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## Strategy and Regulatory affairs

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### **Moving from RPI to CPI as an index applicable to future OFTO and interconnector licences**

Dear Scott,

Thank you for the opportunity to respond to this consultation. I write on behalf of RWE Innogy UK Ltd, one of the United Kingdom's largest developers of renewable energy generation. RWE Innogy are shareholders in four operational offshore wind farms in the UK and are party to three more developments: Galloper; Triton Knoll; and Dogger Bank – all of which would be affected by the proposed change.

We are generally supportive of the transition from RPI to CPI but do not support a blanket introduction in 2016, this is largely due to timings of the proposed change and the interaction with other key index-linked project revenues (such as the Contracts for Difference (CfD) or Renewable Obligation Certificate (ROC)).

It is advised that the indexation of costs (such as the OFTO revenue) are linked to the same inflation index as our revenues are. At present, ROCs use RPI indexation, whereas, the CfD uses CPI indexation. We therefore suggest that for the OFTO regime, Ofgem support an approach which matches indexation of OFTO revenue to that of the support mechanism which any project is proposing to acquire. Alternatively Ofgem could create a transitional regime whereby parties are provided with the option of either RPI or CPI indexation.

From a consumer perspective, matching the indexation of costs and revenues will lead to a notable decrease in risk from a project perspective. This would be reflected in a decreased return requirement (hurdle rate), which we believe would in turn be converted into lower future strike prices.

Please find below our responses to the individual questions laid out in the consultation.

#### **1. Would moving to CPI affect investor appetite for projects going forward and if so explain why and how these obstacles might be addressed?**

We do not believe that this change will affect investor appetite as the required return for OFTO investors would not change subject to the defined indexation. We would expect investors to factor the expected inflation rate into their calculation. As their profitability requirements would not change, the real price would have to increase in case the expected inflation decreases, delivering the same value for future cash flows.

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**2. Would a change to CPI affect the financeability of projects? Please indicate which project types you are considering and what the impacts may be.**

Please refer to our response for Question 1.

**3. Please comment on whether CPI is in your view an appropriate index to move to or whether you have a preference for another measure of indexation (e.g. an alternative CPI-based measure) and why?**

We have no comments on this question.

**4. In your view what effect on the consumer or other industry participants (such as offshore windfarm generators) do you think a move to CPI would have?**

We do not support a 'blanket' introduction in 2016 as suggested in the consultation. Projects competing for ROCs should have their OFTO assets revenue linked to RPI, and those competing for CfDs should have their OFTO assets revenue linked to CPI. So long as the change to CPI only affects projects receiving a CfD (and therefore match the support mechanism indexation), the change will reduce offshore wind generators' risk. This reduction in risk will be reflected in a lower return requirement, and potentially lower future strike prices.

If Ofgem would still like to implement CPI indexation in 2016 we suggest Ofgem create a short transitional period whereby parties may opt for either RPI or CPI indexation to account for the overlap in support mechanisms.

**5. For OFTO projects, would a change to CPI impact on your strategy for biddable indexation, and if so what are the impacts. In your view would this result in a benefit or additional cost to the consumer?**

We have no comments in response to this question

**6. Are there any other challenges you foresee a change of index may bring? How could these be resolved?**

If the timings of implementation match those suggested in our response to Question 4, and projects are provided with an option of either indexing to RPI or CPI in a transitional period, we do not foresee any challenges.

**7. Are there any consequences to timing we should be aware of regarding a move to CPI (or another index) and how should we manage these?**

As discussed above, the key benefit of this change is to match the indexation of the OFTO revenue to the indexation used in Government support mechanisms. We therefore suggest that parties are given the option of either RPI or CPI whilst there is the option for both ROCs and CfDs available, and in the future the only option will be whatever indexation is favoured by a support mechanism.

*- End of responses to questions within consultation -*

Once again thank you for the opportunity to respond to the consultation and do not hesitate to contact myself should you have any questions.

Kind regards,

Lewis Elder

RWE Innogy UK