

Elizabeth Cooper
Offshore Transmission
Ofgem

By email only

Att.: offshore.enduring@ofgem.gov.uk

YOUR REF./DATE:

OUR REF.:

PLACE/DATE:
Oslo, 30.01.2015

--- POSTAL ADDRESS:
Statkraft UK Ltd
4th Floor, 41 Moorgate
London EC2R 6PP
UK

--- VISITING ADDRESS:
4th Floor
41 Moorgate
London EC2R 6PP

--- PHONE:
+44 (0)20 74488200

FAX:
+44 (0)20 74488241

--- INTERNET:
www.statkraft.com

E-MAIL:
uk-post@statkraft.com

--- VAT REG.NO.: UK-922 1630 58

OFTO BUILD: PROVIDING ADDITIONAL FLEXIBILITY THROUGH AN EXTENDED FRAMEWORK

Ofgem published on 12 December 2014 a policy update regarding the approach to the Offshore Transmission Owner (OFTO) build option under the tendering regime for granting offshore transmission licences. We understand Ofgem is seeking initial views from stakeholders by the end of January, and to further actively interact with generators which may be interested in an OFTO build option for future projects.

Statkraft is Europe's largest generator of renewable energy and is the leading power company in Norway. The company owns, produces and develops hydropower, onshore and offshore wind power, gas power and district heating. Statkraft is a major player in European power trading and has 3 600 employees in more than 20 countries. Statkraft's ambition is to have an attractive long term industrial role in offshore wind, and is one of four companies developing the Dogger Bank zone in UK waters. Statkraft is the operator of Sheringham Shoal Wind Farm and is one of the partners developing Dudgeon Offshore Wind Farm.

First, we would like to emphasise that in general we see the generator build model as workable. Our understanding of the policy update is that no changes are foreseen to the generator build model, and that this model will continue to exist also in the future.

However, we do see that there could be some benefits in an OFTO build model, in particular regarding financing issues, though depending on a lot of details. We consider the "Generator EPC" OFTO build model, as described in the policy update, to be the most interesting model to explore further from our perspective. However, at this stage we see a need to get a better understanding of all models.

Below, we describe issues and concerns related to the OFTO build models. We want to engage in more detail with Ofgem to explore more deeply whether there would be possible advantages using any of these models for our future projects. Hence, we would envisage a meeting on this regard, and we will contact you shortly regarding this.

Timing: We do see serious challenges regarding timing of the OFTO tendering which needs to be discussed further in detail. The OFTO tendering round probably needs to kick off before the Contract for Differences (CfD) award. We need an OFTO to be committed with all terms and conditions negotiated before our financial

investment decision (FID). Further on timing is that it is hard to see that tendering and awarding an OFTO during this phase of the project will not cause any delays.

Costs: It is not fully clear to us how an early appointment of an OFTO will influence on our Transmission Network Use of System (TNUoS) tariffs, compared to a generator build model, and we would like to discuss this further with Ofgem. We consider it important that an OFTO build model does not lead to higher TNUoS tariffs than the generator build model. Furthermore, a possible disadvantage with an early appointment of an OFTO is increased project administration costs due to follow-up of the contract with the OFTO, including possible activities as reporting, meetings, billing, reviews, etc.

OFTO influence during the EPCI: Our understanding of the "Generator EPC" model is that the OFTO will not influence the design, engineering, procurement, construction or installation of the transmission assets, but only will hold a financial position. It is important that this is clearly defined within the contract with an early appointed OFTO. Some OFTOs might wish more active involvement than others during the EPCI phase, which can cause extra costs and potentially delays to the implementation of the assets. As the Generator has committed to a CfD strike price, there will not be any room for changes to the design or functionality of the transmission system resulting in added TNUoS costs or delays.

Long lead items: Possible issues due to some long lead items that have to be ordered before the FID, needs to be sorted out regarding a possible early appointment of the OFTO.

Generator possibility to revert to generator build: As there are many loose ends to the early OFTO build model, we consider it important to be able to revert to the generator build model, for any reason, during the OFTO tendering round, without being billed with extra costs.

OFTO possibility to opt out: What kind of mechanism can be put in place to prevent or to allow the OFTO to opt out after the contract has been signed, or if the OFTO cease to exist (e.g. going bankrupt)?

Project financing: There will be a risk that an OFTO will not be appointed, and we have to revert back to the generator build model. In order to avoid project delays if this happens, parallel negotiations on project financing may have to be carried out, which alone will have a cost impact. This may reduce the benefits of an early OFTO appointment. We need to investigate whether and how this can be avoided.

Transparency: We consider it imperative for the offshore wind farm developer to have full access to all information during the OFTO tendering round especially on the issue of getting an OFTO in place in due time before the investment decision has to be made for the offshore wind farm. If an OFTO is not secured, the projects will certainly suffer delays. There is a risk of not reaching the CfD target commissioning date if having to go through the whole process of raising project finance for these assets after the OFTO tendering round has failed to provide an OFTO. We would welcome Ofgem's guidance regarding how such mechanisms could be put in place to allow developer in-sight into the OFTO tender process in order to ring-fence developers interests and the need to de-risk the overall schedule.

Market for OFTOs: We are concerned whether there really exists a functioning market for an early appointment of OFTO. It is not sufficient only to get bids; there also needs to be a sound market (real competition) if the (full) benefits of the OFTO-regime is to be achieved. A non-functioning market may (but not necessarily) lead to higher costs. We see a particular risk for round 3 projects where significant investment will be needed. We would welcome Ofgem's guidance on the scope of a well-functioning market for such assets.

As stated above, we are interested in a meeting with Ofgem to further explore how OFTO build models could work for our future offshore wind projects. We suggest organising a meeting at your office in the near future, preferable during February or March 2015. We will contact you shortly in order to set up a date.

Yours sincerely,
for Statkraft UK Ltd



Bjørn Drangsholt
Managing Director