

# Press Release

**R/11**

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## **THREE BIDDERS SELECTED TO RUN THE FIRST £700 MILLION OF TRANSMISSION LINKS FOR SEVEN OFFSHORE WIND FARMS**

- **Competitive tender for transmission links forecast to deliver £350 million of savings for consumers**
- **2 GW of offshore wind to be connected**
- **Almost £4 billion of investment appetite to own and run nine transmission links worth £1.1 billion**
- **Preferred and reserve bidders chosen for seven projects, with two to be decided at a later stage**

Three preferred bidders (Balfour Beatty Capital Ltd, Macquarie Capital Group Ltd and Transmission Capital Partners) selected to own and operate the first £700 million worth of transmission links to seven offshore wind farms have been announced today following a tender process run by energy regulator Ofgem.

This is part of a joint Department of Energy and Climate Change (DECC) and Ofgem scheme to encourage investment in high voltage transmission links for the potential 50GW of new offshore wind generation.

Strong competition has attracted almost £4 billion of investment appetite for all nine transmission links worth around £1.1 billion. The competitive approach has seen five consortia bid for the right to own and operate offshore transmission links in return for a 20-year regulated revenue stream. The current tender round has resulted in overall forecast savings of £350 million for offshore wind farms and ultimately consumers.

Ofgem's Chief Executive Alistair Buchanan said: "Attracting almost £4 billion of investment appetite in today's capital markets, following the financial crisis, shows how an Ofgem-run competitive regime for regulated revenue streams can prove very effective at attracting investment.

"By ensuring companies have to compete for this regulated revenue stream, we have been able to keep costs to consumers and wind farm developers as low as possible, delivering forecast savings of £350 million compared to equivalent onshore transmission costs."

The successful bidders from this tender round will own and operate links for around 2 gigawatts (2 GW) of renewable electricity for Britain's first wave of offshore wind farms.

The Secretary of State for Energy and Climate Change, Chris Huhne, said: "Offshore wind has a vital part to play in the delivery of our renewable energy targets. The decision on the preferred bidders for these licences is the first step in ensuring that offshore wind farm connections are operated in a cost effective and secure manner."

These decisions follow the setting up of the Offshore Transmission Regime by DECC and Ofgem's delivery arm, Ofgem E-Serve, to deliver the high voltage links to offshore wind farms as cost effectively as possible.

Preferred and reserve bidders have been selected for seven of the nine transmission projects in this tender round. The remaining two projects are Ormonde and Greater Gabbard. Three bidders have been selected to submit Best and Final Offers (BaFO) for the Ormonde transmission project. The Invitation to Tender (ITT) stage is to be re-run for the Greater Gabbard project, which will enable a simplified transfer of the phased transmission assets to the offshore transmission licensee in accordance with the offshore regime commencement orders recently signed by the Secretary of State. The tender processes for these two projects will ensure best value outcomes for developers and consumers and the projects will not suffer any delays in their timetables for transmission of energy as a result of the competition.

Ofgem will commence a second transitional round of tenders later this year for assets for around 2GW of capacity, with a potential asset value of around £1.8 billion.

Following the success of the competitive tender process, DECC and Ofgem will shortly be consulting on Ofgem running tenders, under the enduring regime, that allow developers the choice of seeking offshore transmission licensees to either take on responsibility for:

- the ongoing finance, operation and maintenance for transmission links designed and built by the generator developer and transferred to the operator upon completion of construction; or
- the design, construction, finance and on-going operation and maintenance of the transmission links.

In total high voltage cable links worth over £20 billion would be needed to connect a potential of around 50 GW of offshore wind over the coming years.

## **Notes to editors**

### **1. Offshore connections**

The offshore regulatory regime for licensing offshore electricity transmission, introduced in 2009, uses competitive tendering to ensure the cable connections are delivered on time and at reasonable cost.

The present round of tenders is known as the **Transitional** regime and opens the way for transmission licensees to own and operate transmission assets for offshore renewable projects which have been or are being constructed by the offshore generator.

Subsequent tenders will be known as the **Enduring** regime for projects that will be identified as they meet certain preconditions set by Ofgem. Enduring projects can currently be run on the basis of securing a transmission licensee, via an Ofgem run competition, to design, build, finance, operate and maintain the transmission assets. Ofgem is currently consulting, in conjunction with DECC on

giving developers the additional option to choose to design and build their own link and secure a transmission licensee, via Ofgem run competition, to take on the ongoing financing and operations of the projects after construction is complete.

