

Why is this important?

Isn't regulation normally for protection of customers?

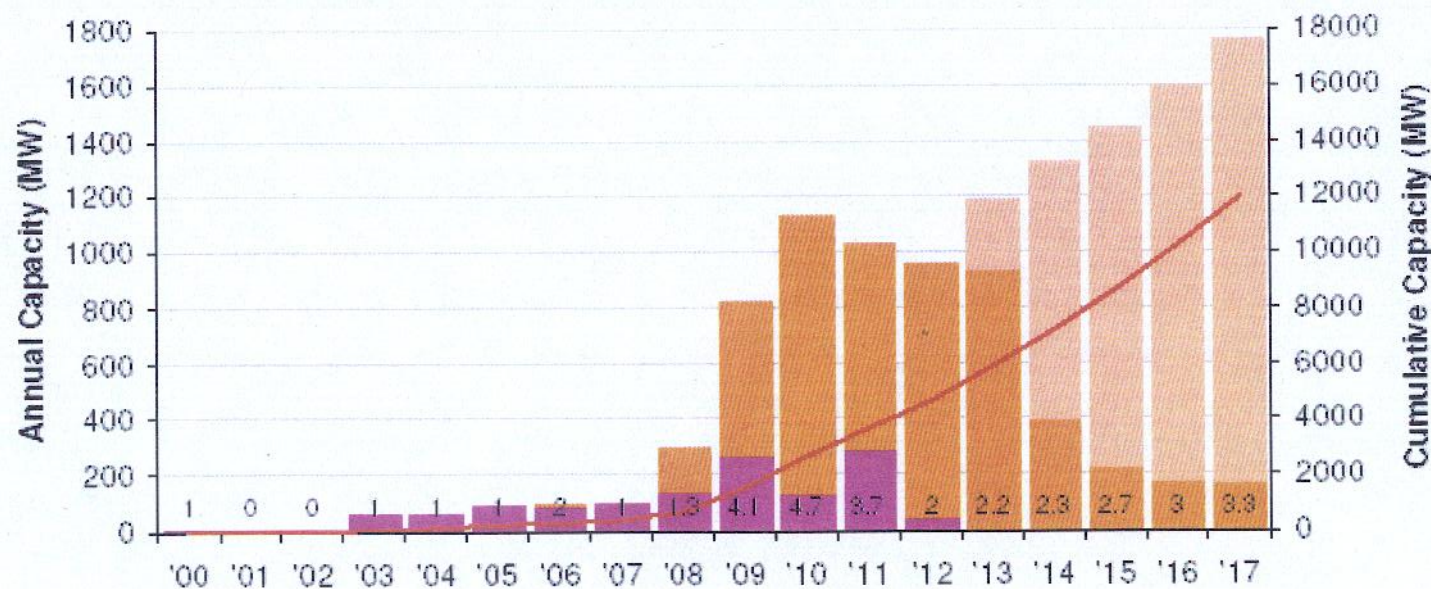
(there aren't any offshore.)

Offshore renewable projects are sensitive to risk and cost

We all have to get regulation right to see anything delivered

“Offshore Wind at a Crossroads”*

UK Offshore Wind Capacity
under Scenario 2 “New Policy Impetus in 2006”
(Without any supply chain limitations imposed)



*BWEA submission to energy review

Rationale

2 benefits of price regulation:

Improved IRR

- Due to different cost of capital
- Worth about 2% IRR
- IF same asset, timescale and risk

3 completed substations



Nysted
165MW
C£8M
Tide range 3.5m
Low wave height
Gravity foundation
No helideck



Horns Rev
160MW
C£12M
Tide range 5m
Medium wave height
Multi-pile foundation
Helideck



Barrow
90MW
C£7M
Tide range 10m
High waves
Monopile foundation
No helideck

Rationale

2 benefits of price regulation:

Improved IRR

- Due to different cost of capital
- Worth about 2% IRR
- IF same asset, timescale and risk

Optimisation

- Projects share assets
- Long term view needed

Only 2nd is affected by geography

Options

- 1 Point to Point
- 2 Single TO
- 3 Extend onshore boundaries
- 4 Regional licenses

1. Point to Point

For

- Can't think of anything (for price regulated)

Against

- Complex,
- harder to optimise,
- like 'merchant approach' without the benefits

Assumes

- Not the SO's role to optimise

2. Single TO for UK waters

For

- Simple
- Allows greater optimisation than 1

Against

- No comparator

Assumes

- At least one party wants the role

3 Extend onshore boundaries

For

- Simple
- Comparators
- Reduced ownership boundaries

Against

- Unfair to SP
- Reduces likelihood of N-S offshore links
- Rules out other potential TOs

Assumes

- Existing licensees all keen to extend

4 Regional licenses

For

- Comparators
- Can associate with 'strategic areas'

Against

- Too many areas reduces ability to optimise
- Suggest no more than 10
- Multiple TOs to regulate

Assumes

- Can own more than one but not a majority of licenses

Conclusion

Options 3 and 4 are preferred

Important to get this right

But..

Technical standards will have a more significant impact on delivery of UK offshore renewables.