

**Ofgem**

10 South Colonnade  
Canary Wharf  
London  
E14 4PU

14 September 2021

Dear Sir / Madam,

Further to Ofgem's and BEIS request for consultation in relation to the Competition in Onshore Electricity Networks, Morgan Sindall Infrastructure would request both Ofgem and BEIS consider our feedback as part of its consultation with the industry.

Morgan Sindall Infrastructure, as a major provider of services to the transmission network owners during RIIO-T1, has continued our engagement throughout the RIIO-2 business planning period. To ensure we can meet the skills challenge, maintain suitable succession planning and future-proof the industry we and others need a baseline of activity. We have built our business plan around such a baseline based on expected RIIO-2 expenditure. The current workload challenge is further emphasised by other competing infrastructure projects such as HS2 who can commit to a 20+year programme of works. This is already affecting resource levels across the industry that are further amplifying the pre-existing skills shortages in this sector.

We have previously written to Ofgem during the RIIO-2 determinations and our view remains that introducing greater uncertainty (through the CATO process or other policy changes) creates major risks and obstacles in achieving overall government objectives. This is at a time when the UK transmission industry is mobilising to meet the net-zero challenge set out by the UK government and in particular the connection of 40GW of offshore wind by 2030. The concerns we have are set out as follows:

**Increased costs**

- **Delays and uncertainty at TO level will lead to cost increases** - The proposed implementation of competition for development, ownership and operation of transmission networks will create additional cost and delays to all affected projects at a time when the industry needs the current Transmission Operator's (TO's) to be able to provide the market with a sustainable and predictable pipeline of projects. Implementing this policy will have a significantly negative impact on the industry's ability to maintain the specialist supply chain. Whilst there may be some initial theoretical marginal gains in terms of project costs, this saving is likely to be significantly outweighed by the increased costs associated with risk passed down the supply chain, along with the delay in securing the resources and materials required to deliver the works. This will be further amplified by global demand for the same resources and materials. Consumers will ultimately bear this increased cost.

**Morgan Sindall  
Construction  
Infrastructure**

Corporation Street  
Rugby, Warwickshire  
CV21 2DW

T. 01788 534500  
F. 01788 534579

- **Long term uncertainty erodes competition within the supply chain** – If a sustainable and certain workbook for the contracting community is not prioritised, then it is likely we will see increased consolidation and withdrawal by contractors within the market. In the RIIO-T1 period, we saw the demise of Carillion and withdrawals by companies such as Interserve and Laing O'Rourke from the market. This needs to be considered in the context of the boom in infrastructure projects in other sectors allowing contractors to be more selective in the projects they tender. If this trend continues there will be reduced competition, resulting in increased delivery costs and a further lack of long term investment in skills. This will also have a negative impact on SMEs and supply chain development. As part of our business plans to support the TO's in RIIO-2 Morgan Sindall Infrastructure has committed to spending more than 30% with SMEs and businesses local to our projects.
- **Any re-tendering increases overall project costs** – Re-openers in the competition framework, and re-tendering due to a failed competition process will introduce additional uncertainty and cost thus effectively increasing base costs further. We have had experience during RIIO-T1 where some projects have been re-tendered to market a number of times due to Ofgem challenge. Each re-tender ties up valuable specialist resources and is a significant cost burden to our business which inevitably forms part of our tendered prices. In addition, the need to now have 'post-period reviews' could potentially divert industry resources towards the collection of historical evidence of 'value for money' rather than increasing efficiency on current and future schemes.

