

4th September 2022

Ofgem
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Canary Wharf
London
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Cornerblock
2 Cornwall Street
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United Kingdom

Re: Response to Accelerating Onshore Electricity Transmission Investment consultation

Dear Ofgem,

Please find below our response to the consultation document on accelerating onshore transmission investment. As a major global electrical infrastructure engineering and construction company we have significant experience in supporting clients across the electricity sector to bring power from sources of generation to where it is consumed. In the United States, Burns & McDonnell has installed over 58,000 kilometres of transmission lines in the past 10 years for a range of utilities and private developer clients. Here in the UK, we started our engineering and transmission business in 2017 and have since secured work with all three of the Great Britain transmission companies and are poised to accelerate the growth of our business to help the UK rise to the challenge of the 50 by 30 programme.

Within this letter we have provided a response to those questions where we feel we can best contribute to the consultation. Overall, we believe that the UK needs to find a way to minimise the barriers in front of the utilities so that their delivery partners are enabled to innovate, engineer and deliver the major investment required. For us to continue to invest we are seeking long-term commitments (and contracts) that underpin the long-term nature of the required programme of works. We see other jurisdictions taking this approach, and within the global market for transmission investment, this makes them the most attractive. We also recognise that the investment needs to be planned and executed in a collaborative manner, considering the need of the communities and wider stakeholders so that the resultant assets serve the needs of the country for many decades to come.

Question 3: Do you agree that it is in the consumer interest to consider exempting projects from competition?

- Yes, we agree and concur with the TO's concerns that there is global competition for supply of resources, equipment and materials and competition could lead to delays in placing orders and put at risk the delivery of the identified strategic projects. We are already seeing supply delays and competition for equipment in the other markets we operate in. There are also potential broader supply chain constraints determining how much work companies

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such as ourselves decide to take on. The early award of projects will influence these choices.

- We recognise the potential benefits of competition and have taken part in such competitions elsewhere. However, they do not necessarily increase local supply chain capacity, although they can attract new overseas bidders. The question is whether they have the ability to bring in labour which can effectively and safely work to UK requirements.
- Competition can represent prohibitive costs of bidding to the supply chain which can be avoided when working with TO's, especially when accelerated procurement processes and more open book type approaches are used for award and delivery. If speed of delivery is critical, then working with the existing TO's will often be the best way to proceed. However, the ability to innovate is critical and can make a difference to the overall capital delivery cost of a project. Innovation can also be enabled through the TO's with appropriate incentives and willingness to embrace new ideas.
- On balance, given the urgency of delivery of the 50 by 30 deadline, we believe that the TO's are likely to be better positioned to work with the available supply chain to deliver this programme of works.

Question 5: Do you agree that without upfront certainty that they will be delivering enough of the investment needed for 2030, TOs will face significant difficulties mobilising the supply chain to deliver the works on time?

- Yes, we agree with this position. Having sufficient volume of work with a particular client allows us to better mobilise the resources and invest the time and effort needed for success. We prefer that there is sufficient volume with a limited number of clients and see this as being more efficient. If we had to bid different projects to a range of clients that would be not only expensive but would also dilute the limited resources that we need to focus on the delivery. Since establishing our business in the UK, we have been developing relationships with all three of the Great Britain TOs. We believe that having a focused approach to contracting and delivery arrangements will be simpler, allow quicker project delivery and lower cost in the long-term.
- An advantage of contracting through the TO's is the earlier certainty we receive. We are seeking to know what the future pipeline of work will be and to have this contracted now so as to lock in our current capacity and enable planning for future capacity. This will enable us to make investment decisions that will flow down to our supply chain. If we have to wait until after 2024, and likely much later after a competitive procurement event, this will lead to greater uncertainty for us and a higher risk that we cannot ramp up our capacity to deliver the programme. The industry needs to make decisions now on the required future workforce which will take many years to train and develop. Even a delay of 2-3 years represents increased risk that the workforce will not be in place to deliver the required NOA strategic projects.

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- The published NOA refresh provides good visibility of what is needed, but like other organisations, we are unlikely to make significant investment decisions without contractual commitments or underwriting of the investment should the work not materialise. It is apparent that the TO's are currently best placed to make this commitment, but what is most important is that early contractual commitments are made as we make decisions about the next 10 years for our business.
- This does not mean we need certainty of detailed scope, and we would be prepared to make investments in a broad range of areas that provides skills and capacity for the types of projects required within the NOA if we knew we were contracted to deliver these future projects, whatever the actual detailed design dictated had to be delivered. Given the nature of Transmission projects the basic components will remain unchanged, be that primary plant, secondary protection, cables and conductors. The innovation is more likely to be in sub-details and delivery methods such as foundations, modularisation and off-site construction.
- If competition is to be introduced Ofgem, the ESO or the lead bidder would need to ensure that the level of effort in bidding was minimised and that a speedy decision was made to contract our capacity. There is a concern from previous experience of such processes that the level of effort could be significant and thus prohibitive and lead to delays that directly impact the 2030 timeline. With only eight years remaining it is questionable whether competition in this first phase would justify the likely delivery impact.
- We would suggest that programme certainty should be the number one priority. The greatest certainty of delivery comes from incentivising the TO's to contract early and then to work in a collaborative manner with the full supply chain so that together we can deliver the 2030 programme of works.
- We have worked with project delivery incentives before, and these can be a key factor in where we focus our attention and investment. For a major utility client in North American we took on the programme management delivery for a \$1bn programme of work and had an early completion incentive. This made a significant difference to how we went about delivering the project, diverting resources to this programme to ensure it was delivered on time.

