

Competitive Tenders: Offshore Transmission in Great Britain

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Today's Presentation

1. Regime Design and History
2. Tender Round 1
3. Tender Round 2 and Enduring Regime
4. Benefits of Competition



Context

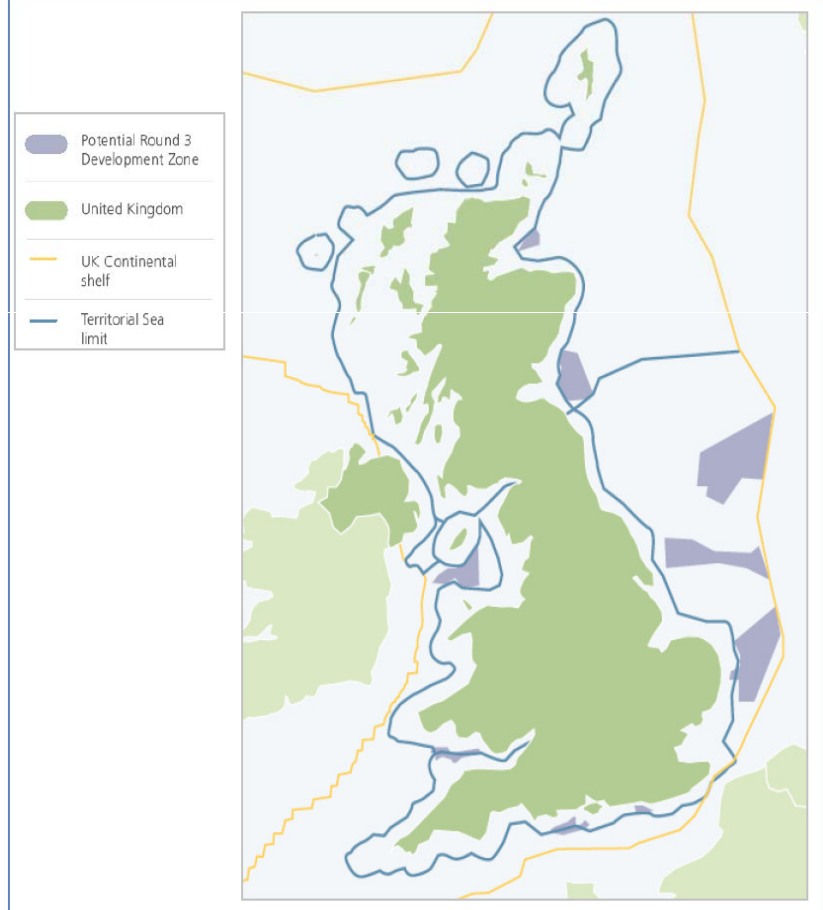
Government targets

- 15% renewable energy by 2020
- Expect much of this to come from renewable electricity, particularly offshore wind

