

Regulation and Policy

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Offshore Transmission Cost Assessment: Developer Proposals

Dear Roger,

Thank you for the opportunity to comment on your consultation Offshore Transmission Cost Assessment: Developer Proposals. This response is provided on behalf of RWE Innogy UK Limited, a fully owned subsidiary of RWE Innogy GmbH.

We are supportive of the current cost assessment process and believe that, whilst challenging, it is appropriate and fit for purpose. Determination of the FTV based on real project costs is necessary to minimise the risk and financing costs and to achieve the lowest cost to the consumer.

We believe that any benchmarking used post-FID offers no value to the process, yet introduces either perceived or real risks to developers, both of which increase financing costs and may compromise the viability of projects. This is because benchmarking is unable to account for changes in supplier/installer market conditions, nor for the unique qualities of each individual project and associated complexities.

We further believe that the minimum achievable price is achieved by the competitive tendering process undertaken by developers. This becomes the real cost to the developer of completing the offshore transmission assets, so we strongly believe that the cost assessment for the FTV should only be based on the real project costs (as for the current process) and should not be influenced by benchmarking at all.

Whilst Ofgem have seen cost data for 13 tender rounds, no developer has such extensive knowledge of the costs of offshore transmission assets. We note that individual component benchmarking information from Ofgem's cost database has the potential to reduce project costs if used in the contract negotiation phase prior to FID (whilst we reiterate that benchmarking after FID is detrimental to the cost assessment process). If for some reason the competitive tendering process does not identify the lowest cost, then this benchmarking may offer a negotiation tool to reduce prices, which are then fixed at FID. If this approach is taken, then care is needed to ensure that this information is not made public, which may influence supplier prices in a counter-competitive way.

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It is critically important to note that generators are already strongly incentivised to minimise non-value-adding costs to transmission assets. This is by virtue of paying for the OFTO assets in local TNUoS charges and investing in wind farm assets that are entirely dependent on the associated transmission asset. Ofgem and Generator incentives are fully aligned to secure lowest cost to the consumer. Therefore, we welcome support from Ofgem to assist in cost reduction of the transmission assets from an appropriate benchmarking process, yet strongly recommend that no further incentives on generators are necessary in the generator-build process.

We welcome the opportunity to discuss this issue with you further. Please do not hesitate to contact me if you require any further information in relation to our response.

Yours sincerely,

Jeremy Gummow
Grid Regulation Manager
RWE npower renewables

RWE npower renewables responses to individual questions

CHAPTER: Two

Question 1: *Are there any factors, other than those mentioned, that we should consider in relation to developing the cost assessment proposals?*

We support the existing cost assessment process and do not consider that there are further factors that require improvement.

CHAPTER: Three

Question 1: *What are your views on the appropriate dataset to use for deriving benchmarks and how they could be used in the cost assessment process? What are your reasons for this preference?*

The use of specific benchmarking as a tool to assist developers to achieve the lowest possible project cost may be assist reduction of project cost if utilised in the contract negotiation phase prior to FID. We note that different segments of offshore projects are more mature and hence have a more predictable cost structure, whilst others are more bespoke for each project. Ofgem's cost database could be used in its entirety, but only statistically significant uncertainty bounds are calculated for each project segment on statistically significant cost-driver units (note that some correlations in the consultation do not show statistically significant regression). These bounds will have different ranges, but should support an informed view on cost expectations.

Question 2: *What are your views on the appropriateness of total project cost benchmarking? If you believe it is an appropriate approach, what should be the cost driver(s) to be used for such a benchmarking?*

We do not believe that total project benchmarking is appropriate or beneficial to the cost assessment process for generator-build. Total project benchmarking offers no useful information to help developers mitigate costs of offshore transmission assets and therefore adds no benefit to the process. In addition, the graph shown in 3.20 shows no clear correlation of total project cost per unit capacity.

Question 3: *What are your views on the appropriate measures for benchmarking each of the individual component cost drivers?*

Benchmarking should not be used for any purpose post-FID as it will offer no cost benefit to the process and can only be viewed as a risk by developers and project finance providers.

We believe that individual component cost benchmarking in the contract negotiation phase prior to FID may prove beneficial to the cost assessment process. Whilst Ofgem have undertaken the cost assessment process for 13 transitional tender round projects, each individual developer still have very limited experience of this process. Ofgem's database of costs could be a good resource to developers to understand where project costs may be out of line with

comparable projects if for some reason the competitive tender proves does not sufficiently minimise costs. If they are provided in the contract negotiations stage prior to project FID, then this should facilitate cost reduction of over-priced segments of projects, ultimately driving lowest cost to the consumer.

We note that this cost information should not be made publically available as it may influence suppliers quotations for work. We recommend that consideration is given to how this information may be shared with developers to avoid this counter-constructive risk. For example a closed-book, pre-FID Ofgem assessment, highlighting areas that appear to be cost outliers to the developers may achieve this aim.

CHAPTER: Four

Question 1: *What are your views on the options for Ofgem engagement discussed in this chapter? Are there any other approaches to engagement through the various project stages that you think we should be considering?*

We do not believe that there is any need for changes to the current cost assessment process. It is beneficial to have the cost assessment to determine the ITV and to highlight the information that will be required for the FTV cost assessment. The final cost assessment to determine the FTV is challenging, yet appropriate. We wish to highlight the importance of retaining flexibility over when this final cost assessment is completed to allow an appropriate level of dispute resolution to be completed. This is important to allow a sufficiently firm view of cost to be known prior to commencing the cost assessment process and to avoid continual revisiting of some contract cost details before the FTV can be reached.

The only further engagement that we would support is for a suitable benchmarking discussion prior to FID. When used in the contract negotiation phase, this may present the opportunity for cost savings and benefits to the industry and to the consumer if for some reason the competitive tender process does not achieve the lowest cost. Any benchmarking engagement post-FID offers no potential to improve the cost base of projects and must furthermore be viewed by developers as a penalty risk to the cost assessment process. This risk could result in increased project financing costs. Therefore we believe that benchmarking intended for use post-FID would be damaging to the OFTO regime.

Question 2: *Do you agree with our views on the advantages and disadvantages of the options presented? Which option offers the best way forward for the enduring regime, and why?*

See response to previous question. We support the current cost assessment process and do not see any need for changes. We support option 1. We do not believe that the additional work suggested in options 2 or 3 add any value to the process, whilst the uncertainty retained until the FTV in option 4 could be detrimental to the process.

CHAPTER: Five

Question 1: *What are your views on whether and how to develop incentive for generator build projects?*

By the very nature of generator-build projects, generators are already very strongly incentivised to minimise all non-value-adding transmission asset costs when following the generator-build regime. Generators continue to pay for the transmission assets through local TNUoS costs and are fully liable for the stranded wind-farm assets in the event of any failure of these assets. Therefore, we do not believe that any further incentive is appropriate for the generator-build regime.