

Balfour Beatty Investments

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Initially by email
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Dear Sir/Madam,

Re: Integrated Transmission Planning and Regulation (ITPR) project: draft conclusions

Balfour Beatty Investments is pleased to respond to the Ofgem consultation dated 29 September 2014 "Integrated Transmission Planning and Regulation (ITPR) project: draft conclusions" (the "Consultation"). Balfour Beatty Investments is responding as a member of the consortium which reached financial close for the Greater Gabbard OFTO project, as well as being preferred bidder on the Thanet OFTO project and a member of the consortium which is preferred bidder on the Gwynt y Môr OFTO project. Balfour Beatty Investments is also a member of the Balfour Beatty Equitix Consortium which has been shortlisted for the OFTO Tender Round Three (TR3) projects.

Following our review of the Consultation, the attached appendix contains our responses to the questions raised.

We would be pleased to discuss in further detail with you.

Yours faithfully



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APPENDIX: RESPONSE TO THE ITPR DRAFT CONCLUSIONS CONSULTATION

CHAPTER 2 – ENHANCING THE SYSTEM OPERATOR’S ROLE IN SYSTEM PLANNING

Q1 What are your views on our proposed enhancements to the SO role in system planning, including the specific roles we have proposed the SO would undertake for onshore, offshore and interconnection planning?

Balfour Beatty Investments is supportive of an enhanced role for the SO and agrees broadly with Ofgem’s draft conclusions. We see further merits in establishing an Independent System Operator in the longer term; an enhanced SO role with clear measures to mitigate conflicts of interest is a good intermediate step towards this.

We have some concerns relating to the TO’s involvement/influence in the SO submission of a needs case to Ofgem, or in being able to submit its own SWW project - specifically those concepts raised in paragraph 2.30 under competitive tendering. In these scenarios, a TO will have been able to influence the scope of the project and will also have access to information about the project which other competitive bidders do not. Assuming the TO is able to bid, we propose that this information is shared with all bidders, and that the TO should form an onshore competitive business with full business separation from the incumbent TO which has developed the needs case with the SO, or the SWW submission.

Q2 Are there other roles that you think an enhanced SO could or should undertake in order to better support the development of an efficient transmission and interconnector network?

Balfour Beatty Investments believes that [for more marginal projects] there is merit in the SO as part of its enhanced system planning role centrally identifying the need for a project, followed by a competitive tender run by Ofgem to identify the party to construct, own and operate it. We believe that this would generate substantial investment interest and that the increased competition would bring benefits to consumers. Please see our response to question 6 for further thoughts.

Q3 What are your views on the specific obligations for TOs that might be needed to support our proposed enhanced SO role?

No comments.

APPENDIX: RESPONSE TO THE ITPR DRAFT CONCLUSIONS CONSULTATION

Q4 What are your views on our proposal that, as part of its enhanced role, the SO should lead gateway assessments for offshore projects that include investment to provide wider network benefit?

We agree that the SO is in the best position to lead gateway assessments for WNBI projects given the data it will have access to for wider network, and overall GB system, needs. The enhanced SO roles, particularly those in relation to identification of system needs and options development, complement this particular function. It is difficult to envisage another party carrying out this role effectively given that their incentives may not be aligned with WNBI, and we do not consider that the necessary market mechanisms are in place to encourage WNBI without the SO taking the lead.

CHAPTER 3 – REGULATING ASSET DELIVERY

Q5 What are your views on our proposal to extend competitive tendering to new, high value, separable onshore assets?

Balfour Beatty Investments is highly supportive of Ofgem’s proposal to extend competitive tendering to onshore assets which meet the criteria. We would be interested in participating in tenders and feel that Balfour Beatty can bring significant value to the delivery of onshore transmission assets. We expect that there would be a large number of companies interested in bidding these opportunities and that a competitive process would bring about savings for the consumer. Balfour Beatty looks forward to the competition, and to the challenge set by Ofgem to deliver innovative and efficient transmission solutions.

We feel the criteria suggested are suitable and have the following comments:

- Another measure for “separable” could simply be that the assets are contiguous and are not separated in discrete sections amongst existing networks.
- Ofgem’s threshold criteria of £50m-£100m seems appropriate. We would like to understand more about the process behind the chosen £50m, £100m and £500m thresholds for SWW projects for SHE-T, SPT and NGET respectively. Why is the SWW threshold for NGET significantly higher at £500m? NGET projects under this value fall within RIIO-T1, ruling out the option of competitive delivery, and its potential benefits, for those projects up to 2021.

Balfour Beatty Investments is supportive of both the early and late CATO models, and agrees with Ofgem’s proposals in Appendix 5, 1.23 to address price uncertainty at the point of tender for the early CATO model. California ISO’s Transmission Planning Process is another, recent, process which Ofgem can refer to on this. We agree that flexibility needs to be retained in deciding between the early and late CATO models, as different projects will suit the different models.

