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Giedre Kaminskaite-Salters
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Dear Giedre,

Offshore Electricity Transmission :
Consultation on tender exercises under the enduring regime

Alstom Grid Consultation Response

This response to Ofgem reference: 178/11 consultation is made on behalf of Alstom Grid UK Limited. We have also contributed to the Renewables UK response and broadly support the points made therein.

Why is Alstom Grid responding?

Alstom Grid is one of the top three global players in electrical transmission and, as an acknowledged leader in key technologies, markets and geographies, it is helping today to develop the intelligent and green grids of tomorrow. We designed and delivered the key substation elements for the first UK offshore windfarm, Barrow, which was commissioned in 2006.

Progressively, and with experience, Alstom Grid has expanded its offering to the offshore market and last year completed a contract for Sheringham Shoal, which encompasses the entire electrical substation, with the topside. Alstom Grid has secured a number of orders for 400MW innovative self-floating, self-installing offshore high voltage substations to connect offshore windfarm located in the German Exclusive Economic Zone of the North Sea to the offshore HVDC grid, the most recent being for MEG1.

Electricity generated from offshore renewable energy sources has the potential to aid the UK in meeting its 2020 renewable energy targets. Vital to realizing that potential is a regulatory regime which marries an efficient delivery process with a dynamic local supply chain and skills base.

Alstom Grid wants the UK to fully realize its offshore wind plans and to take full advantage of the opportunities that should arise from the OFTO-related market. HVDC and voltage source converters (VSC) represent the key enabling technology for offshore electricity transmission and Alstom Grid's global centre of excellence for this technology is based in Stafford, UK. Here we have assembled large teams of researchers and engineers to deliver the technology required for the enduring regime opportunities. In addition, we are actively supporting developers and generators by providing technical data and assistance.

Clearly, we need to make additional investments, not only in the enabling technology, but also in our supply chain and project delivery areas to be able to respond to market demands. This we are willing to do, but only against a backdrop where there is a steady and visible pipeline of projects for which we can compete. Therein lies the reason for our response.

Summary Comments

Certainty, clarity and consistency are vital to attract investment into this energy sector and we believe that the OFTO Enduring Regime, with its Generator and OFTO Build options, provides the appropriate framework.

In our response to the previous joint Ofgem and DECC consultation on the Enduring Regulatory Regime, references 113/10 and 10D/786, we expressed support for the Generator Build option because this could provide additional flexibility and reduced risk for developers, thus enabling the timely and efficient delivery of the offshore windfarms with their associated electrical connections.

While we do recognise Ofgem's desire to introduce the OFTO Build option and understand its potential benefits to the consumer, we are concerned that there are still some important open issues under the Generator Build option. It is essential that these are resolved soon and that this option continues to improve through ongoing feedback. This will give the markets confidence in the regime and in Ofgem's commitment to it. We would suggest that this be a priority.

We note the stated benefits to the consumer of the OFTO Build option, but would wish to highlight that this option does introduce additional burdens and complexity to the Tier 1 Supply Chain. Indeed as a general rule, the closer (in contracting terms) the Tier 1 Supply Chain is to the primary client, the more efficient processes become, thus benefiting all parties and ultimately the consumer. That said, we will fully support the introduction of OFTO Build and will work with Ofgem to make this option a reality. Our response to the consultation has been framed in that context.

Alstom Grid strongly supports the concept of a coordinated and integrated offshore electrical grid network, since it will bring benefits to UK energy customers through a more efficient, environmentally friendly use of the available renewable energy from offshore windfarms. In addition, it could incorporate interconnectors with neighbouring European markets, thereby ensuring maximum capacity is available and electricity flows in response to market price differentials, which will ultimately benefit the UK. We are disappointed that there is no discussion on this important topic, and look forward to the separate consultation on this matter.

The full Alstom Grid response to this consultation may be found in the attached Appendix.

We look forward to your feedback on our response and welcome an ongoing engagement with Ofgem on these and all Offshore Transmission matters.

Yours sincerely,

Eoin Nolan
Business Development Director

CONSULTATION QUESTIONS

CHAPTER: Two

Question 1: *Do you have any views on the approach outlined in paragraph 2.8, namely to focus on a single OFTO build option and not to develop the early OFTO build option further at this stage?*

Certainty, clarity and consistency are vital to attract investment into this energy sector. Thus Ofgem should first resolve the remaining challenges under Generator build. We believe that early OFTO build is likely to be a medium term option and that if Developers do opt for an OFTO Build, it is more likely to be 'late' given the perceived consenting risks and their desire to control the high level design.