#### Loss of social value and collaborative relationships

- **Collaborative, long term relationships drive value and reduce outturn costs** - As outlined in the Farmer report, and client backed initiatives such as 'Project 13', <sup>1</sup>(<http://www.p13.org.uk/>), there is a clear benefit in providing the supply chain with a long term, certain, and sustainable pipeline of work that will drive innovation, productivity and efficiency savings. This starts with strong relationships between TO's and their immediate partners and supply chain, this must now be the area of focus for the industry. Without this, there will be a more transactional relationship that will drive a more cautious approach to risk on liability and completion dates and more confrontational relationships at delivery as bids are secured in a race to the lowest price. Outturn costs from non-collaborative working relationships are acknowledged to be higher, and the construction industry as a whole, which has seen a significant move away from this over the last 30 years.
- **Organic growth in long term sustainable supply chains are needed to achieve government objectives, while delivering project and social value** - We continue to provide innovative solutions to the industry's skills shortages through the use of a social value enterprise supporting local skills development. Morgan Sindall Infrastructure has a proven track record in developing a social enterprise through our nuclear frameworks in West Cumbria. It is our intention to roll this model out further to support local skills development at suitable locations across the UK. This means that where we are working on a large transmission investment programme, we will work with local partners to develop skills relevant to that scheme that can then be used to support the local energy,

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water, telecoms and infrastructure projects, thus leaving a lasting legacy. Competition will disrupt these partnerships and benefit local GB economies.

### Delay to green recovery and net-zero

- **Undefined and uncertain workload will limit the growth and development of specialist resources** - The UK transmission industry is already facing a challenge in terms of resource development and succession over the next five to 10 years. Specialist skills in project management, engineering, cable jointing, cable installation (pulling), fitting and overhead line (OHL) resources require a steady pipeline of opportunities to enable UK contractors to develop the skills required at this level. We are already seeing significant “poaching” of specialisms and staff between suppliers as projects are awarded, detracting from the sustained organic growth of this capacity which we strive to achieve. This situation will deteriorate under current proposals to introduce competition and will inevitably lead to excessive staff cost inflation particularly in light of other competing major infrastructure projects.
- **Uncertainty creates peaks and troughs of workload, discourages training investment and prevents social value from cascading down through SMEs** - The development of skills at transmission level can take many years. For a linesperson, it takes up to five years to become fully qualified and five to 10 years for a jointing technician. Disruption or uncertainty in the pipeline of suitable opportunities erodes our ability to develop in this sustainable way. Within the OHL and cable market, we have commenced investment in new transmission training capacity to develop additional highly skilled linespeople, technicians and engineering resources. This investment will be also used to support the growth of small and medium enterprises in this area as well as provide a location to develop further innovative solutions. This initiative will enable additional competition in this part of the market where there are only two significant players currently. Our ambition is to provide a sustainable alternative throughout RIIO-2 and into the RIIO-3 period and beyond. The SMEs involved will in turn be able to invest in training, cascading that investment to adopt our core values and improve other aspects of social value. Uncertainty in the project pipeline will deter this investment in skills development.
- **The proposed competition framework could seriously impede our combined ability to meet 2030 targets** – Our view is that the introduction of more uncertainty and subsequent delay to the network investments that will be caused by the competition process is a real and present threat to the UK’s ability to meet our net-zero targets. It would seriously impact our combined abilities to deliver on the Government’s 2030 targets. We are investing and getting ready for new delivery needs associated with the green industrial revolution, including hydrogen and carbon capture projects to achieve this the industry needs the steady continuation of our traditional energy activity. We are passionate about the outcome which we need. To achieve as a country and a leader in the global fight against climate change.

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[morgansindall.com](https://www.morgansindall.com)

If would like to discuss our response further, then please do not hesitate to contact me on the details shown below.

Yours sincerely,



Andy Roach

Specialist Operations Director - Energy  
Morgan Sindall Infrastructure

Email: [andy.roach@morgansindall.com](mailto:andy.roach@morgansindall.com)

*<sup>1</sup> Project 13 Enterprise – Ref: The Infrastructure Client Group – <http://www.p13.org.uk/> The ICG includes a number of clients from across the regulated sector. There are a number of water companies that have successfully come together and are demonstrating a number of P13 Principles whose outcomes are aligned to regulatory outcomes.*

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