Cost Assessment: Development proposals

Dear Roger,

Thank you for the opportunity to respond to the above consultation of 04 December 2013. We are pleased to submit our response below.

Mainstream Renewable Power is one of the world's leading independent developers of renewable energy projects. With a development pipeline of over 19GW globally we are currently developing and/or constructing onshore and offshore wind farms and solar farms across Scotland, England, Ireland, South Africa, Chile and Canada.

As Europe's leading independent offshore wind developer, Mainstream is developing just under 8GW of offshore wind projects in England, Scotland and Germany with 4.45GW of secured grid connection for these offshore projects. Our UK projects include our 450MW Neart na Gaoithe windfarm – off the Fife coast, and for which we have secured consent for the onshore works – and our Hornsea joint venture project off the Yorkshire coast. Therefore we have a very keen interest in ensuring that the offshore transmission arrangements support the efficient and effective development of offshore projects in the UK.

Generally, we welcome Ofgem's consultation on these development proposals as we agree it is appropriate to consider these (along with other) aspects of the offshore transmission regime in light of experience gained during the transitional tender regime. However, we also consider it is important to reach a balance between regulatory certainty and development of the arrangements in order that investor confidence is not undermined, thus avoiding the impact on costs to the consumer through increased cost of capital. Accordingly, we suggest that refinement of the arrangements – especially in areas that could have an impact on investor confidence – should be considered carefully.

Benchmarking

As the consultation notes, offshore transmission ('OFTO') projects continue to develop and evolve in terms of the conditions and challenges they face (distance from shore, sea bed conditions, depths etc), scale, technology deployed and contracting strategies and this is particularly evident on comparing transitional and enduring projects. All of this makes it harder to benchmark costs and may make it more difficult for developers to secure competitive prices from the supply chain, especially for innovative solutions or equipment. Therefore we believe that the offshore transmission market is not yet sufficiently mature to benefit from benchmarking being used to assess total project or component costs. This is especially the case if the benchmarking is not carried out until close to Ofgem setting the Final Transfer Value, by which time developers will be unable to mitigate any cost issues that are identified.

However, we think there could be merit in using component cost benchmarking earlier in the cost assessment process to identify areas of unexpected cost ('outliers'). This would afford Ofgem and the developer the opportunity to investigate these areas and allow the developer to take mitigating action, if possible, prior to entering into procurement contracts.

Engagement

We welcome proposals that would allow earlier engagement with Ofgem on cost assessment, especially if this leads to earlier certainty over cost recovery for developers. Ofgem's considerations in this regard are generally welcome but we think that further consideration should be given to developing arrangements that would provide earlier certainty for developers in order that risk can be mitigated to the ultimate benefit of consumers.

Cost incentives

For similar reasons as we have put forward regarding benchmarking, we consider that the OFTO 'generator build' regime and market is not yet sufficiently mature to justify the application of cost incentives to developers. We believe that such cost incentives could undermine investor confidence at a crucial stage of the deployment of offshore wind. In addition, we believe that generators are already sufficiently incentivised to make efficient investment decisions and minimise costs by the risk they face from the cost assessment approach and their exposure to transmission use of system charges.

We hope you find our response clear and helpful but if you would like to discuss any aspect of it please get in touch.

Yours sincerely,



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