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4 March 2014

Pete Wightman
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Initially by email
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Dear Pete,

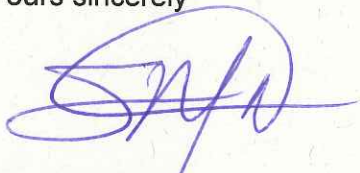
Response to consultation on Non Developer-Led Wider Network Benefit Investment

Balfour Beatty Investments acting as agent for the Balfour Beatty Group Limited ("Group") is pleased to respond to your **consultation on Non Developer-Led Wider Network Benefit Investment** dated 10 January 2014.

Our preferred model is the TO initiated late OFTO build model although in principle we support the three models proposed and believe that all three can be implemented.

Our response is provided as an appendix to this letter and we would be pleased to discuss in further detail with you.

Yours sincerely



Sean McLachlan
Balfour Beatty Investments
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RESPONSE TO: Consultation on Non Developer-Led Wider Network Benefit Investment dated 10 January 2014.

Q2.1 Do you consider there would be market interest in tenders under these non-developer led WNBI models? Please state why or why not, including whether you would be an interested party.

We consider that the level of market interest will vary widely across the three proposed models.

Split OFTO build model

In Balfour Beatty's view the preliminary works for subsea assets is a complex area which will be difficult to define clearly and subject to significant technical and programme risks.

In order to manage these risks and therefore attract the right market players the technical terms should be flexible and the payment mechanism should be adaptable to the many variables. The concept of this work being done for a fixed price is not realistic.

As a standalone preliminary works project, Balfour Beatty would be interested in the work.

Balfour Beatty is definitely interested in the late OFTO build element of this model. In our view the asset build specification produced by the Third party would need to be sufficiently well defined to attract robust competitive OFTO tenders, while allowing bidders to offer innovative, cost effective alternative solutions. The key problem, however, is that the Third party involvement does not extend beyond the preliminary works and there is no ongoing commitment to the project. For this reason, this is the least favoured of the three models.

Early OFTO Build Model

As confirmed above, Balfour Beatty is interested in the OFTO build element of the work. Providing that for the preliminary works, the complexities are suitably addressed, an appropriate risk management regime is developed and a suitably flexible payment mechanism is introduced, then Balfour Beatty would be interested in the early OFTO build model.

TO initiated late OFTO build model

As confirmed above, Balfour Beatty is interested in OFTO build. This model provides, we believe, the best combination of a well defined project based on TO led preliminary works, a robust technical solution and ongoing involvement of the TO into the OFTO build phase. Of the three models, this model is the most favoured by Balfour Beatty.

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Q2.2 What do you think are the advantages and disadvantages of each refinancing policy option? Please explain why. What are your views on the role that onshore TOs and the NETSO would need to undertake to ensure success of non-developer led WNBI projects under the different models?

In Balfour Beatty's view it is important that the SO and TO are involved in the project.

We believe that there is an important role for a coordinating body, which could be an "enhanced Netso". Balfour Beatty supports this approach and would see NETSO's role as providing the operational case and the overall specification for new offshore infrastructure under all three models. NETSO would also provide technical support to Ofgem in selecting an OFTO or a third party developer, subject to appropriate business separation.

Other than providing a connection, where appropriate, the TO would have no major role in the early OFTO or split OFTO models, and clearly would have the preliminary works role in the TO initiated model.

Q2.3 What are your views on the appropriate risk allocation between consumers and parties undertaking preliminary or construction works, and why?

The party carrying out preliminary works should not be exposed to the risk that the project is abandoned for any reason. In general the party should not be exposed to risks outside of his ability to manage or control them. For this reason, it is considered very unlikely that this party can be engaged on a fixed price basis.

The OFTO carrying out the construction works should not be exposed to stranding risks during the construction or operation of the asset.

Q2.4 What are your views on the incentives and obligations that would be needed to ensure that the preliminary works, including consents, are completed in the interests of consumers and the economic and efficient development of the future transmission system?

For the split OFTO model, the timely, cost effective completion of the development is a key risk, given that the relevant third party has no ongoing involvement in the project. If the project is developed against a NETSO overall specification, then the technical product can be measured against the original design objectives. The timely completion of consents, however, is impossible to guarantee and very difficult to incentivise.

For the Early OFTO model, the OFTO incentives are inherently aligned with those of consumers as both require a low risk, cost effective asset, built on time.

For the TO initiated model it is likely that Ofgem will need to oblige the TO to develop relevant schemes where there is not an obvious network incentive for the TO to do so.

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Q2.5 To what extent do you think the alternative models would help deliver the objectives set out in paragraph 2.32 of Chapter 2?

Fit for purpose electricity transmission infrastructure.....

- The Early OFTO model is most likely to deliver, given OFTO ongoing incentives
- The Split OFTO model is least likely to deliver, given the limited involvement of the third party developer
- The TO initiated model is likely to deliver if the TO's incentives / obligations are appropriate

Value for customers...

- The Early OFTO model is based on competition for the complete develop / build process and so is likely to provide value for money
- The Split OFTO model is based on competitions for third party developers and builders and so is likely to provide value for money
- The TO initiated model is base on competition for OFTO build but not for development and so this element needs to be suitably incentivised / mandated to ensure value for money

New entrants...

- All three models should attract new entrants

Stranding risk...

- Stranding risk is the same for all three models