APPENDIX: RESPONSE TO THE ITPR DRAFT CONCLUSIONS CONSULTATION

Q6 What are your views on our proposals to maintain a developer-led approach to interconnection and to extend the cap and floor regime?

Balfour Beatty Investments believes that the developer led cap and floor regime is a welcome step forwards from the previous arrangements, which have not resulted in sufficient interconnection investment. However, we feel that the cap and floor regime favours balance sheet financing and its ability to attract non-recourse project finance and institutional investors with a low cost of capital is still unproven.

We consider that the party best-placed to identify the system's need for interconnection is the enhanced SO. This is somewhat demonstrated by the current dominance of National Grid's Interconnector business. We see merits in a centrally identified approach followed by competitive tenders to appoint parties to construct, own and operate the interconnector assets. Revenues could move towards being availability-based and this would help to mitigate the market power/monopoly issues regulators have been keen to avoid. This approach would deliver lower financing costs - especially for more marginal projects for which there is still a consumer need. Balfour Beatty Investments expects that there would be substantial investment interest and that increased competition would bring benefits to consumers.

Q7 What are your views on our proposal that non-GB generators pay for their connections, without consumer underwriting?

We agree with Ofgem's reasons why it is difficult for the GB consumer to underwrite non-GB connections. The feasibility of consumer underwriting depends on agreements first being put in place across governments. We support Ofgem's proposal to leave open the option of a consumer underwrite on a project-by-project basis since there may be non-GB generation projects in the future which are highly beneficial for GB, and a degree of underwrite may be required to deliver these. Further consideration needs to be given as to regulatory/licence treatment on a project-by-project basis. For example if a non-GB offshore wind farm connects straight into the GB grid, and has no connection to the non-GB grid, then is it more efficient for this to be treated as offshore transmission rather than interconnection?

Q8 What are your views on our proposal to provide regulatory continuity when the purpose of a transmission asset changes?

We agree that regulatory continuity and certainty is important to ensure that existing parties are no worse off. Lack of regulatory continuity or certainty is a key deterrent for transmission and generation developers.

APPENDIX: RESPONSE TO THE ITPR DRAFT CONCLUSIONS CONSULTATION

It is important for Ofgem to consider further how different revenue incentives may be aligned in an MPP. Consider a scenario where an interconnector is instructed by the SO to connect into an existing OFTO OSP rather than into an onshore connection point. The interconnector owner prefers the OFTO to undertake maintenance works on the OSP at a time when power price arbitrage is low, but the OFTO prefers to do this in a certain month where availability deductions have the least impact. It is not yet obvious what agreement could be reached between the two parties and what compensation payments or shadow revenues would be required.

CHAPTER 4 – MANAGING CONFLICTS OF INTEREST

Q9 What are your views on our assessment of conflicts of interest?

The conflicts of interest identified by Ofgem in paragraph 4.2 capture those considered by Balfour Beatty Investments.

Another conflict of interest could be through a lack of action or progress. How is the SO incentivised to develop projects up to a point which they could then be competitively tendered in a timely manner? New entrants will only be able to participate and compete once this has been done. Inaction by the SO could mean that onshore TOs continue to develop and tailor their own solutions for the network, in a way which does not meet the project criteria for competition.

Q10 What are your views on our proposals for mitigating conflicts of interest?

We are supportive of the full business separation proposed between NGET and its competitive businesses. Given that full business separation is not proposed between NGET as SO and NGET as TO, then the decision making and informational ring fencing here is crucial and needs to be highly transparent.

A further step could be that for onshore competitive tenders NGET should not be allowed to compete in its current incumbent TO role since it is not fully separated from the SO (and for reasons outlined in our response to question 1). Instead it could set up an onshore competitive business which has full business separation from NGET as the SO and NGET as an incumbent TO.

Establishment of an Independent System Operator, as has been demonstrated in markets such as those in North America, would remove conflicts of interest altogether and establish a clearer SO function. However we recognise that this involves significant change and has wider implications for the GB energy industry, and so Ofgem needs to undertake further work to continue to explore the ISO model.

APPENDIX: RESPONSE TO THE ITPR DRAFT CONCLUSIONS CONSULTATION

Q11 Do you think independent scrutiny of the SO's activities (e.g. through an expert panel or auditors) would provide value for money?

We would welcome independent scrutiny of the SO's activities and recommend that the scope is kept limited and specific in order to provide value for money. For example it could be limited to compliance with the SO's conflicts of interest licence conditions rather than consider the SO's enhanced activities as a whole. We think this is particularly important where full business separation has not been proposed (i.e. between the SO and the TO role) in order to provide comfort to the industry and potential competitors.

An alternative could be that Ofgem chooses, at its discretion and on a random basis, to audit different areas of the enhanced SO's activities each year. This keeps the scope and costs for the audit limited, whilst incentivising NGET to uphold its SO obligations across all fronts.