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Pete Wightman  
Senior Manager  
Offshore Coordination Policy  
Ofgem  
107 West Regent Street  
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Dear Pete,

**Offshore Transmission: Consultation on Non Developer-Led Wider Network Benefit Investment**

We would like to thank you for providing us with the opportunity to respond to your consultation.

This response has been drafted as a result of consultation between Blue Transmission's owners 3i, Diamond Transmission Corporation (a wholly owned subsidiary of Mitsubishi Corporation) and their management service provider Frontier Power Limited. Blue Transmission Investments Limited is the owner of four Offshore Transmission (OFTO) businesses: Blue Transmission Walney 1 Limited, Blue Transmission Walney 2 Limited, Blue Transmission Sheringham Shoal Limited and Blue Transmission London Array Limited and our response set out below is based upon experience gained in bidding for and completing the transfer of the OFTO assets of these four businesses:

| Questions for response  |
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| <p><b>Question 2.1:</b><br/>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.</p>   |
| <p>We consider that there would be little market interest in the Split OFTO Build model (1) from 3<sup>rd</sup> Parties due to the unclear remuneration arrangements and we consider that this model is particularly unattractive to OFTO market participants bidding for the "Late OFTO Tender" stage due the risk that the 3<sup>rd</sup> Party conducting the preliminary works may not be appropriately incentivised to perform the preliminary works to the right quality as they are unlikely to have an interest in the project after the preliminary works stage. We are unlikely to be an interested party in this model either as a 3<sup>rd</sup> Party to conduct the preliminary works or as an OFTO bidder at the Late OFTO Tender stage of this model.</p> <p>We consider that there may be interest from OFTO market participants in the Early OFTO Build model (2) dependent upon the complexity of the project, the appropriateness of the risk allocation and the terms of remuneration through the various stages of the project. We may be an interested party as an OFTO bidder under this model.</p> |

We consider that interest by OFTO market participants will be strongest for the TO Initiated Late OFTO Build model (3) as this is the closest model to the generator initiated Late OFTO Build model upon which Ofgem has already consulted extensively. We are highly likely to be an interested party as an OFTO bidder under this model.

**Complexity of Consents:**

The complexity of obtaining consents and the associated risks will have a large bearing on market interest. Assets totally located offshore in an environmentally low risk area could be seen as more attractive to the market, given perceived lower risks, and fewer consent interfaces. Alternatively offshore assets in an environmentally sensitive area and/or land based consents may be seen by the market as high risk with more consent interfaces and complexity especially the consenting of HVDC convertor stations etc. The recent announcement of the cancellation of London Array Phase 2 highlights the consenting risks associated with environmentally sensitive areas.

**Terms of Remuneration:**

In order to attract market interest clear remuneration terms need to be developed which take account of the risks and uncertainties during preliminary works, including the project not going through to final investment decision and the potential for onerous consenting obligations.

Much of the preliminary work, especially the process for obtaining the required consents and planning permission, can be very labour intensive and include the need for input from experts in the field of EMF, noise and other specialist areas. In addition, the consultation process may take several years if public enquiries are required. Consequently we believe that market interest is extremely unlikely on a fixed price basis.

Therefore a revenue stream must be developed linked to outputs that protect the market from risks whilst protecting the consumer from excessive development costs. This may lead to a situation where simplistic solutions are sought or risks are not given full consideration because of the need to produce outputs to an agreed price. This may lead to additional cost and complexity later in the process which were not properly “designed in” at the preliminary works stage.

**Question 2.2:**

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?

It is noted that one respondent to the previous consultation noted that their focus is to meet RIIO-T1 commitments. This supports Ofgem’s emerging thinking under the ITPR project that there could be benefit to an ‘enhanced’ NETSO or other co-ordination body taking a more proactive role in planning the system by working with TOs and other transmission developers. We consider this ‘coordination body’ vital to the ‘success of non-developer-led WNBI projects under the different models’ in identifying a need or opportunity and being involved through the preliminary works phase of the project.

The SO is best placed to develop the high level system specification under all proposed models given their knowledge on generation developments and power system modelling of the NETSO system which is not available to other parties. It is therefore imperative that the SO maintain and update the ‘needs case’ document for each WNBI identified by the SO.

This SO-developed high level specification can then be used as the basis of the tender documents under Model 1 and 2 with the 3rd party and the TO producing the tender specification for models 1 and 3.

**Question 2.3:**

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

We agree with the philosophy that risks should be allocated to those best placed to manage them. We believe that Model (1) is not in accordance with this philosophy. A 3<sup>rd</sup> Party undertaking development work will not have the responsibility to either construct or operate the assets and as such may not be the best placed nor appropriately incentivised to understand or manage the risks that may materialise during detailed design, construction or operation of the assets.