CHAPTER: Three

Question 1: *What are your views on the proposed arrangements for triggering a tender exercise?*

We fully support the proposal that the Generator formally notify Ofgem of its chosen build option in the BCA with NETSO.
Whilst recognising that there will be a separate consultation on Coordinated Offshore Network, the NETSO is offering 'coordinated' connections now to Generators and the enduring regime consultation does not address this matter.

Question 2 : *What are your views on whether our proposal on generator security will ensure the appropriate level of commitment from a generator?*

Agreed that it is essential the generator does not change build preferences during a tender exercise. To do so would un-nerve the supply chain, given the level of resources it will be required to commit to prepare bids for the OFTO assets.
Process seems reasonable; I guess the concern might be that the level of security is set to have the desired effect and not just deter the Generator from choosing the OFTO build option.

Question 3: *Do you agree with our proposed approach to the tender specification for an OFTO build tender exercise?*

We agree that a Generator should provide a high level functional specification. Care should be taken to avoid over-specification and thus prevent the Supply Chain from responding with competitive and innovative solutions. Clearly, the ability to define and agree interfaces at an early stage is important; this will help to reduce cost contingencies.

Question 4: *Are the proposed arrangements for pre-construction works the most appropriate for investors and generators?*

No comment.

Question 5: What other information, if any, in addition to that referred to within the tender specification and pre-construction works sections, would be needed within the data room for the project?

No comment

Question 6: *What do you think would be the best approach to ensuring bidders have access to and confidence in a seabed survey undertaken by the generator?*

Generators should procure the surveys, using a reputable party under tightly defined terms and conditions of contract.

Question 7: *With reference to the approach to seabed surveys outlined within paragraph 3.22, what might be the best approach to developing an independent generic survey specification that would be acceptable to both generators and potential bidders?*

Each survey should reflect the prevailing sea-bed conditions and the particular requirements of the individual projects and be developed in accordance with good industry practice. Thus we would not support the idea of a generic survey specification.

Question 8: *Do you agree that ensuring procurement is undertaken by the OFTO through the tender process would be the most economic and efficient approach?*

Ideally, the OFTO should undertake the procurement, since this should ensure that it proposes its most cost competitive solution. In addition, it avoids later contract transfer difficulties.
These are complex projects and the Supply Chain will be engaged in time-consuming, intense negotiations. It will not be able to support parallel approaches. That said, proactive suppliers will engage with all parties (Generators and OFTOs) at all stages of the process, regardless of the regime.

Question 9: *What are your views on whether there are supply chain constraints associated with the manufacture and delivery of some key offshore transmission assets? If there are constraints, do these vary significantly in relation to project design?*

Offshore Wind is an expanding market, but there is still a large degree of uncertainty about its rate of expansion. Under certain scenarios there may be a potential for Supply Chain constraints in HVDC converters stations and cables, but given enough forward visibility and certainty, it may be possible to minimise these by advance investment, accelerated recruitment & training, etc.

Question 10: *What are your views on the examples of alternative approaches for supply chain engagement under OFTO build outlined in this section?*

There is always a trade off between timescale and price on large projects. It is critically important that risk interfaces are minimised and a single party, Generator or OFTO, be responsible for the design, supply, installation, testing and commissioning of an integrated transmission asset. Whilst there may be some merit in Generators seeking ‘high-level’ indicative terms for transmission assets, the associated concept of manufacturing capacity reservation is not sustainable without significant financial commitment. Given that the final decision on supplier choice would rest with the OFTO, it is unlikely that the Generator would be in a position to accept this.

Question 11: *Are there any other approaches we should consider under OFTO build to enable the supply chain to be engaged in time to ensure project delivery timescales are met, whilst maximising opportunities for competition through the tender process?*

We have experience of working in a collaborative alliance with National Grid and other partners to deliver onshore transmission assets, which has been shown to reduce delivery times and costs, thereby benefitting UK consumers. This contracting model could be applied to Generator Build because of the certainty of outcome, but applying it to the OFTO Build option would be problematic given that the tender process and the timescales rule out any commitment to the Supply Chain until the OFTO receives its licence.

Question 12: *Should there be any restrictions on interactions between parties, either before or during a tender exercise in order to ensure fair and effective competition and best value for consumers?*

There should be no restrictions on the parties prior to the tendering phase. Thereafter, interactions should follow whatever protocol has been agreed between the parties to ensure a fair and transparent process. Clearly, it is in the interests of all that such protocol be as open and flexible as possible to ensure that innovation is not stifled and the most economic offers are presented.

