

Rowan te Kloot
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Dear Rowan,

Notice of consultation to modify conditions of the transmission licence proposed to be granted to the successful bidder for the West of Duddon Sands (WoDS) project

We have today commenced a consultation under section 8A of the Electricity Act 1989 on the proposed modifications to certain standard conditions of the transmission licence that may be granted to WoDS Transmission plc¹ (the **Potential Licensee**). The transmission licence will be granted to the Potential Licensee if WoDS Transmission Limited, formerly known as Blue Transmission (a consortium of Macquarie Corporate Holdings Pty Limited, 3i Infrastructure plc and Frontier Power Limited) (the **Preferred Bidder**) becomes the successful bidder for the WoDS project (the **Project**).

The attached consultation notice is published on our website and sets out details of the proposed modifications, the closing date of the consultation and how to respond. We have posted hard copies to you as well as the Company Secretary of the Preferred Bidder.

We are proposing to add a number of amended standard conditions to the transmission licence that may be granted to the Potential Licensee should the Preferred Bidder become the successful bidder for the Project. These proposed conditions are annexed to the section 8A notice.

In accordance with our statutory requirements and best practice we have brought the proposed modifications to the attention of persons likely to be affected and also provided copies of the notice to:

- The Secretary of State of Energy and Climate Change;
- Citizens Advice;
- The Health and Safety Executive (HSE);
- The Scottish Executive;
- The Welsh Assembly; and
- The Project Developer (a consortium of DONG Energy & Scottish Power Renewables).

¹ We have been informed that, should WoDS Transmission Limited become the successful bidder, this entity incorporated by the Preferred Bidder will be converted to WoDS Transmission plc.

Project specific Licence modifications

Amended Standard Condition E12-J3 (Restriction of Transmission Revenue: Allowed Pass-through Items)

We have added a cost pass through mechanism (the **contingent event revenue adjustment** or **CEA**) to amended standard condition E12-J3 (Restriction of Transmission Revenue: Allowed Pass-through Items) (**E12-J3**).

The CEA mechanism is a bespoke cost pass through item for this licence. It allows the Authority to adjust the Potential Licensee's revenue entitlement should costs and/or expenses arise for the following contingent event:

- i. means any liability of the licensee under or in connection with clause 5.1 of the Hydrocarbon crossing agreement as assigned or novated to the licensee and/or clause 10.1 of the Burlington crossing agreement as assigned or novated to the licensee.

The offshore regime incentivises licensees to manage costs efficiently over a 20-year period but also recognises that licensees may not be best placed to manage such risks where they are not sufficiently within their control. There are therefore a number of pre-defined revenue adjustment mechanisms in the licence that seek to optimally reallocate risk for a small number of known, but unpredictable, factors.

We consider that the most appropriate way of providing the Potential Licensee with a method to recoup costs and/or expenses resulting from the contingent events in connection with this Project, is by including a CEA term in the licence. The use of such a licence adjustment mechanism is necessary in this case for the following reasons:

1. it has not been possible for the Preferred Bidder to resolve or fully mitigate the contingent events by way of commercial agreement with relevant parties or by any other mechanism which would provide an appropriate solution; and
2. the contingent event is both contingent and material, in that:
 - (a) it is not certain that the contingent event will materialise during the 20 year revenue period;
 - (b) there are uncertain costs which cannot be forecast and which may be incurred by the Potential Licensee as a result of the contingent event; and
 - (c) it is likely that if the contingent event did arise they would have a material impact on the costs and/or expenses incurred by the Potential Licensee.

Tender revenue stream

Amended standard condition E12-J2 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services) sets out the proposed tender revenue stream for the Project for the purposes of the section 8A consultation (the **s8A TRS**). The s8A TRS is based on the tender revenue stream bid by the Preferred Bidder at the Invitation to Tender (**ITT**) stage of the tender process, which has been updated to reflect further information available to the Preferred Bidder since the date of the ITT submission, including the draft final transfer value for the Project. The s8A TRS assumes that 100% of the draft final transfer value will be paid to the project developer on asset transfer. Details of the transfer value which is reflected in the s8A TRS are set out in the draft cost assessment report for the Project, which is published on our website today (www.ofgem.gov.uk).

If you have any queries regarding the information contained within this letter you should contact Richard Nichols on 020 7901 7265 or by email offshorelicensing@ofgem.gov.uk

Yours sincerely

Stephen Beel,
Associate Partner, Electricity Transmission