

## End of TRS Consultation response – TEPCO

### Consultation policy questions

No.	Q	A
Section 3.1: Establishing whether extending offshore transmission system regulatory revenue periods is in the best interest of electricity customers		
1	Should asset health reviews be carried out on generator assets no later than five years before the end of the revenue stream, with the health review for the offshore transmission assets following shortly after that? If no, please set out alternative timelines and reasoning.	Ofgem's consideration is reasonable. Considering the time it takes for OFTO to perform the necessary repairs after the asset health reviews, the schedule of the generation assets; five years and the transmission assets; four years is appropriate.
2	Should generation and transmission health reviews be carried out by the generators, but informed and agreed by OFTOs and Ofgem, given that generation is likely to be the main driver for any extension? If not, please provide reasons.	We respect the Ofgem's proposal because the generators that designed and constructed the generation and transmission assets are considered to have the best understanding of the assets. The incumbent OFTO has knowledge of the maintenance of transmission assets and the constructors has knowledge of restrictions on the use of such assets. Therefore, it is best for the generators who have designed and built generation and transmission assets to lead the review of the assets' health in consultation with constructors, OFTO and qualified third party contractors.
3	Should generators pay for their own health reviews and those of the associated transmission assets? Please provide reasons for your response.	As mentioned in Q2, we believe that the health review of assets should be performed by the generators since the generators that designed and constructed the generation and transmission assets are considered to have the best understanding of the assets.  The cost shall be covered by generators or Ofgem, but not OFTO.

4	What sort of confirmation/guarantee/representation of the intention to extend would developers envisage giving? What would this be subject to?	At least, the cost of asset health reviews shall be covered by developers or Ofgem. In addition, it is expected that developers confirm/guarantee the number of years of operation in the extended period.
5	Should the incumbent OFTO or the generator be responsible for any further investment required to enable an extension of the regulatory revenue period?	The results of the health review determine whether the extension is possible, the extension period, and the extent of repairs. Further investment is considered to be as follows: Based on the results of the health review, Ofgem shall bear the investment costs if such investment are required during the license period. It is considered a priority to separate the responsibilities of the incumbent OFTO after the 25 years regulatory revenue period, and the generators should take responsibility if Ofgem cannot cover such investment cost.

#### Section 3.2: Extension options

6	Should the tender revenue period be extended with the incumbent OFTO, or licences retendered through open competition?	Considering the maximum benefit of electricity customers from the viewpoint of cost reduction, licenses should be limited to 25 years and the period of extension should be rebid through competition. In addition, it is considered necessary to establish a system that allows the incumbent OFTO to take over the assets when there is no bidder for rebidding due to the less attractiveness of the bid with short extension period.
7	Do you consider that there is a threshold to be met to determine which approach to be taken (if there is to be any further regulatory revenue period at all)? For example, the extension period is above a certain number of years, or the tender revenue stream is above a certain value?	From the perspective of fairness, we consider that thresholds should not be set such as a certain extension period or a certain value. If the thresholds are set, such as intentional management of maintenance may occur to maximize the benefit of their own, which may

		undermine the fairness of competition. Based on the results of the health review, Ofgem should decide whether to extend the period and conduct fair competition.
8	Where retendering takes place, what safeguards or mitigations would need to be implemented to enable bidders to be comfortable about the level playing field between incumbent OFTOs and other bidders?	In order to ensure fairness, it is necessary to disclose design, construction and operation data and to provide opportunities for on-site inspections of the assets.
9	Are the timelines proposed practical? Do any of the timings need to be extended or reduced, and if so, why?	Given that the next tender will take one year, the schedule of two years before the end of the licensing period is considered practical.
10	Should there be only one extension period granted, or do you think that if the process is established, that more than one extension could be possible for the same OFTO asset?	The extension period of transmission assets will be determined based on the extension period of the use of generation assets. Therefore, if generation assets extend twice, then, transmission shall extend twice. However, considering the efficiency of the evaluation process etc., it shall be one extension.
Section 3.3: The tender revenue stream for any further regulatory revenue period		
11	We would welcome your views on which of the proposed cost mechanisms ("building blocks" or "cost plus") you consider would be more appropriate for establishing a revenue stream for the extension period, or if an alternative should be considered?	A building blocks mechanism is efficient. This is because the process of reviewing and adding costs on a case-by-case basis is cumbersome, and it is more efficient to calculate costs on a one-time basis. In addition, in the building block mechanism, new OFTO has an incentive to improve profitability by streamlining subsequent maintenance with their own risk.
12	Should there be a set cost mechanism for determining the TRS for any future regulatory revenue period across all projects? Or should the cost mechanism be determined on a project by project	To ensure comparability between OFTOs, the components of the TRS should be common to all projects. However, the content of O&M should be proposed by bidders on a project by project basis

