

Elizabeth Cooper
Offshore Transmission
Ofgem
9 Millbank
London
SW1P 3GE

30 January 2015

Dear Elizabeth,

OFTO Build: Providing additional flexibility through an extended framework

Transmission Investment manages one of the largest offshore electricity transmission portfolios in terms of the capacity of offshore wind connected. Our portfolio of assets includes the connections to the Robin Rigg, Gunfleet Sands, Barrow, Ormonde and Lincs offshore wind farms - a portfolio of over 800MW (circa £600m in capital employed). We are also developing, or advising on the development of, several electricity interconnector projects between Britain and the rest of Europe.

In particular, in partnership with the French national grid company RTE, we are leading on the development of an up to 1400MW electricity interconnector between France and Britain via Alderney (the “FAB” project).

For more than five years we have been advocating a greater role for third parties in investing in transmission onshore and offshore, and in interconnection. As part of this we have also been and remain strong advocates of the OFTO build model. In our view there should be even more benefit from bringing into the construction phase the transmission focus and access to competitive finance seen in the operational phase under the generator build model.

Support for the principles proposed

We support the focus on the late OFTO build as the only practical way of running a fixed price-based competition.

We are also very much in agreement with the common principles set out on page 18 and 19 of the proposals document and have only a few points to add:

1. We note that the principles themselves do not include the need for any option presented to be bankable (although the policy document does, for example in paragraph 2.14, require that generator EPC proposals need to be bankable); it would be useful and clearer to have this requirement set out in the principles as well.
2. We would consider that the principles should also include a statement that the option proposed by a generator should not intentionally favour one bidder or

set of bidders – we understand that at least one offshore wind farm developer has already sought to propose OFTO build options that would prevent or restrict competition; if consumers are to gain the full benefit of a truly competitive OFTO build model then it must be fair and transparent.

Implications for different options

We recognise that Ofgem has not proposed any options, it being up to the generator to propose its preferred option, but has set out some illustrative options.

We would consider that some of the more complex options that could be proposed may potentially result in structures that would be difficult, if not impossible, to structure on a non-recourse basis (be bankable). For example if a generator were to procure offshore export cable from a manufacturer on terms that did not include installation, it may be difficult to find an installation contractor to wrap this and thereby provide a turnkey cable supply and installation contract (something that banks may well require).

Allocation of risks between generators as EPC contractors and as wind farm developers/owners

The policy document correctly identifies some of the key risks that would need to be allocated in the construction phase. It is important that the regime clearly allocates these risks as the ability to raise OFTO finance will depend on uncontrollable risks being taken by someone other than the OFTO and its lenders.

An example of this is the abandonment risk during construction. It may well be difficult to determine whether a project is being delayed, and ultimately abandoned, due to issues with the transmission assets or the wind farm, if it is the same entity constructing both.

The policy document sets out (in paragraph 3.23) that under the circumstances of generator abandonment of the offshore generation during construction, the OFTO would recover its costs (and presumably a reasonable return on them) from NGET.

It would also be usual to expect an EPC contractor to be liable for its abandonment of a project (perhaps limited at 100% of the contract value).

It will be important to ensure that the abandonment risk (and other risks) are clearly identified and allocated and that there are and can be no gaps (or shortfalls in liability caps) between the different parties assuming responsibility

Compensation due to delays is another example as the delays may be caused by the generator in its role as wind farm owner or EPC contractor.

Recovery of bid costs

In the May 2012 Enduring Offshore Transmission consultation document para 3.16 stated that:

“For OFTO build tender exercises we are minded to apply the current approach whereby the successful bidder recoups their tender fees through the TCA at pass through. We also consider that it may be reasonable for a proportion of shortlisted bidders’ costs to be reimbursed if these costs are likely to otherwise be a significant barrier to participation”

The latest policy proposals only discuss OFTO bidder costs in the event that the tender process is halted. It would be helpful if Ofgem could confirm that its position

as consulted upon in May 2012 is still to allow recovery of some of the costs of bidding in an OFTO build tender, even for unsuccessful bidders.

Conflicts of interest

As well as the need to avoid a generator seeking to restrict competition, there is also (and always) the need to be mindful of the conflict of interest which could exist between NETSO and an affiliated OFTO bidding entity. One example of this may be in the commencement of the revenue stream – we would not see it as appropriate if NETSO had a role in determining the commencement of a revenue stream to an OFTO that was competing with one of its affiliates. Perhaps yet another example of why ultimately ownership unbundling of NETSO is the only sensible course.

Other issues

It would be helpful to us as a potential OFTO build bidder, and probably to other potential bidders also, if Ofgem could provide some market information on the timing of and likely options preferred by generators opting for a tender through an OFTO build model. We note your letter dated 27th January 2015 requesting information from generators on a confidential basis – it would be useful to prospective OFTO bidders if Ofgem could obtain permission to make this information publicly available, albeit in an anonymised and aggregated form.

I hope these comments are helpful and we would as always be willing to discuss them further at your convenience.

Yours sincerely,



Chris Veal

Managing Director