10 July 2015

amec foster wheeler

Ofgem
9 Millbank
London
SW1P 3GE

For the attention of Mr Peter Wightman

Dear Sir,

Criteria for Onshore Transmission Competitive Tendering Response to Open Letter

Following our meeting of 30 June, and in response to your Open Letter concerning the ONTO proposal we are pleased to offer our comments as follows.

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

   The Jacob's report cover most of the technical issues we would expect, excepting for the following items which we consider are key cost drivers

   a) Tender Model –Early development competition affords the greatest opportunity for innovation, and conversely late development competition reduces innovation opportunities. We are of the view that multi-party development confuses stakeholders. We therefore suggest that this matter is discussed further with respect to the impact on bidding costs and key value drivers, to ensure maximum benefit is realised. We do accept the early development option will evolve out with time.

   b) Post Construction access – the restriction on CATO asset access, by the SO, should be guided by the connected generation asset connection redundancy / outage costs. It is important when planning availability in CATO offerings that there is clarity around outage control to allow the development of robust maintenance planning and costs in the CATO operating model. We suggest this matter is discussed further.

   c) Transfer of Existing OHL Assets. We are of the view that in relation to existing OHL assets these need not be excluded from consideration of transfer as part of wider works. As construction partners in the industry we spend a lot of effort assessing the remnant capacity of assets for refurbishment as part of current network development, so if the security and future risk of the asset is acceptable under current conditions it should be acceptable in an ONTO regime. Also dependant on the anticipated length of the ONTO license, the asset life for Conductors and fittings is 40 years and towers and foundations 80 years. Therefore, it is conceivable that some part life transfer of the new assets should be anticipated. As a result the transfer of existing OHL assets should not be excluded at this stage.

2. What are your views on using £100m as the high value threshold? Should this be whole life or capex?

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Our view is that the size should be determined by ensuring there are a sufficient number of projects to create a sustainable market that generates enduring competition. For example a large solar farm with a 132kv connection may have a value below £20m but be attractive in developing a CATO's portfolio of assets.

In evaluation of the projects we feel using the capex level is more appropriate for determining a threshold level; however this should be assessed on more than this criterion. A range of Criteria similar to the ENTSO-e criteria for projects of common interest could help define this. See our response to Q5 below.

The Whole Life Value assessment noted by Jacobs is an appropriate criterion, but should be set as the criteria for the CATO tender evaluation process. This will allow the full evaluation of new and developing technologies that may have a higher initial capital cost but will yield a greater benefit, Cost, Safety or environmentally over the life of the asset.

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 consumers? If not please explain and suggest how we can improve them.

   We believe the principles are clear and yes they capture the nature of projects that competitive tendering and innovation would bring value to customers.

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

   Electrical separability – the proposals suggest electrical separability is optimum for safety and operation/maintenance/refurbishment access and we agree, even if this involves transfer of existing assets to the CATO. We believe the transfer of assets inclusion, versus non-transfer, is slightly more beneficial as it reduces the access arrangements complexity with the TSO, which is a commercial rather than a technical requirement.

   We believe there should be the potential for electrical separability to facilitate isolation of circuits for repairs/maintenance/refurbishment in a manner that is optimised and co-ordinated with power flows in a planned manner, but not dictated by the SO in a reactive manner unless payments for such are agreed.

   If possible utilisation of equipment such as circuit breakers helps in the separation of assets but this should not be a specific requirement. Clear delineation of asset ownership boundaries is feasible without the need to insert Circuit breakers. Doing so may result in unnecessary expenditure that is adding nominal or no value.

   Approaches to execution are often driven by costs and depending upon outage costs alternative methods not currently used in the UK could be deployed such as 24/7 working or temporary bypass lines (which need to be considered the wayleave planning)

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 believe that to ensure benefit to the consumer and secure development of the UK transmission network the following criteria should be taken into account when assessing the work packages:

- Economically Advantageous
- Security and Safety of the network
- Support Environmental and climate enhancement
- Ensuring Market Competition

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?

   The three approaches to the three criteria (new/high value/separable)

   New – We feel it is a good criterion to help start the ONTO process, but that over time it should not be a criteria that the assets are new. At future times the assets that are developed under this regime will need the license renewing and at this point those assets will no longer be new, but the ONTO processes should continue. Therefore, the requirement that the assets are new should be a start-up criteria but would be removed in the future. If this is accepted then in future existing assets can come into future ONTO review where benefit can be realised for the consumer.

   High value – It is agreed that the cost of bidding this work must be offset by the benefit gained, Therefore setting a value of £50-100m for the capital costs is reasonable. However, we believe it is important that the regime creates a sustainable market to make it attractive to business and that the value should not be fixed so high it reduces the market size to a few high capital cost projects.

   Separable – We agree that clear delineation of asset ownership and operational responsibility should be a key requirement. We do however feel this does not need to have a physical separation, and that technical solutions are manageable without this.

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

   Yes, a viability criterion. A process should be in place for a generation developer to provide alternative solutions they feel can meet the criteria but involves a connection to a DNO.

Yours sincerely

P.P.

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Managing Director

c.c. Cathryn Scott-Legal Director