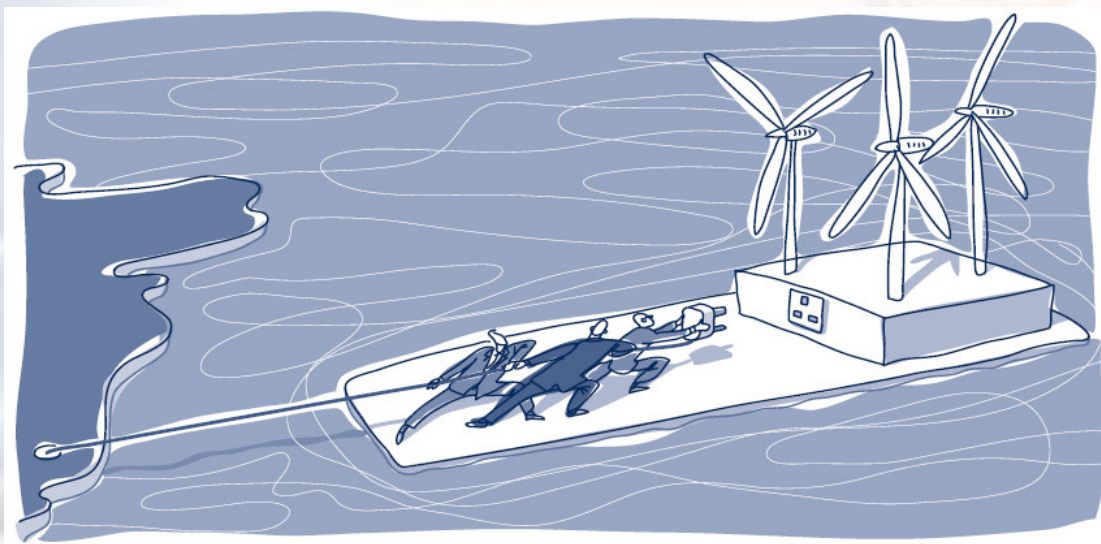
Offshore developments

- Over 1 GW operational
- 8 GW under construction
- Up to 48 GW expected in total by 2020

UK Round 3 Development Zones



Regime Design and History



Offshore Transmission – a Short History

Go Active achieved 24 June 2009



Tender commenced 22 July 2009

9 projects qualified as Transitional (combined asset value of £1.1bn)

