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Steve Beel
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Ofgem
9 Millbank
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Dear Steve,

National Grid European Business Development (EBD) Response to "Draft Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015" [consultation published 26th March 2015]

Thank you for the opportunity to respond to the above consultation on the proposed changes to the Regulations.

We, EBD, are a ring-fenced division of National Grid responsible for developing our business portfolio in-line with our core capabilities. We have previously taken part in competitive tender rounds, obtaining reserve bidder status for one bid. We took the decision to withdraw from the process, and the market, in order to focus on developing our interconnector business.

Through our experiences, and successes, in the interconnector market, we have further enhanced our procurement, HVDC asset design and offshore project management capabilities. Our experience means that we have a robust approach to handling risk and managing projects in a way that ensures they deliver in-line with expectations. We are keen to apply our capabilities to the OFTO market to help facilitate the development of the most efficient and economic solutions.

The United Kingdom is targeting 30% renewable energy by 2030; offshore wind energy can make a significant contribution to achieving this target. To facilitate this, a regime that encourages economic and efficient investment is required. We welcome the fact that Ofgem have recognised that more needs to be done to encourage the full range of offshore transmission build options, moving beyond Generator Build.

We welcome the evolution of the competitive process and hope to take part in future tender rounds. With this in mind, we have some specific comments on the draft Regulations. We are concerned by the revision of the qualification requirements and by the introduction of a

funding competition. Further, we have some observations about the regime as a whole. Our perspectives are set out in detail in the annex to this letter.

We are happy to discuss our views contained within this letter further should that be helpful. For further details, please contact Hannah Kruimer [Hannah.kruimer@nationalgrid.com]. This response is not considered confidential. We are therefore happy for it to be published on the Ofgem website and shared for the purpose of the consultation.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Alan Foster', with a long horizontal stroke extending to the right.

Alan Foster

Director
National Grid European Business Development

Appendix: Detailed response to the draft regulations

The new Regulations are well constructed and give due effect to the OFTO Build framework envisaged in the December 2014 publication. Our response comes from two perspectives. Firstly, as a party interested in competing in future competitive tender rounds, we have two concerns over the wording of the new Regulations; these relate to qualification requirements and the potential funding competition. Secondly, as a developer with extensive experience in asset design and construction, we remain concerned that there are insufficient incentives to ensure that the regime results in the most efficient and economic network solutions.

Qualification requirements:

We are concerned by the revision of requirements for the qualification of projects. Schedule 1 paragraph 3 provides Ofgem with sufficient leeway to qualify projects with some outstanding information; this is understandable. Clearly, not all consenting information, for example, can be available at the time at which the project qualifies for the OFTO build tender. However, it is important for potential bidders to receive assurances about the developers planned submission dates, given that there is no mechanism for the bidder to automatically recover any efficiently incurred costs.

Under the 2013 Regulations the developer was required to provide Ofgem with planned submission dates for such outstanding information as part of the tender entry conditions (Schedule 2 paragraph 1(j)). Removing this requirement, along with the discretion in the revised Schedule 1 paragraph 3, creates an unacceptable level of uncertainty.

While we welcome the Authority mandating a period within which the requirements must be met, it is our opinion the developer should provide the Authority with an undertaking to keep the Authority informed and updated about planned submission dates, as part of the tender entry conditions. This would give some comfort to the bidders at the PQ stage. Further, a clear timetable to obtain consents would be beneficial at the ITT stage.

Without such assurances we would find it difficult to commit the significant resources required to participate in the bidding process.

Funding competition:

The potential of a funding competition, via regulation 20(5), is of concern. In the cover letter to the draft Regulations it has been made clear that further information for such a competition would be provided at the Preferred Bidder stage of a particular tender exercise.

We accept that, under limited circumstances, there is merit in running a funding competition. However, we believe that this is only relevant where it is proposed to fund a bid mostly, or entirely, with debt. We believe it would be beneficial to clarify this further in the Regulations.

Further, we need to see a commitment that the assessment for the Preferred Bidder is based on the information provided, not influenced by assumptions of savings that might be achieved through a funding competition.

Economic and efficient regime

Ofgem have made it clear that they believe competitive tendering supports an economic and efficient regime that delivers a good deal for consumers through cost, and therefore price, reductions. We agree with the aim, and we have some suggestions for areas you could enhance to achieve these objectives.

We have three principle observations. Firstly, it is too Generator led. Secondly, there is no clear route to OFTO Build. And, thirdly, we do not agree that Generator Build will always lead to the most economic and efficient solution.

Generator led market:

Currently, OFTO projects only become available when a wind farm is guaranteed. As Generators want to de-risk wind farm construction, they have a strong preference to take on the OFTO asset construction. However, the proportion of cost accounted for by the OFTO asset increases on the larger, more technically challenging, projects. Therefore, Generators could benefit from either earlier balance sheet relief on these projects or cheaper solutions through anticipatory investment.

As it stands, there are insufficient incentives for OFTO's to attempt to help overcome this problem by undertaking anticipatory investment. Such investment could lower the cost of bringing future wind farms on-line, thus, increasing the prospects for bringing a significant amount of offshore wind into the UK energy market. Moving away from a Generator led model, in some scenarios, would bring long term benefits.

Clear route to OFTO Build:

To date, no OFTO Build projects have come forward. The updated Regulations give effect to a wider range of build models. However, without a clear path to bringing such projects forward, it is unlikely to happen.

Ofgem is aware that Generators have a significant preference for the Generator Build model, due to their perception of risk. This is a perception that we do not share. National Grid has a strong track record in delivering high quality assets on-time, a critical factor for Generators. National Grid and other players are capable of meeting Generators construction requirements, as we have demonstrated on our interconnector projects.

To date Ofgem have given plenty of consideration to what an OFTO Build should look like. More consideration and policy development on how to properly incentivise all parties to deliver the most economic and efficient network solution would be beneficial.

Economic and efficient construction:

Generator Build does not always lead to the most economic and efficient construction model. Under the Regulations, Ofgem makes an assessment of costs in order to ensure that they have been economically and efficiently incurred. Clearly this is welcome and something that Ofgem has a strong track record on. However, the assessment is only made of those costs incurred within the selected option. No consideration is given to what is the most economic and efficient asset design and construction model, despite the stated aims of ITPR.

National Grid has significant experience in asset design and construction, capabilities that are transferable to the OFTO market. We firmly believe that OFTO Build can drive down construction costs by allowing innovation and competition in this space.