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Our Reference FP1202101

Dear Ms Bradney

Ref 179/11: RIIO-T1 Implementing competition in onshore electricity transmission

Frontier Power is pleased to have the opportunity to respond to Ofgem's consultation document on implementing competition in onshore electricity transmission. We have been intimately involved in the OFTO process and are currently managing one of the first OFTOs on behalf of financial investors. With this experience we welcome the opportunity to explore the benefits to consumers of competition in onshore transmission.

We believe that if competition in onshore transmission is to drive down the end cost to consumers, it needs to bring in new entrants that are able to innovate asset design, drive greater efficiency in procurement and construction and offer lower financing costs. Cost of capital is of course one of the key factors in this equation. To drive down the cost of capital you need to minimise uncertainty whilst ensuring appropriate allocation of risk. In particular, we believe that all of the pre-construction outputs would have to be in place by preferred bidder stage to achieve this. Without this certainty the cost of capital is likely to be higher and therefore the benefit to the consumer, marginal at best.

Based on our experience of the OFTO tender rounds, we consider that there would be significant interest in this asset class by new entrants, including financial investors.

Below we set out our responses of a material nature and our responses to the issues raised in Chapter 3 & 4, which you have requested by no later than 10th February 2012.

CHAPTER THREE

Q1: Do stakeholders consider that we have correctly identified the changes to industry codes that would be required to enable third party involvement in onshore electricity transmission?

A1. Yes we do, we agree the STC is equally applicable to new as well as existing licensees and the NETS SQSS or SQSS would not need to be amended. We also agree with the minor changes you have identified to the Grid Code and CUSC.

Q2: Do stakeholders have any comments on the changes proposed to the industry codes in Appendix 2?

A2. We agree in principle with the concept of collective votes for new TOs, up to the point where numbers reach a certain level, when this will need to be reviewed. The reference to the OFTO arrangement is slightly misleading because at present for four OFTOs there are two votes. We believe the ratio of a 2:1 seems sensible and worthy of consideration for a new TO regime.

Q3: Do stakeholders have further comments on the proposed process and timetable for enabling the industry code modifications?

A3. We are comfortable with both the timetable and the process for making the modifications to the industry codes.

CHAPTER FOUR

Q1: What level of detail would be required for the following pre-construction outputs in order to hold an effective selection process:

- **project design**
- **technical specifications**
- **route identification**
- **site studies**
- **environmental impact assessments and stakeholder consultation?**

A1. We would expect full planning consent to be in place before the preferred bidder stage of the selection process and this would require all of the above to be in place to achieve this. In putting together our bid, we would require full access to the above information.

Q2: Should planning consents be in place before the selection process?

A2. We would expect full planning consent to be in place from the IPC or respective planning authority, before the preferred bidder selection process. By removing the planning risk, it enables us to deliver the most economic cost of capital, which will ultimately deliver the best value for the consumer.

Q3: Should land be purchased or wayleaves obtained by the incumbent TO before the selection process?

A3. Yes, land purchase or way leaves need to be obtained before preferred bidder stage, as this once again reduces uncertainty, which in turn, will enable us to deliver the most economic cost of capital.

Q4: What are stakeholders' views on the desirability of Ofgem seeking independent verification of the needs case and solution proposed by the incumbent TO in advance of any selection process?

A4. A robust needs case is required for the planning process and we would expect it to be tried and tested during the pre-planning consultation phase. Frontier Power would expect planning approval to be in place before selection of the preferred bidder stage for the TO.

Q5: Do stakeholders have a view on whether pre-construction outputs could be retained by the incumbent TO or transferred to the eventual asset owner? Is there a difference depending on the output in question?

A5. We agree whole heartedly that the pre-construction outputs should be secured by the incumbent TO and then transferred to the eventual asset owner, with a value determined by Ofgem for the pre-construction items.

Q6: What kind of commercial arrangement, if any, should be used to facilitate the sharing or transfer of pre-construction outputs between an incumbent and third party TOs?

A6. During bidding stage, confidentiality agreements need to be in place to allow sharing of information. After TO selection, a transfer agreement, similar to the OFTO process, would be required.

Q7: Do stakeholders consider that the staged approach we have outlined, which would allow interested parties obtain a 'light touch' licence, is appropriate?

A7. We understand that when preferred bidders commit at financial close they need to have a full TO licence in place. However, we do not agree that a light touch licence is necessary, as the prequalification (PQQ) and qualification to tender (QTT) stages should be used by Ofgem to select appropriate parties to proceed to the final bid stage.

Q8: Do stakeholders agree that some form of business separation arrangements will be necessary for incumbent TOs?

A8. Yes, all potential TOs, including the incumbent, should be offered the same opportunity and therefore the incumbent TO needs clear business separation, if it is to compete on an equal basis.

Q9: What form of business separation arrangements do stakeholders feel would be appropriate for incumbent TOs?

A9. The same conditions that applied in the OFTO selection process should apply.

We hope that you find these responses helpful in developing your thinking and we would be happy to meet Ofgem to discuss our views at any time.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Iain Cameron', with a long horizontal flourish extending to the right.

Iain Cameron
Chief Operating Officer
Frontier Power Limited