13 bidders entered the tender process



Preferred Bidder announcements imminent



Go Live expected June 2010



Planning commenced for future rounds



Overview of Regulatory Regime

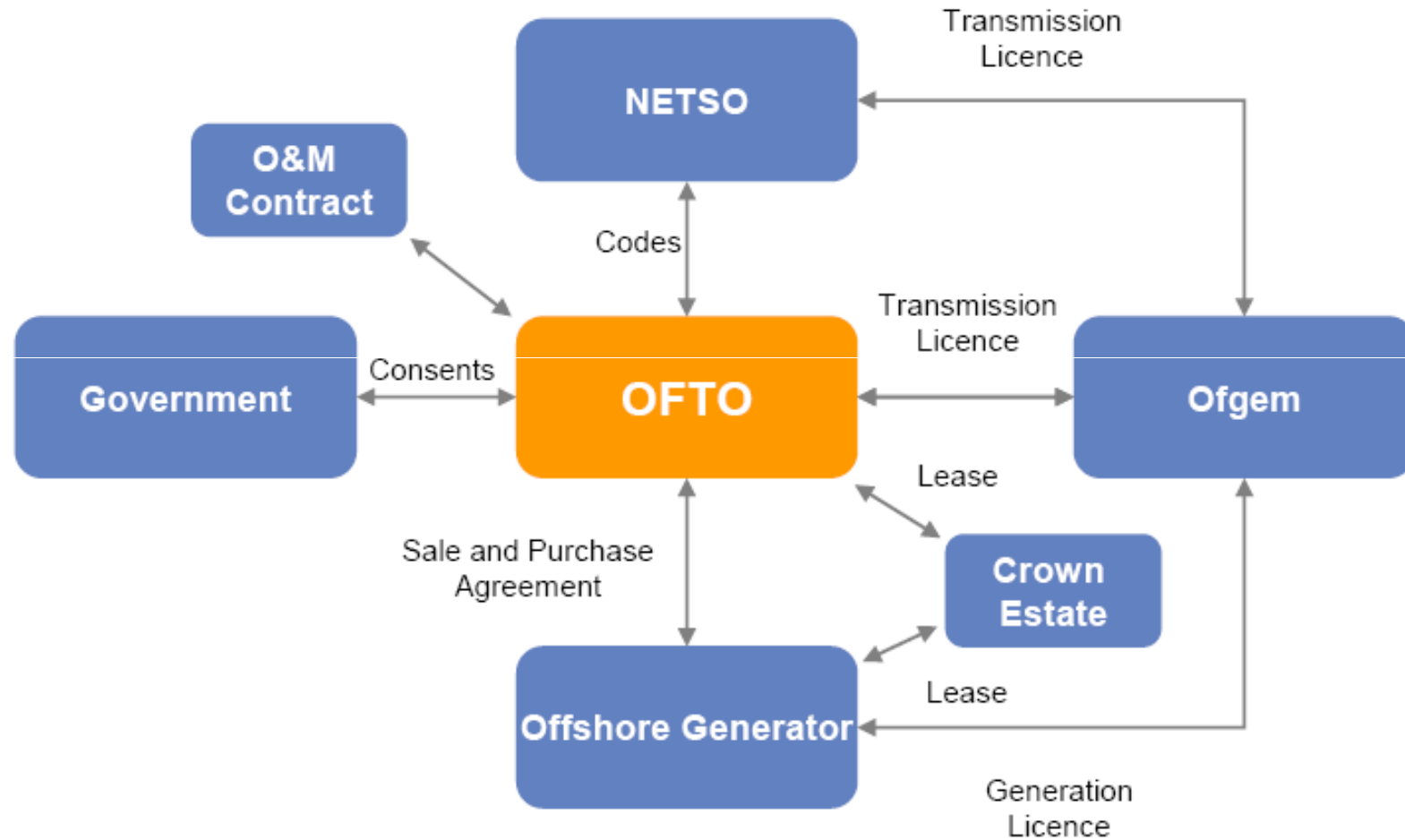
Low Risk Revenue Stream

- 20 year revenue stream
- availability based
- no automatic periodic regulatory review
- no construction, energy or stranding risk, low counterparty risk – no generator exposure
- well defined and proven regulatory regime – extending onshore precedent
- well defined tender process

