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Our Reference BTI140725

Dear Patrick,

NGET letter regarding User Commitment for Generator Focused Anticipatory Investment (GFAI)

I refer to NGET's open letter dated 20th June on development of user commitment arrangements for offshore projects classed as GFAI. I am pleased to respond on behalf of Blue Transmission and offer the following comments. For convenience, I have set these out in the same order as used in your letter.

1. User Commitment Principles

   We agree to the first 3 principles but would amend the wording of no. 3 to provide clarity that the remaining developer has the liabilities as follows:

   'Where the GFAI is for a second separate developer, the cost risk of GFAI sits with the remaining developer and the initiating developer should be no worse off for undertaking GFAI than if they were limiting works to their own requirements.'

   Item 4 '*information flows in an effective manner'* this would be expected in normal working practice and therefore provides little value in the defining principles. We therefore suggest this item could be removed.

2. Strawman Options

   a. Post Asset Transfer
      Our strong preference is item 6 due to synergies with the onshore regime arrangements in CUSC Section 15 and investor appetite and OFTO financing cost of capital not being impacted.

      We would request that item 7 is clarified. It is assumed that the full value of the GFAI will be included in the transfer value paid by the OFTO at asset transfer, as such is the statement *'The OFTO's revenue stream is reduced by the same proportion **until the remaining developer commissions'*** correct? Under this solution the tender revenue stream will only be reduced after the remaining developer has failed to connect (not until the remaining developer connects) with the reduction in the OFTO revenue stream being compensated by the remaining developer.

Item 7 appears to create a new contractual link with the remaining developer and as such this could negatively impact the cost of capital due to the credit rating of the developer. In addition the potential fluctuation in the tender revenue stream may also negatively impact investor appetite in this asset class. Due to the reasons stated we do not support item 7.

Item 8 is not favoured as this approach can only be applied to single developer projects.

b. Treatment of User Commitment Receipts Received

In item 9 and 10 the commitment receipts received appear to be recovered by NETSO. Item 9 will require a change to the OFTO licence, result in a reduction of the tender revenue stream and may require early repayment of finance instruments. The impacts of which may negatively affect investor appetite in this asset class due to the fluctuation in the tender revenue stream and potentially increase the financing cost of capital. The current OFTO regime creates a high-gearing and lower senior debt interest rate and in the interest of the consumers we believe this should not be put at risk. We therefore do not support item 9 and support item 10 which does not require a change to the licence and results in a stable tender revenue stream with commitment receipts managed by the NETSO.

We do not believe item 11 is applicable post asset transfer as the full GFIA is contained in the asset transfer value and as such OFTO's do not pay TNUoS charges.

We appreciate at this stage these are just strawman proposals but would suggest that when these proposals are developed further specific GFAI examples are used in order to fully explore their potential impacts.

Please contact me if you would like to clarify any of the above points.

Yours sincerely,

Jim Tame
Technical Director