Question 13: *Do you agree that the current 20 year revenue stream provides the best value to consumers under the enduring regime (OFTO or Generator build)? If not, what alternatives should we consider?*

When coupled with a comprehensive maintenance/service regime, that OEMs such as Alstom Grid can offer, it is likely that the lifetime of the transmission assets could exceed 20 years. In such circumstances, it may be appropriate to consider adjusting the revenue stream accordingly.

Question 14: *What are your views on our proposed treatment of risk relating to:*
- delay to licence grant?
- weather delay?

We are concerned that the validity periods which may be required under the OFTO Build option may add cost and general risks to the Supply Chain's pricing structure. Whilst material and currency indexation may mitigate this to a certain extent, it will not solve everything, particularly under circumstances where the Supply Chain is under capacity constraints and may operate on a first come, first served basis.
Separately, we would point out that the acceptance of weather risk is alien to OEMs and, EPCs operating in the O&G environment have advised us that weather delays, over and above those that may be specified in the contract, are normally to the Clients account.

Question 15: *Are there other areas of risk which would be more efficiently managed (for consumers) through a risk sharing mechanism rather than factored into bidders' TRS bids? If so, can you suggest how these risks might be shared?*

No comment

Question 16: *Is the current approach to recovering bid costs appropriate for OFTO build? If not, what alternative approach to recovering bid costs would you recommend?*

The costs to the Tier 1 Supply Chain of preparing bids for a Generator or OFTO build option are high and for some of the HVDC connections will exceed £1M. Clearly, a commitment to such costs would not be entered into lightly and thus each opportunity would have to be carefully evaluated on its merits. Should Ofgem decide to reimburse a portion of the competing OFTO ITT costs, the Tier 1 Supply Chain would expect to receive its part, based on costs incurred.

Question 17: *Are there any aspects of the current transitional arrangements or within the proposals for OFTO build, including revenue term, bid requirements and risk profile, which may prevent access to certain sources of finance in the enduring regime?*

No comment.

Question 18: *Do you have any comments on the issues associated with incorporating a refinancing gain share mechanism and how such a mechanism could be structured?*

No comment.

Question 19: *Do you have any preferences from amongst the options outlined for how the PQ stage should operate?*

We would support the idea of a generic PQ process and it being run annually at a minimum, since this would give the Supplier Base visibility on its potential Client base and thus enable it to operate its pre-bid activities efficiently. Ideally this generic PQ process should only be deployed if there is a high degree of certainty that a least one project would commence within the same timescale as the process term.
Where we do have a concern is in the grouping of individual projects. Such an arrangement, while it may reduce costs and the administrative burden on the OFTO Build bidders (and Ofgem), may create an unsupportable demand on the Tier 1 Supply Chain and thus give rise to a limited numbers of Tier 1 responses to RFQs. Costs and the Administrative burden must be balanced with the benefits of increased competition.

Question 20: *Are there any other ways that a PQ stage might operate in order to meet the objectives set out at the start of this section?*

No comment

Question 21: *Do you have any preferences from the options outlined for how the ITT stage might operate?*

Given the different planning regimes that exist in Scotland and Wales, Diagram 3 is not fully representative. Perhaps the greatest concern Alstom Grid has is in the amount to be invested in bid preparation verses the certainly of the outcome given the number of variables, i.e. multiple potential OTFOs coupled with the planning result risk. Thus we would support a regime where the activities required of the Supply Chain are minimised prior to consent.

Question 22: *Are there any other ways that the ITT stage might operate to ensure its efficiency and effectiveness?*

No comment

Question 23: *What are your views on the proposals for involving generators in evaluation of bids? In particular, what key technical aspects of bids would be most important for generators to evaluate?*

We have no objection to Generators being involved in the Tender evaluation process, provided the interactions follow whatever protocol has been agreed between the parties to ensure a fair and transparent process. Clearly, it is in the interests of all that such protocol be as open and flexible as possible, while respecting the confidentiality of data and costings. (It is conceivable that information gained by a Generator during such involvement, may unfairly influence its future decisions to opt for a Generator or OFTO build and thereby deprive an OFTO of future competitive advantage)

Question 24: *What are your views on the proposals for involving NETSO in evaluation of bids? In particular, what key technical aspects of bids are most important for NETSO to evaluate?*

