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6<sup>th</sup> September 2010

Dear Hannah

### **RPI-X@20 Recommendations**

Transmission Capital Limited manages 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 Transmission Capital Partners that has recently tendered for all the projects in the first transitional offshore transmission tender round and has to date been appointed preferred bidder for three of these projects.

We see this as an entry into the larger opportunity of investing in new build assets, offshore through the enduring offshore regime, and onshore should elements of the onshore network be competitively procured following the RPI-X@20 review.

We continue to support the introduction of competition in the provision of onshore transmission assets and services as outlined in our letter dated 18<sup>th</sup> March 2010 in response to the RPI-X@20: Emerging Thinking consultation.

We support the conclusions in the RPI-X@20 Recommendations outlined in paragraphs 6.21 and 6.27 to 6.30 with respect to the regulatory tool kit. In particular we support the option for third parties being invited to tender for the design, build, operation and ownership of “*separable enhancement projects*” and that this should only be done where the benefits exceed the costs of so doing.

We continue to believe that these benefits should be very large, as evidenced by the first transitional OFTO tender round which is estimated to have saved the consumer £350m over a comparable onshore traditional RPI-X price regulated return<sup>1</sup> from ownership and operation alone, and not including the benefits that would additionally come from competitively selecting a third party to design and build.

As stated in our previous letter we consider that a majority of the capital spend identified in the Transmission Access Review Enhanced Transmission Investment Incentives<sup>2</sup> could be included into this category. We continue to believe that this is

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<sup>1</sup> “Three bidders selected to run the first £700 million of transmission links for seven offshore wind farms”, Ofgem press release, 5 August 2010.

<sup>2</sup> “Transmission Access Review – TO incentives: Final Proposals”, Ofgem, January 2010

the case and would urge Ofgem to consider using this tool as early as possible to evidence the size of the benefit that might be achieved by competitive tendering of new transmission projects that includes not only ownership and operation but also design and build. As such we consider that this tool should be used ahead of persistent failure (unless this has already been demonstrated) as to only consider this if “*a network company persistently fails to deliver outputs*” would mean that the benefits of bringing competition into some very large separable projects, such as the Eastern and Western HVDC links, might not be gained at all. Extrapolating the results of the recent OFTO tenders, we believe that the potential saving to consumers from the introduction of competition should run into several billions of pounds.

We are concerned that the network companies may be incentivised to present new projects in a way that appears to reduce the possibilities of opening them to competition by for example showing required commissioning dates ahead of actual need and thereby reducing the available time for a competition.

We also note that National Grid is currently presenting to the industry and government an offshore grid design set out in its presentation entitled “*Integrated offshore grid solutions*” and arguing that it should be given a strong role in its delivery without taking part in a competitive process. We agree with National Grid that a co-ordinated onshore and offshore grid design is likely to have some economic benefits<sup>3</sup>. However, we disagree that the natural progression of this is that it should then be built and owned by monopoly network companies. With an integrated design, the same arguments apply onshore and offshore: separable enhancement projects should be competitively procured.

Both of these last two points indicate to us that there should be greater business separation between the system design authority and the system delivery parts of network companies, in particular between NETSO as the GB transmission system design authority (which we believe should also include offshore) and National Grid as an onshore TO.

We understand the need to settle on the RPI-X@20 regulatory solutions in a timely fashion. Given the particularly fast changing nature of onshore and offshore transmission development, we believe that the options open to Ofgem should include the use of third parties for the design, build, ownership and operation of projects both onshore and offshore, and that there should be a wide degree of flexibility in introducing these arrangements.

Yours sincerely



**Dr Chris Veal**  
Managing Director

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<sup>3</sup> However, we are unsure when comparing these latest designs to those contained in the Offshore Development Information Statement dated December 2009 as to why National Grid should have two sets of designs so radically different in such a short space of time.