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RE: User Commitment for Generator Focused Anticipatory Investment (GFAI)

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Thank you for the opportunity to respond to this open letter. DONG Energy is one of the leading energy groups in Northern Europe. Headquartered in Denmark, we have an interest in several European markets and cover a wide range of energy sector activities. In the UK, we are the market leading developer and operator of offshore wind farms. Together with our partners we have a current portfolio of 1.1 GW of operational projects, 700 MW of projects under construction, and a strong pipeline of future projects.

Our ref. 140711 GFAI response

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It is important that the arrangements around anticipatory investment are made clear as soon as possible for developers with interests in Round 3 projects to be able to fully assess the implications of different phasing and build-out scenarios for future projects. We welcome this letter and urge National Grid to implement an enduring solution as soon as possible.

As a starting point, it would be useful to get clarification on exactly which scenarios user commitment would be required. For example, will it be required if FID is taken at the same time for a phased project built out over several years? Or is it only where oversized assets are constructed where no FID has been taken for the subsequent phase? This has important implications for phased projects under the new CFD regime, where the contract requires the developer to take FID for all phases at the same time, but the construction of later phases can occur years after the construction of the first phase.

We broadly agree with the principles for future arrangements set out in the letter. We believe it is absolutely crucial that the developer carrying out the GFAI is not worse off than if it limited the works to its own project's needs. We believe it could be appropriate to introduce incentives for the initiating developer who constructs assets that are ultimately cheaper for the consumer, in order to alleviate the potential increase in costs from design and construction of larger assets. We still believe that GFAI where the full risk is placed on developers will be most likely to occur on phased projects taken forward by a single developer. The risk of relying on another developer bringing forward your connection in a timely manner is likely too large to encourage different developers from sharing

connection assets. We still believe there is a strong case for allowing some risk-sharing with consumers when the ultimate benefit is cheaper transmission assets for offshore generation.

Our ref. xx

For the proposed strawman options, the outcome should be that a developer is not made responsible for assets not built for its own needs. If developer 1 builds assets where 50% are to the benefit of developer 2, then developer 2 needs to secure the costs of the 50% built by the first developer. However, this could be difficult in practise if the second developer has not yet reached FID when it is asked to provide user commitment for a substantial capex incurred by the first developer. The alternative for the second developer, to construct its own connection under generator build and thus face no user commitment before FID may be more attractive if there is any uncertainty around whether the project will proceed or not. This kind of uncertainty could increase with the new CFD regime where projects need to be at a relatively advanced stage of development before they are eligible to bid for a contract.

We believe that the proposed Options 2 (liability is determined by MW share) and 4 (bilateral contract based on CUSC template) are the most straightforward, and would be most likely to work best. We do not believe that a fully commercial agreement without any guidance or rules provided through the CUSC would be appropriate.

We do not understand the rationale behind Item 8 – that a commissioned generator would have to pay higher TNUoS if a subsequent phase fails to connect to the GFAL assets built by the first developer. Even for single developer projects, these are likely to be structured as separate project companies (e.g. to make it easier to bring in co-investment partners post construction), and it would not be appropriate to make one project company liable for costs associated with the actions of another company. The user commitment and liability on the second phase should be sufficient to protect the first phase from increased costs.

We do not have a strong view on how the user commitment receipts should be used. Any OFTO taking on assets with elements of GFAL needs to be certain that it will somehow be able to recover its costs, but we do not have an opinion on whether this is best done through a one-off transfer of the liability from the cancelled developer to the OFTO, or through TNUoS charging arrangements.

Yours sincerely
DONG Energy



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