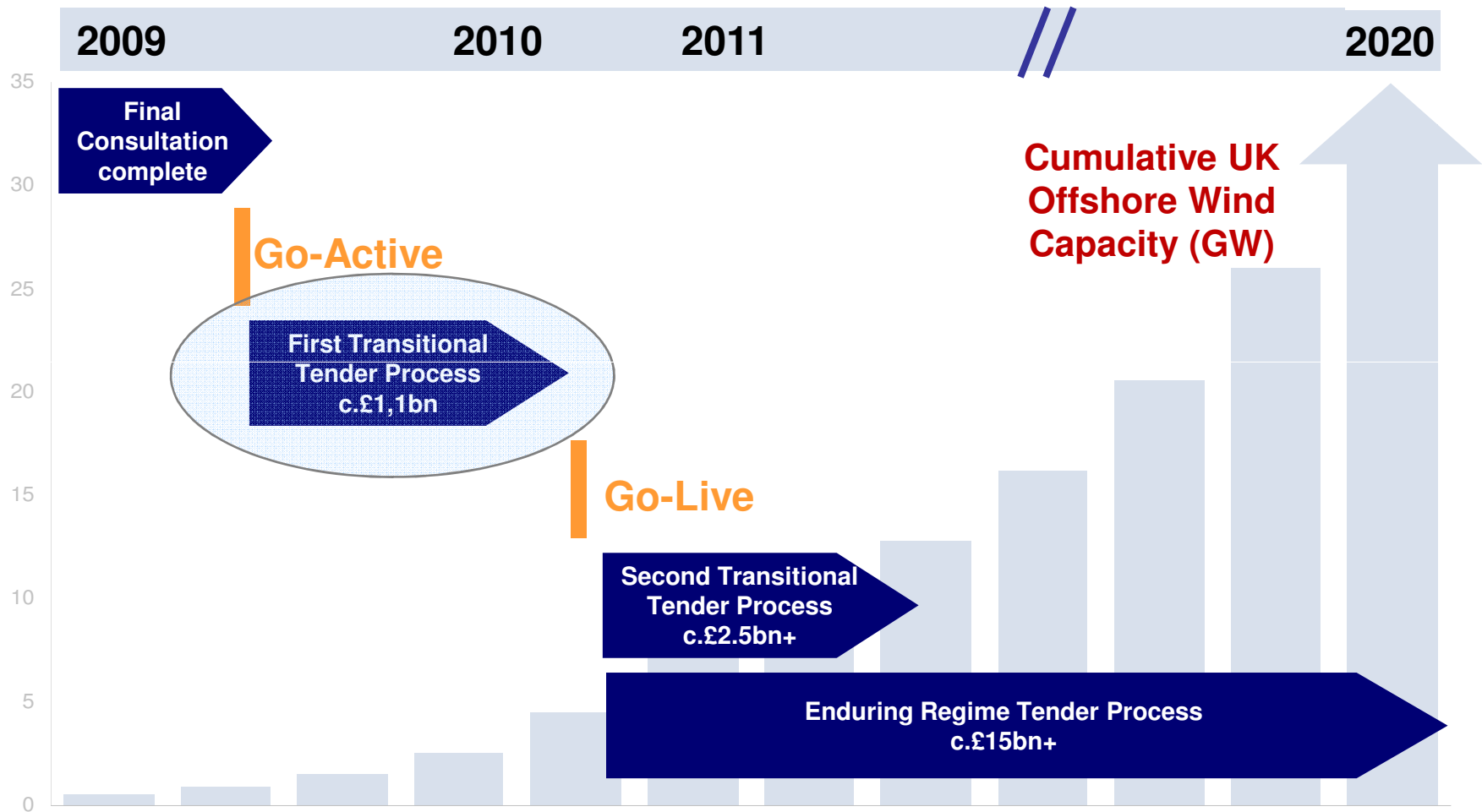
Revenue Adjustments

- availability incentives and penalties capped at 10% of revenue
- post-construction revenue adjustments to reflect final transfer value
- revenue fully indexed to RPI
- cost pass through and pre-defined adjustments for Ofgem costs etc
- incremental capex up to cumulative 20%
- possible extension or re-tender at the end of the revenue stream

