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Dear Patrick,

User Commitment for Generator Focused Anticipatory Investment (GFAI)

Thank you for your letter dated 20th June 2014 providing an opportunity for inputting our views at an early stage in your thinking on User Commitment for Generator Focused Anticipatory Investment (GFAI).

Transmission Investment through its joint ownership of Transmission Capital Partners, bids for, acquires on behalf of investors and then manages offshore transmission assets. To date we have acquired four assets and will shortly take over a fifth, in total providing connections to approximately 800MW of offshore wind farms.

The offshore transmission regime is a well thought through legal and regulatory regime which places risks on offshore transmission owners that they are best able to manage. As such it has been extremely successful in introducing low cost capital into the financing of offshore transmission assets and it is important that any development of user commitments arrangements for offshore projects classed as GFAI does not affect this detrimentally.

Whilst we appreciate that your proposals at this stage are only preliminary “straw-men” we think that a couple of these could have an adverse effect on the cost of financing offshore transmission assets.

Firstly, as you will be aware, there is not a requirement in the existing offshore transmission arrangements for a direct contractual relationship between the offshore wind farm (the “developer”) and the offshore transmission owner (the “OFTO”)[1]. The OFTO revenue stream comes from NGET as the NETSO and the OFTO is not exposed to the credit worthiness of the developer. This is important for both equity and debt OFTO investors and is a key part of achieving the low cost of capital that has been achieved to date.

The straw-man proposal in para 7 on page 4 of your letter appears to introduce such a direct contractual arrangement between the (remaining) developer and the OFTO, with a significant credit exposure for the OFTO in respect of liabilities for a share of the cost of the GFAI. This arrangement would increase OFTO financing costs and potentially deter some investors altogether. It is also not clear as to what the implications of “*the OFTO’s revenue stream is also reduced by the same proportion*

[1] The one exception to this is the interface agreement although the OFTO has little credit exposure to the developer through this agreement. In addition some OFTOs will elect to enter into O&M arrangements with the developer but again these provide little credit exposure.

until the remaining developer commissions” means in practice as it is not clear how the OFTO is meant to finance the costs it has incurred in providing the GFAI if it has no income stream to support them.

The straw-man proposal in para 6 on page 4 of your letter where the remaining developer has a liability to NETSO is a continuation of what happens onshore, and would not have the impact described above on OFTO financing costs, and is therefore much preferred.

Secondly, in para 9 on page 4 of your letter there is a straw-man proposal that the OFTO’s revenue stream should be reduced in return for receiving termination receipts. Again we feel that the OFTO requiring early repayment terms in its financing arrangements (which typically being project financed would necessarily include swap breakage costs) would not be efficient. In addition it would also lead to a regulatory re-opening of the tender revenue stream as it could not be a straight pro-rata reduction in revenue as items such as O&M and insurance costs would not reduce and there would have to be a resolution of what the optimum financial structure should be post-termination. Again a better solution is to continue with existing arrangements where, for example, in the circumstances where an existing dedicated spur connected single developer were to terminate, the OFTO would continue to receive the same revenue stream, would not receive any of the termination amounts, and these would be managed by NETSO.

We appreciate that you are only exploring options at this stage and we hope that these comments are of use in narrowing these options down.

Yours sincerely,

Dr Christopher Veal
Managing Partner