For more information see Factsheet 79 "Networks for offshore wind power – regulating for sound investment", available from the Ofgem website at [www.ofgem.gov.uk](http://www.ofgem.gov.uk).

## 2. Short list of companies participating in the ITT bid process for transmission links to wind farms

- Balfour Beatty Capital Ltd (**BBCL**);
- DONG Energy Sales and Distribution A/S (**DESD**) (subsequently withdrew from ITT);
- Green Energy Transmission (a consortium of Equitix Ltd and AMP Capital Investors Ltd) (**GET**);
- Macquarie Capital Group Ltd (a consortium including MCGL, Barclays Private Equity Ltd and NIBC Infrastructure Partners) (**MCGL**);
- National Grid Offshore Ltd (**NGOL**);
- Transmission Capital Partners (a consortium of Transmission Capital International Public Partnerships and Amber Infrastructure Group) (**TCP**).

| Project/MW                  | Forecast transfer value (£m) | Preferred Bidders   | Reserve Bidders |
|-----------------------------|------------------------------|---|-----------------|
| Barrow (90 MW)              | 36.5                         | TCP   | MCGL            |
| Gunfleet Sands 1&2 (164 MW) | 48.2                         | TCP   | MCGL            |
| Robin Rigg (180 MW)         | 57.3                         | TCP   | MCGL            |
| Sheringham Shoal 315 MW     | 182.2                        | MCGL  | BBCL            |
| Thanet (300 MW)             | 163.1                        | BBCL  | MCGL            |
| Walney 1 (178 MW)           | 101.8                        | MCGL  | TCP             |
| Walney 2 (183 MW)           | 105                          | MCGL  | TCP             |
| Ormonde (150 MW)            | 101.1                        | Best & Final Offer (BaFO) process to be run with BBCL, MCGL & TCP |                 |
| Greater Gabbard 504 MW      | 316.6                        | ITT stage to be rerun with GET, MCGL, NGOL & TCP                  |                 |

## 3. Investors have been bidding to become Offshore Transmission Owners (OFTOs). Key features of offshore regime for investors are:

- A 20 year RPI-linked revenue stream under a licence giving offshore transmission operators and investors long-term regulatory certainty
- No automatic periodic regulatory review
- Bidders wishing to become OFTOs have to bid their required revenue as part of the competitive tendering process
- Strong incentive regime:
  - Availability-based
  - No energy volume/price risk or stranding risk for the OFTOs

- 10 per cent of OFTO revenue at risk per year if transmission link is unavailable for generator (six times higher than the maximum onshore regime)

#### **4. Savings from first round of tenders**

The £350m savings have been calculated by comparing the average annual revenue bids for the nine offshore transmission links (based on the bids received) with the annual revenues allowed for the onshore Transmission Owners during the last transmission price control review. This comparison suggests that savings in aggregate of around £18m per annum or £350m over 20 years are achieved relative to the existing onshore monopoly regime. These savings will be passed onto consumers and developers.

#### **5. Investment appetite for offshore transmission projects**

The total investment appetite expressed across all bidders for all the projects is circa £4bn, representing offers of commitment from equity, corporate finance & commercial debt finance providers and European Investment Bank (EIB) funds. Many of the projects have received commitment offers over and above the required funding envelope, demonstrating the attractiveness of the investments.

#### **6. Ofgem E-Serve**

To reflect the importance of sustainability and the low carbon agenda, the Ofgem Group is made up of two Business Units: **Ofgem**, the regulator and **Ofgem E-Serve**, the delivery arm.

Ofgem E-Serve focuses on administering environmental programmes such as the Renewables Obligation, Carbon Emission Reduction Target (CERT), Community Energy Saving Programme (CESP), the Feed-in-Tariffs scheme for microgeneration and the Climate Change levy exemption for renewables. It also manages the delivery of sustainability projects such as offshore transmission connections and is expected to have a key role in the proposed Carbon Capture and Storage Levy.

#### **7. Advisors**

Ofgem's advisors on the first transitional tender round include Ernst & Young, Royal Bank of Canada, KEMA, Herbert Smith and Willis.

**For further press information contact:**

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