OFTO Commercial Structure



The New Offshore Transmission Regime



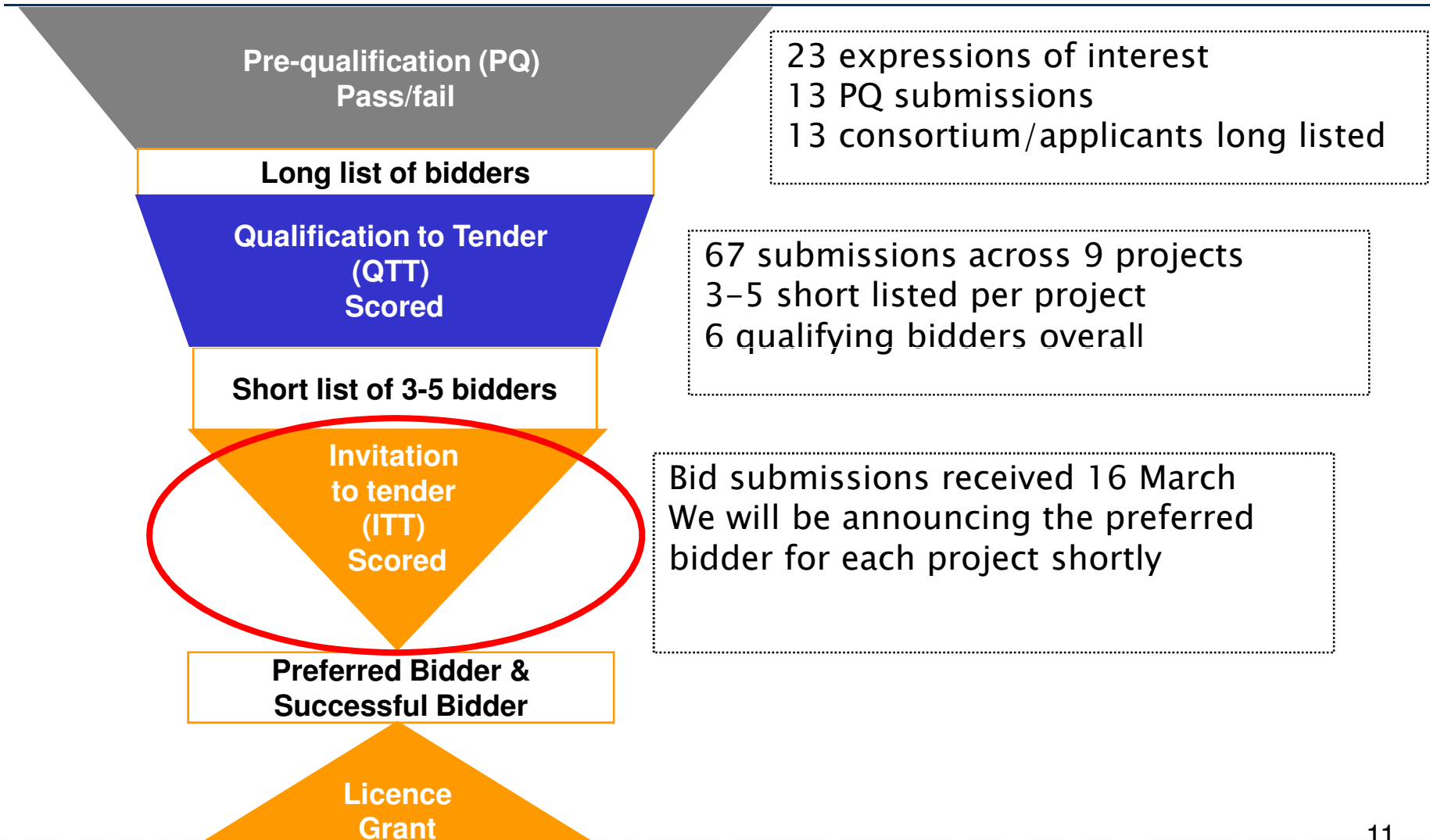
Tender Round 1



9 Projects Satisfied Tender Entry Conditions = £1.1 bn

Project	Developer(s)	MW	Short Listed companies
Barrow	DONG Energy, Centrica	90	Balfour Beatty, Dong Energy, Macquarie, Transmission Capital Partners
Robin Rigg	E.On	180	Green Energy Transmission, Macquarie, National Grid Offshore, Transmission Capital Partners
Gunfleet Sands I & II	DONG Energy	164	Balfour Beatty, Dong Energy, Macquarie, Transmission Capital Partners
Sheringham Shoal	StatoilHydro, Statkraft	315	Balfour Beatty, Green Energy Transmission, Macquarie, Transmission Capital Partners
Ormonde	Vattenfall	150	Balfour Beatty, Green Energy Transmission, Macquarie, Transmission Capital Partners
Greater Gabbard	SSE, RWE Innogy	504	Green Energy Transmission, Macquarie, National Grid Offshore, Transmission Capital Partners
Thanet	Vattenfall	300	Balfour Beatty, Green Energy Transmission, Macquarie, Transmission Capital Partners
Walney 1	DONG Energy, SSE	178	Balfour Beatty, Dong Energy, Green Energy Transmission, Macquarie, Transmission Capital Partners
Walney 2	DONG Energy, SSE	183	Balfour Beatty, Dong Energy, Green Energy Transmission, Macquarie, Transmission Capital Partners

Strong Market Response



Strong Market Appetite

- Wide market engagement & promotion of opportunities prior to tenders commencing
- Strong competition to own & operate over £1 billion of transmission assets
- Attracted a healthy short list for each project
- Early European Investment Bank engagement leading to over £300million in funding being earmarked
- Preferred Bidder announcements scheduled for May 2010
- First licences to be granted in Summer 2010

Tender Round 2 and the Enduring Regime

Future Opportunities

Further Transitional Projects

- 6 projects have already requested transitional status
- Information being provided at present
- Further transitional projects estimated worth £2.5billion+
- Tenders due to commence later this year

Enduring Projects

- Opportunity to design, finance and construct assets
- Includes CE R2 & 3 (9 development zones)
- Total value of new opportunities likely to be >£15bn
- Fostering competition in supply chain & financing

Enduring Regime Proposals

- Recent consultation on further aspects of the enduring regime
- Key themes:
 - Timing between OFTO appointment & project construction – impact on funding commitments & requirements
 - Arrangements for pre-construction works
 - Facilitating co-ordinated network development
 - Tender design – process & timing
 - Supply chain constraints & competition issues



Future Investment – the Opportunity

- Offshore wind is expected to be a significant contributor to the energy mix looking ahead
- No matter what the configuration of offshore connections the UK will need to attract significant investment & new entrants into the supply chain
- Ofgem has developed & is delivering a competitive regime for transmission infrastructure which has proved attractive to potential new investors & existing transmission asset owners
- Enduring regime is being refined now & will secure significant inward investment & supply chain expansion to deliver the UK's target for offshore wind generation

Benefits of Competition

Key Benefits of the Regime

- For Generators
 - Delivers cheaper and more timely offshore grid connections
 - Focused on generator's requirements
 - Flexibility for future offshore generation needs

