

Dora Guzeleva
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Office of Gas and Electricity Markets
9 Millbank
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31 January 2012

Dear Dora,

Response to Further Consultation on Network Innovation Competition

Transmission Capital is the manager of three (non-RIIO) offshore transmission licensees (TC Robin Rigg OFTO Ltd, TC Gunfleet OFTO Ltd and TC Barrow OFTO Ltd), with a further licence expected to be awarded shortly (to TC Ormonde OFTO Ltd).

Transmission Capital is considering a number of concepts which would improve the reliability and availability of connections to offshore wind farms – i.e. the assets owned by offshore transmission owners (OFTOs). However it is difficult for us to make a business case for the development of many of these innovations because their cost-benefit is dependent on being rolled out across many offshore transmission licensees, or because they fail to provide us with a competitive advantage since the concept, once developed, could be applied by all parties.

We see the Network Innovation Competition (NIC) as being an important mechanism for resolving this situation, allowing us to make a business case for the development of new concepts. These concepts should lead to an enduring reduction in the cost of connecting carbon-free generation, and an increase in the reliability and availability of these connections (and hence the amount of carbon free generation exported).

We set out in the section attached below our response to the six considerations you set out in your consultation letter of 4 January 2012. Our key messages from this are that OFTOs have innovative concepts that require NIC funding, that OFTOs have an appetite for this funding, and that some simple measures by Ofgem would eliminate a lot of factors that might deter OFTOs and so would maximise the benefits of the NIC funding regime.

If you have any questions about these responses, or about the particular requirements of OFTOs, please do not hesitate to contact me.

Yours sincerely



Sean Kelly
Director

Response to specific considerations

Appetite for entry: *We would like to understand the level of interest non-RIIO network licensees hold in the NIC. As such, we are interested in hearing from these licensees whether they are considering involvement in the NIC, either as a submission lead or as a collaborator in a submission led by another network licensee.*

The OFTOs that Transmission Capital manages have a strong appetite for funding of the type provided by the NIC. As explained in the main body of this letter, the NIC funding will enable us to make a business case for the development of new concepts where this would not otherwise have been possible. We have a number of concepts which we believe would be very suitable for NIC funding.

Potential benefits: *We consider that including all network licensees in the NIC, and not just RIIO licensees, could encourage a wide range of high quality network innovation ideas and we are interested in views on other potential benefits in maintaining this breath of licensee participants.*

We agree strongly with Ofgem's position on this issue. We would note that OFTOs, in view of the unique technical features of their offshore installations, are unlikely to benefit from the R&D activities of onshore utilities, and are therefore particularly in need of their own access to NIC funding.

Meeting the evaluation criteria: *We outlined in our previous consultation in September 2011 our proposals for the high-level evaluation criteria which a NIC project must satisfy to be eligible for funding. These evaluation criteria apply the objectives of the NIC. Given this, we would welcome views on the ability of non-RIIO network licensees to submit bids that are likely to meet these criteria and thus fulfil the objectives of the competition. We note, for example, the requirement to submit innovative projects that have the potential to be rolled out across GB may be difficult to achieve for those non-RIIO network licensees who operate a relatively small, newly built section of network.*

We believe that OFTOs are very well placed to meet the evaluation criteria proposed by Ofgem (low carbon, shareable knowledge / roll-out potential, innovation and need for funding):

- Low-carbon / environmental benefits will come from any development that improves OFTO availability and reliability given the crucial role of OFTO assets in the connection of carbon-free generation.
- Shareable knowledge will result from the application of concepts of the type for which we envisage NIC funding, and we expect that contractors will offer them to all offshore cable owning industry players (OFTOs, wind farm owners, interconnectors, etc...).
- Offshore-transmission knowledge can be rolled out across an enormous and growing GB-wide base of installed equipment. OFTOs awarded and in bidding already constitute a £2bn asset base, and by 2020 the offshore transmission asset value will be larger than that onshore – suggesting that, if anything, OFTOs should be the main focus of transmission R&D.
- We believe that there are numerous innovative new concepts waiting to be developed in the offshore transmission sector. Given the relative newness of offshore transmission it should be much easier to find innovative concepts to optimise operation, in contrast to onshore transmission and distribution where R&D into improved operation has been undertaken for many decades and all “low hanging fruit” should already have been exploited.
- As explained in the main text, a need for NIC funding exists as without such funding the majority of our concepts will not have a business case due to the shareable nature of the knowledge.

Potential Barriers: *We would welcome views on any potential barriers that may exist to prevent non-RIIO network licensees entering the competition (where projects meet the high-level evaluation criteria we have set out). We would also welcome suggestions of potential solutions to such barriers where applicable.*

In our view the key barriers facing an OFTO (and probably other non-RIIO licensees) in addressing the opportunity to bid for NIC funding are as follows:

- The cost, management time and effort associated with bidding may be excessive, particularly for “lean” organisations such as OFTOs. We understand that for the Low Carbon Networks competition many bidders had bid costs several times their £250k allowances. Costs and management effort on this scale would certainly deter bidding by OFTOs.
- OFTOs will not be as experienced in bidding, and in particular will have less experience in tuning bid documents to meet the expectations of the adjudicating committees. Knowledge of this handicap may deter OFTOs from even attempting to bid.
- There appears to be a suggestion that smaller projects should be funded through the Network Innovation Allowance (NIA), with the NIC being used for larger projects. However OFTOs have no access to the NIA and are forced to use the NIC for all funding, however small. An attitude that the NIC is primarily for large projects would therefore be a barrier to OFTOs who might be considering entering the competition. (It has been suggested that OFTOs should partner with onshore TOs/DNOs for NIA funding but this is unrealistic as the onshore TOs/DNOs have no incentive to do this).
- Any suggestion that multi-party consortium bids would be favoured would be a barrier to OFTOs as they will generally not be equipped to deal with the associated complexity and management time demand.

Measures that would help to overcome these barriers would include:

- Funding of bid submission costs for OFTOs (as discussed below).
- A part of the NIC reserved for smaller projects, with a simplified bidding process.
- A part of the NIC reserved for smaller projects brought forward by parties without access to NIA funding.
- A simplified bidding process focusing on the value of the work being proposed.

Funding bid submission costs: *We are minded to allow RIIO licensees to recover reasonable bid preparation costs through the NIA. This would not be possible for non-RIIO network licensees as the NIA is a RIIO specific provision. We are therefore considering the implications of introducing a separate mechanism to provide non-RIIO network licensees funding for reasonably incurred bid submission costs. We have some concerns that the incentives for non-RIIO network licensees to spend such funding efficiently may not exist in the same way it does for the RIIO network licensees. We would therefore welcome views on the appropriateness of funding bid submission costs for non-RIIO network companies.*

We agree that arrangements to allow recovery of reasonable bid costs would help to overcome many of the barriers discussed above. It does not appear to us that a non-RIIO licensee would be subject to different or worse incentives in this respect than a RIIO licensee.

It should be noted that non-RIIO licensees will typically have a much lower annual revenue level than RIIO licensees, and so a fixed (or minimum) level of bid cost allowance may be more appropriate for them than arrangements where the allowance is in some way proportional to revenue.

Halting projects: *A key element of the LCN Fund governance is the ability to halt projects and claw back misspent funding when required. For RIIO network licensees we would insert a claw back requirement into their licence for them to repay any misspent funds. Therefore, we will require non-RIIO network licensees who wish to participate in the competition to have the same condition inserted into their licence.*

We agree that it is reasonable for there to be claw-back arrangements for non-RIIO licensees in the same way as for RIIO licensees.