In our opinion, there is no need for the NETSO to be directly involved. Rather, it should be actively encouraged to ensure that its STC and Grid Code requirements are clearly defined and specified.
One comment that is of concern is the Bid evaluation statement in Paragraph 3.76, viz. '…we expect to evaluate the robustness of the bidders' proposals ……and may take factors such as transmission losses into account…'. Loss capitalisation can have a major impact on the design, and thus costs of an electrical network. Given Ofgem's commitment to energy efficiency, we would strongly recommend that a clear statement be made that losses will be considered in the evaluation process and that a true market capitalisation cost will be declared at an early stage in the bidding process, such that the OFTOs and the Supply Chain can respond with the most energy and cost efficient proposal covering the lifetime of the project.

Question 25: *Are there areas on which you think allowing variant bids under OFTO build would add value to the process and to consumers?*

Experience has shown that functional, rather than prescriptive enquiry specifications provide the most flexibility and yield the most innovative and competitive bids. Thus, we would recommend that the Generator only sets key parameters in its high level enquiry specification, which would be required to satisfy its own requirements or those of the consenting authorities or NETSO. We could envisage that such parameters would include, to name a few, the power rating (MW), the export voltage(s), maximum number of export cables, array cable voltage, numbers of array cables, substation envelopes.

Question 26: *What are your views on generators recovering efficiently incurred pre-construction costs at the point at which the transmission construction works are completed?*

No comment

Question 27: *Do you have any early views on the appropriateness of design incentives for transmission asset lifecycle design, eg transmission availability, quality of installation and transmission losses?*

As a major supplier of transmission substations we regularly design to predetermined levels of availability and electrical losses, and support such designs commercially in the context of our scope of supply.

Question 28: *What are your views on whether the current approach to indexation, and in particular the proportion of the TRS subject to indexation, provides the best value to consumers? How might any alternative approaches be managed?*

No comment

Question 29: *Do you agree that additional delivery incentives for OFTOs are not necessary?*

No comment

Question 30: *What are your views on what approach to decommissioning of assets would provide best ongoing value to consumers?*

We look forward to Ofgem's further information on the decommissioning of transmission assets and would wish to highlight at this juncture that Alstom Grid is willing and does have the capability to undertake detailed condition assessments on such assets. Furthermore, we could provide a technical and commercial recommendation regarding life-extension renovation or end-of-life decommissioning and execute any resulting works.

CHAPTER: Four

Question 1: *What are your views on whether there are benefits under Generator build to the generator undertaking the seabed survey against a comprehensive generic survey specification agreed by industry?*

No comment

Question 2: *Do you agree with the approach that Ofgem continues to run tender rounds for groups of projects, not necessarily limited to one per year, or would you recommend an alternative approach?*

Tender rounds should generally be run on a needs basis. But recognising the burden that such tender rounds place on all the parties involved we would support the concept of running multiple tender rounds per year against a defined schedule.

Question 3: *Do you think there are further efficiencies we could make to the tender process and the transaction procedures for Generator build which would increase their efficiency and provide greater certainty to bidders and funders?*

No comment

Question 4: *Are there any changes to the information supplied in the data room which would improve the efficiency of the process for Generator build?*

No comment

Question 5: *What are your views on the benefits of involving generators in evaluation of bids as outlined in this section?*

Please refer to our answer to 3.23 above.

Question 6: *Do you have any suggestions on amendments which would improve the efficiency of the process for finalisation of transfer documentation and which would maximise value to consumers?*

No comment

Question 7: *What do you consider might be the implications of a share sale approach as opposed to a transfer of assets as has been seen to date?*

No comment

Question 8: *Do you agree that the current split between costs priced into the TRS and those allowed as pass throughs provides best value for consumers?*

No comment

Question 9: *Are there any aspects of the current arrangements for transitional tender exercises or within the changes we have proposed above, including revenue term, bid requirements and risk profile, which may prevent access to certain sources of finance under Generator build?*

No comment

Question 10: *Do you have any comments on the issues associated with incorporating a refinancing gain share mechanism for Generator build and how such a mechanism could be structured?*

No comment

CHAPTER: Five

Question 1: *Are you satisfied with the practical relevance of our definition of the terms 'phase' and 'stage'?*

No comment

Question 2: *What are your views on the measures we propose to determine whether a stage or phase within a site/zone qualifies for a single tender exercise?*

No comment

Question 3: *What are your views on whether running a separate tender exercise for each phase within a site/zone would best meet the objectives of the enduring regulatory regime?*

No comment