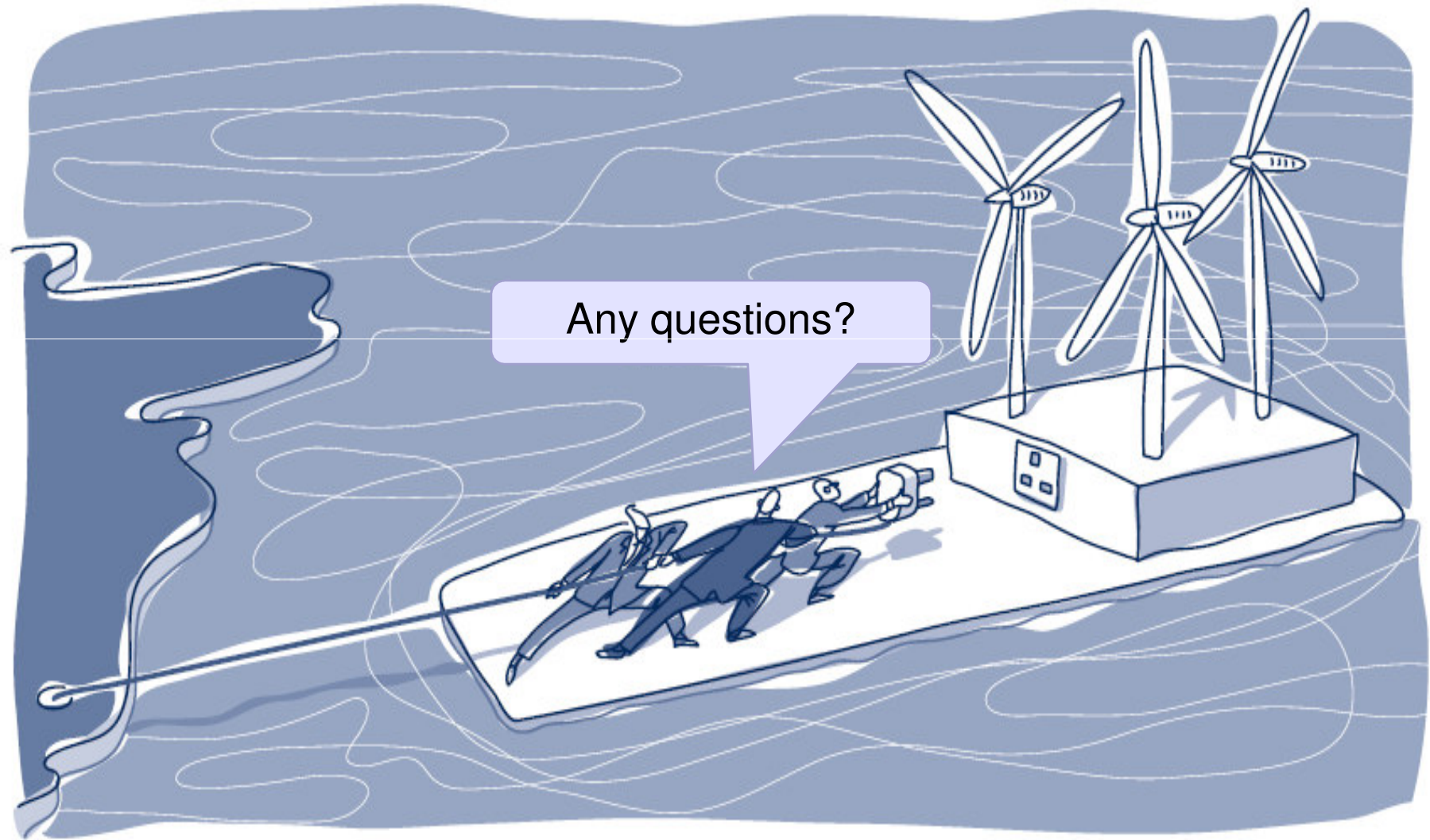
- For OFTOs
 - Encourage innovation through competition and enable new entrants to compete in the market
 - Long term regulatory certainty and light-handed regulation
 - Low risk – OFTO protected against generator failure and credit risk (and construction for transitional projects)

- For Consumers
 - Lower electricity bills

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for all gas and electricity customers



The background of the slide features a composite image. On the left, there are rows of solar panels under a bright, hazy sky. On the right, a hand is shown holding a white document or envelope. The overall color palette is soft, with blues, greens, and whites.

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