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For the attention Peter Wightman

Dear Sirs,

Criteria for onshore transmission competitive tendering

In response to your open letter of 29th May, as you may be aware, Alstom Grid has provided National Grid as the TO with electrical substation equipment or turnkey substation solutions either as competitive tendering pre 2006 or more recently as part of the South Eastern Electrical Substation Alliance (SEESA) under a collaborative target costing arrangement. We have read with interest the latest proposals for the next phase of the development of the UK grid and as a potential supplier of equipment and services to the new CATO's we would welcome the opportunity to engage with OfGEM to fully understand and participate in shaping the new process. We have a well-established manufacturing base at Stafford employing 1600 people and it is essential for the continuing success of our business that we adapt to any new commercial environments and identify new customers, in this case CATO's. In that context we have prepared the responses below to the questions raised in the open letter as follows:

1 *What are your views on the analysis and conclusions in Jacobs' report?*

Whilst we have no particular comments on the main body of the report, we would challenge the comments on electrical separability made in the Summary of Recommendations. We expand further on this in our response to question 4.

2 *What are your views on using £100M as the high value threshold? Should this be whole life or CAPEX?*

We would suggest that £100M would allow for a project of one or two new build substations, or modification to an existing, plus the OHL or cable between, allowing an asset that could be separate from the existing TO network. There is also the issue of revenue generation and a CATO would need to rapidly build up a portfolio of "small" separate projects before he would see any economy of scale from his management of the assets, particularly if he is to be responsible for maintenance. Projects of £100M or more would make this more easily achievable. In future, smaller projects may become attractive to CATO's once their business has achieved a critical mass.

3 *What are your views on defining new and separable? Are our principles clear? In your view, do they appropriately capture projects where using competitive tendering would bring value to customers? If not please explain and suggest how we can improve them.*

As an OEM and potential contractor for substation elements of CATO schemes, our experience currently is with projects where we see “separate” and “new” OFTO or DNO assets interfacing with the TO, particularly National Grid, in a similar way to that being proposed for CATO’s. We see no particular issue with this approach but we would stress the need for clear definition of interfaces within any invitation to tender. Lack of definition of interfaces either results in exclusion of that part of the work from the offer leaving the risk with the CATO or inclusion of risk provisions, neither of which assist in providing the best possible price to the consumer.

4 *What are your views on the separability and electrical contiguity, including on the alternative approaches for considering electrical separability?*

It is our view that the CATO and TO assets should be electrical separable, with a disconnect and circuit breaker arrangement. This is for two reasons:

- a) In the event of a fault on the CATO network, the CB will open to isolate the fault and prevent disruption of the TO network. Without this, the next CB up stream will operate isolating not only the CATO network but also elements of the TO network. We believe it is unlikely that the TO will accept a fault on neighbouring networks, where he is probably not responsible for maintenance, resulting in interruption or loss of revenue on the TO network.
- b) The CATO needs to be able to isolate and make safe his own network in order to undertake maintenance on his assets. Without the CB/disconnect arrangement he cannot do this without interruption or outage of the TO network. Again, we believe this is unlikely to be acceptable to the TO.

What we currently see in practice at TO/DNO/OFTO interfaces is the ability to electrically isolate for these reasons.

In respect of contiguity, we see no reason for any project to be electrically continuous, as long as each section is separable. For example, a reinforcement scheme could involve separate sections of OHL joining several existing TO substations, requiring new switch gear bays at each location within a TO’s substation.

5 *In thinking about how to apply the criteria, what should be taken into account when establishing different packages of works to address a given need?*

We would suggest creating separability of new, whenever possible, assets is the key issue, with well-defined interfaces. Value would be secondary, assuming potential CATO’s believe the project is of high enough value to include in their business portfolio.

6 *What are your views on the three approaches we suggest for applying the criteria? Are there other options for applying the criteria that we should consider?*

Adoption of Approach 1 with strict application of the criteria could result in missed opportunities for innovation and competitive tendering. Approach 3, where assets are transferred whilst possible does create some additional challenges e.g. who would be responsible for revenue loss in the event of an equipment failure after an asset had been transferred to a CATO from a TO (or conceivably from one CATO to another after some future development)? Also, if the TO asset is still under warranty with the OEM when transferred to the CATO, it would require novation of the warranty liabilities under the contract to the new owner. This is something we currently struggle with in an OFTO context where the developer purchases equipment and then wants to transfer the warranty liabilities to the OFTO, when the OFTO is an unknown entity when the contract was signed between the developer and the

OEM. Approach 2 appears to offer the best solution by adjusting the work scope so that it is “new” and “separate”, thereby allowing the competitive tendering approach without the transfer of existing assets. For example, we see OFTO interfaces where the TO (or DNO) extends his busbar system and site perimeter for a modest cost compared to the “new” OFTO assets in order that the OFTO circuit breaker bays can be constructed by the wind farm developer. In this case the interface is the disconnecter between the OFTO bay and the TO busbars.

7 *Are there any additional considerations that should be taken into account in relation to the new, separate and high value criteria.*

None

We would welcome an opportunity to discuss the proposals with OfGEM, particularly in respect of who OfGEM see as potential CATO's. We would be available to meet at your offices or we can arrange a visit to Stafford which would allow OfGEM to view some of our facilities on this site whilst here.

Yours faithfully



Neil Beardsmore
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For ALSTOM GRID UK LTD - Systems