We agree with Ofgem's view that it is not appropriate for the party undertaking the preliminary works construction works to be at risk of not recovering costs that it had already economically and efficiently incurred or committed, if the 'need case' were to change (such as projected generation background) and reduce or remove the need for the investment. For this reason we see it is vital to the successful implementation of any of the models to provide certainty of return on efficient investment, perhaps based on periodic checkpoints agreed in the process. Some form of "re-opener" mechanism could also be considered.

**Question 2.4:**

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?

Models (1) and (3) require the OFTO to be responsible for carrying out works associated with meeting certain consent conditions that had been agreed by another party. If the OFTO considered these conditions to be too onerous this would either be reflected in the tender price or the OFTO may decline to tender.

It is therefore important to either put in place incentives on the developer and/or ensure the developer is best placed to manage the risks. This is a major drawback of Model (1), as the 3<sup>rd</sup> Party does not have to manage any resultant risks during construction or operation. The OFTO is best placed to manage the risks under Model (2).. In Model (3) the SO/TO has an incentive to partly manage the risks in order to ensure that the assets are constructed to enable reliable operation from a system security and reliability perspective.

One stakeholder responded to the December 2012 consultation with concerns that 'the OFTO could be responsible for carrying out works associated with meeting certain consent conditions that had been agreed by another party', however it should be noted that this exists today with the OFTO undertaking subsea surveys etc. in line with MMO consent agreements which will be agreed by the wind farm developer under the generator build model.

It is important to ensure consents are completed in the best interest of consumers and can be transferred to the OFTO so that the transmission assets can be delivered economically and efficiently. This will be driven by the high level system specification produced by the SO and build options identified. This should help to minimise the risk highlighted in our response to Question 2.1 above.

Each preliminary works phase will be different and guidance on the level of consultation required for differing complexity of projects will enable consistency of approach and a way to measure efficiency of the preliminary works. In addition, the chosen option could be assessed against economic and efficiency taking into account the output from the

consenting process. However it is important to note that the most technically economic solution may not be selected due to planning permission and consents requirements.. Therefore assessment of the outputs in this area will be complex.

**Question 2.5:**

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

**Split OFTO Build Model – least likely to deliver the objectives set out in paragraph 2.32 of Chapter 2:**

- Whilst the split OFTO model has the advantage of bringing the benefits of early competition in preliminary works (high level system design will be the SO) but relative lack of market maturity could lead to higher preliminary works costs and protracted consent and planning applications for early projects.
- A 3rd Party undertaking preliminary works will not have the responsibility to either construct or operate the assets and as such may not be the best placed nor appropriately incentivised to manage the risks that may materialise during detailed design, construction or operation of the assets.
- Lack of clear remuneration process and the risks involved with preliminary works may restrict market participants and competition leading to higher preliminary works costs.
- Greater transaction costs associated with running two tender processes.

**Early OFTO Build - somewhat likely to deliver likely to deliver the objectives set out in paragraph 2.32 of Chapter 2:**

- High level system specification and options will have to be undertaken by the SO and competition at this stage may encourage further innovation in asset design options, however this may not be the selected option following the consent process which itself is a very uncertain process. Therefore there are cost uncertainties at both the preliminary works and detailed design/construction phases of the project.
- Whilst the OFTO is probably best placed to manage the risks of preliminary works as they will build and operate the assets, the SO/TO also has an incentive to manage the risks from a system security and reliability perspective.
- To date, OFTOs have not undertaken preliminary works for offshore transmission projects and thus may not have experience, skills or resources 'in-house'. However, there is extensive expertise within the offshore market that could be bought in by OFTOs. This potential lack of in-house experience in preliminary works on transmission asset could lead to higher preliminary works costs and protracted consent and planning applications for early projects as OFTOs may have to rely on 3<sup>rd</sup> parties to provide the necessary resources and expertise, although this would be tempered by knowledge gained in operating OFTO assets.

**TO Initiated Late OFTO Build – most likely to deliver likely to deliver the objectives set out in paragraph 2.32 of Chapter 2:**

- SO/TO will develop the need case for the WNBI and selected options reducing the handover and ensuring consistency during this important stage of the project.
- The TO has the experience in obtaining consents and planning permission for large transmission projects including HVDC equipment and they also have specialist engineers and experience in the areas of EMF, noise, consultation process, management of environmental issue etc. in order to ensure the preliminary works process is economic and efficient.
- The SO/TO also has an incentive to manage the preliminary works risks from a system security and reliability perspective.

- It is noted that the TO, understandably, may be reluctant to undertake the preliminary works where they do not benefit commercially from the resultant constructed asset and therefore appropriate incentives on the TO to undertake the preliminary works to the necessary quality will be required should be considered as part of Ofgem's emerging thinking under the ITPR project.

Yours sincerely

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

Iain Cameron  
**General Manager**  
**Blue Transmission Investments Limited**