Question 6: Do you agree that it is in consumer interest to consider streamlining our regulatory processes?

- We believe that early project certainty is in the best interests of the supply chain and the consumers. The impact of delaying decisions far outweighs the potential cost impacts. The priority must be given to making early decisions and commitments that enable the whole industry from client through to supply chain to work together to deliver what is already a significant and challenging programme of works. Ofgem need to minimise their interventions to the extent required and act as an enabler to the programme. Streamlining

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the regulatory process should be a priority, and this streamlining should be as far reaching as possible.

Question 7: Which of our options for streamlining our regulatory processes do you favour?

- Our preference would be to see Approach 4 adopted with Approach 3 as the minimum. The TO's need to flow down the project certainty to the supply chain, and if they are not able to make commitments to us then we cannot make our investment decisions and flow down this commitment to our supply chain. By only funding early development stages Ofgem will not unlock the required commitment and investment. It is imperative that early commitments are made. However, this should not prevent subsequent adjustments to reflect changes in the actual project scope and potential recovery of any unreasonable costs.
- Our view is that a Programmatic approach needs to be adopted vs a project-by-project approach. Whoever is the 'client' needs to contract the capability of the entire supply chain to deliver the full programme, acknowledging there will be some uncertainty. This uncertainty can be managed, however, not having an initial commitment will not enable the whole supply chain to commit and thus put the already tight 2030 date at risk.
- Our concerns with Approach 1 and 2 are that these could represent a piecemeal approach to delivery, allowing good control of costs but leading to overall programme failure. If the most important thing is to deliver network capacity by 2030 then only a programmatic approach will make this a higher certainty.
- We do not believe that competitively tendered costs are the only means of providing value to consumers. The costs and time taken to run tendering processes are significant and can add 1-2 years of time to a project. When taken individually these would add up to significant cost and time that could put the programme at risk and not be in the consumer's best interest. There are other measures that can and should be used. By selecting the right delivery partners early and incentivising them to deliver 'value' then consumers interest can still be served. The supply chain needs to make fair returns and be held to account for a range of delivery metrics. Applying such metrics (and measurement mechanisms) as projects progress or after completion can be as effective. In the United States we are often contracted without cost certainty, instead providing more and more certainty as project milestones are reached and stage gates passed. Given the current global uncertainties around inflation, materials availability and labour shortages many companies will be unwilling to provide fixed price costs, and thus asking the TO's to do so could lead to mis-alignment.

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Question 10: What are your views on introducing a package of regulatory measures which Ofgem may apply to protect consumers?

- Whilst we recognise Ofgem's remit to protect consumers financially we are also mindful that physically connecting the proposed renewable generation into the UK network and making it available to consumers at the earliest possible date could be a higher order benefit. This should be more than just a financial calculation, especially given the global energy crisis and impact of climate change on consumers.
- We believe that consumer value, balancing cost and time, can be achieved through parallel analysis whilst a programmatic approach to delivery at pace is adopted.

Question 11: What are your views on the design of each regulatory measure? (Please clearly reference which measure(s) your comments relate to e.g. Accelerated delivery Output Delivery Incentive, Ex post efficiency review, etc.)

- Whatever mechanism is adopted for setting and measuring outputs, it needs to be fair and reflective of the whole industry challenge to meet the 2030 deadline. We believe incentives are a better method than penalties.
- More and more we are seeing clients move away from penalties and instead adopting incentives. The most attractive clients recognise the collaborative nature of successful delivery and realise that seeking to penalise often leads to confrontation, delay and unnecessary bureaucracy. What is needed is the whole industry to work together in a collaborative manner where shared success is rewarded.
- We believe that incentives to deliver on time or early are a better mechanism for Ofgem and the TO's to use. We have experience with this on other programmes such as a major \$1bn utility programme for a major client in the Eastern United States.
- Penalties are often passed down to the supply chain, which is already suffering from increased delay costs where they have taken cost risk by providing a fixed price. Such penalties dissuade the more experienced supply chain participants from engaging in work where the risk begins to outweigh the reward.

We hope that this response is helpful to Ofgem's decision making and would be happy to support further discussions around these issues.

Your sincerely,

A handwritten signature in blue ink, appearing to read 'J. Chapman'.

Jonathan Chapman
Managing Director UK