	basis, depending on the required extension length and risk profile?	depending on the extension length and risk profile. It may be workable to have a common contingency fund in order to improve the safety of assets and encouraging participation in tender.
13	Are there any additional cost elements that you think should be considered when Ofgem is calculating the tender revenue stream for a further regulatory revenue period?	<p>O&amp;M costs, decommissioning, insurance, bidding cost, and operating expenses should be considered in calculating the tender revenue stream. Tax and residual value should be excluded from the competitive element. They are highly uncertain because taxes are paid on a pay-as-you-go basis and residual value is affected by further license extensions (if the rule allows to extend the period more than twice). Such uncertainties should basically not be subject to bidding. The potential for over-underestimation of TRS and insufficient O&amp;M costs by broadening the scope of consideration should not be tolerated.</p> <p>Regarding taxes and residual value, these items shall not be included in the TRS even in the bidding for first regulatory revenue period (or at least detailed rules for the estimation of residual value shall be set), if Ofgem plans to have re-tender process after the first regulatory revenue period where smooth transaction of assets from incumbent OFTO to new OFTO is indispensable.</p>
14	What market value (if any) do you think the OFTO assets will represent at the end of the regulatory revenue period? What are the component parts of this value?	At the time of the first tender, no extension is guaranteed and there are no rules of market value at the end of the regulatory revenue period. Therefore, OFTO assets should be considered to

		<p>have no market value.</p> <p>In order to promote the health of the assets, it may be appropriate to have an incentive mechanism such as additional reward for incumbent OFTO if the result of the asset health review is excellent (though this incentive mechanism shall not be included in the TRS).</p>
Section 3.3.1: Decommissioning fund		
15	Do you agree that decommissioning funds and liability should be transferred across in full to do you expect decommissioning costs to be higher after the period of an extension or similar to those expected after the initial regulatory revenue period?o any new OFTO?	<p>Since the fund is for the decommissioning of assets, we agree that if responsibility is transferred to any new OFTO, decommissioning funds and liability will be transferred across in full to any new OFTO, as the equipment remains.</p> <p>However as the decommissioning method differs for each OFTO, such as whether to remain or remove the assets, inequality may occur in the new OFTO. Hence, in case of extending the period, it is desirable to determine the common decommissioning method in the rules in advance.</p>
16	Do you expect decommissioning costs to be higher after the period of an extension or similar to those expected after the initial regulatory revenue period?	If the method of decommissioning is the same, the cost will be about the same as the initial estimate, excluding the effects of inflation.
Section 3.3.2: Financial Security		
17	Do you agree that, in the event of an extension, the incumbent OFTO should pay any availability liabilities due at the end of the original regulatory revenue period?	Basically, we believe that the asset value will be zero in 25 years and new tender should be held thereafter, so we basically agree that the incumbent OFTO should pay any availability liabilities.
Section 3.3.3: Insurance		
18	Are there any indications that insurers are willing to reinstate LEG3/06 exclusion clauses or equivalent (where this has been	We have observed that the recent offshore wind/oil & gas insurance market trend is negative due to some cable accidents

	removed) after a period without further failure events? If so, how long might that period be?	during the construction period. If the number of insurance accidents decreases and insurance profits improve, it is possible that LEG3 will be reinstated. The profit standard differs depending on the insurer, but for example, stability of <i>the 5-year loss ratio</i> (insurance premium/damage amount) might be considered to be an indicator.
19	Noting the difficulty of forecasting the insurance market, what are your views on the likely availability and cost of LEG3/06 exclusion clauses (or equivalent) for the period of any further revenue period?	For availability as mentioned in Q18, if the number of insurance accidents decreases and insurance profits improve, it is possible to be available. Insurers may consider that the cost will be calculated based on the number of accidents that occurred at that time and how many of the accidents that occurred were caused by defects.
20	Is there a need to move away from LEG3/06 (or equivalent) insurance clauses in any further revenue period due to the age, suitability, and specific nature of this type of cover for ageing assets?	If it is operated for a certain period of time, it is thought that the number of accidents caused by defects will decrease. Therefore, rather than arranging a defect cover at a high cost even after the extension of the period, it may be reasonable to reduce the insurance cost without arranging it.
21	Do you consider that a more centralised solution for cable insurance risk might be required? Why? Would this bring confidence back to the insurance market and attract new investors to the OFTO extension asset class?	We don't understand what a more centralized solution would look like, but if the solution is government-led and effective in loss prevention, we consider it will be attractive to insurers.
22	Would operating the OFTO assets with minimal insurance to first failure be a viable option for higher risk assets with uncertain futures?	Since the type of insurance depends on how the bidder accepts the risk, we think it is a possible option to provide minimum insurance as mentioned in Q22. If the intent of this question is to make the insurance cover thicker at the

		beginning and make the defect cover thinner as the years go by, we think it will be a viable option.
23	Are you currently exploring or investigating any other potential models or approaches to insurance that maybe appropriate for an OFTO asset during any further revenue period?	At this time, we have not investigated insurance that is appropriate for an OFTO assets during the extended period.