

Cheryl Mundie
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Ofgem
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5th October 2009

Dear Cheryl

**Transmission Access Review – Enhanced Transmission Investment Incentives:
Update and Consultation on Further Measures**

I am writing to respond to one aspect in particular in relation to the above consultation.

Transmission Capital Limited has been established to manage investment in electricity transmission assets. We have extensive onshore and offshore transmission experience gained over more than a decade of developing, procuring, constructing and operating electricity projects, including onshore and offshore transmission and wind projects. Initially we are focussed on the opportunity in the UK provided by the competitive arrangements recently introduced for the provision of offshore electricity transmission. With Transmission Capital as the lead partner, we have formed a consortium that has pre-qualified in the first transitional offshore transmission tender round. We are also very keen on investing in new build assets through the enduring regime

We see great benefits for consumers and transmission system users from the introduction of competition into the provision of transmission assets and services. We have already started offering a transmission development service to offshore wind developers that has proven to be very successful and popular and is now being followed by other existing and potential transmission companies.

We also expect that there will be considerable cost savings to consumers through opening up investment in transmission to competition as this allows access to lower cost capital structures that have up until now not been applied in this sector in the UK. These capital structures are common place in other infrastructure industries (such as schools, hospitals, transport etc.) where reliability, quality of service and long-term partnerships are equally important as in the electricity industry.

Competition in offshore electricity transmission is therefore already bringing in a more entrepreneurial, innovative and customer focussed approach to the benefit of transmission system users and consumers in general.

In response to your question 7 of chapter 3 of the above consultation, similar benefits could be obtained if the provision of the onshore electricity transmission system were also opened up to competition. We believe that much of the new competitive offshore transmission regulatory regime can also be applied onshore, with a few changes.

Subject to our comments below we believe that the default position for all onshore transmission capital investment is that it should also be procured through a similar competitive process to that for offshore transmission.

The two riders to this are as follows:

1. There will be a level below which it will not be cost-effective to seek to introduce competition due to the cost overhead of any tender process (although we consider that all of the construction works identified in the consultation are significantly above this level). In relation to offshore transmission, all asset procurement is expected to be above this de minimis level (or within the 20% allowance set for expansion by the offshore transmission licence holder).
2. The offshore transmission regime relates mainly to the acquisition (for the transitional projects) or the procurement and construction (for the enduring projects) of standalone assets. New issues would be introduced if it were to be applied to upgrades to existing assets and detailed consideration of the benefits and disadvantages would be required before proceeding with a competitive approach in these instances.

We would further propose that competition should be introduced into the provision of the pre-construction works. The introduction of competition into this area is equally important as the construction and operational phases as it largely determines project timing. New entrepreneurial transmission development companies would bring a more success and time oriented approach building on development practices from competitive industries (such as power project development).

Our belief therefore is that competition will speed up projects and not delay them (as the established transmission licencees may argue) and this should not be allowed to limit the scale and scope of the benefits that competition could bring.

If you wish to discuss any of the points raised in the letter then please feel free to contact me.

Yours sincerely



Dr Chris Veal
Managing Director