

**Ofgem Open Letter,  
Criteria for onshore transmission competitive tendering**

**John Laing Feedback**

<p>1. What are your views on the analysis and conclusions in Jacobs' report?</p>	<p>We agree in general with the Jacobs conclusions regarding the five residual factors and offer the following comments:</p> <ol style="list-style-type: none"> <li>1. Project definition: from the investor's perspective, this is one of the most critical aspects. Our previous experience with OFTO has shown us that a tight project scope and performance criteria definition is a major help in understanding project risks and benefits from the onset, which in turn helps with an early assessment of the project viability. It also provides an essential starting point in the project development cycle. Once a solid project definition is in place, however, the shape of the solution in terms of design (e.g. advanced technology options, construction and ops management, funding solutions, etc.) in our opinion should be left to the bidders to propose. This will exercise each bidders' own USP in terms of innovation, which should improve project returns and enhance value for the consumers.</li> <li>2. Asset transfer: in our view this is closely related to the separability, and we agree that a high percentage of asset transfer would introduce additional complexity and make the project definition more challenging. We also agree that this is a more commercial than technical issue. We do however accept that some assets transfer will be unavoidable for some projects. The issues arising in relation will have to be dealt with on a project-by-project basis, which we consider manageable. One aspects which may prove a challenge will be a valuation of the assets to transfer, including the related issues like the availability of data/information, due diligence process, etc. We suggest that a standard valuation process should be established by the regulator, which should ensure price certainty early on in the project. This is beneficial in terms of an early assessment of the project viability</li> <li>3. Minimum percentage of new assets: as per 2. above, we believe that high(er) percentage of new assets would be less complex (which is always welcome) in commercial and operational terms. But again as per 2. above, we are relaxed about this issue as we consider it manageable on a project-by-project basis.</li> <li>4. Electrical separability and contiguity: along the same lines, from the investor's perspective high separability and no/low contiguity is easier to manage in commercial and operational terms. There is also a question about the construction risk for projects with low separability and/or high contiguity. We also agree that separability does not necessarily mean physical/electrical separability as long as there is a possibility for a reasonable 'commercial separability' – a guidance for such 'commercial separability' should be developed by the regulator early in the process to provide early certainty for the bidders. We believe that the current criteria and codes governing the TO-TO interfaces can be modified to serve this purpose.</li> <li>5. Scope of high value: we believe that whole-lifecycle cost is</li> </ol>
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	<p>undoubtedly a better measure of the project value. However, if all that is required is a criteria to select projects which can deliver enhanced value for the consumers (i.e. in terms of a consideration regarding the addition of bidders/regulator's project development costs), we believe that the CAPEX criteria is sufficient. We base our view on the fact that by-and-large OPEX will follow CAPEX (i.e. higher CAPEX means higher OPEX and vice-versa), as well as the fact that the whole-lifecycle costs will be difficult to establish at the early stages of the project and will involve further complexity.</p>
<p>2. What are your views on using £100m as the high value threshold? Should this be whole life or capex?</p>	<p>We believe that the threshold should be set at £300m-£500m. Below that level we believe that the higher project returns and the enhanced consumer benefit would not be fully realised when the project development/bidding costs are taken into account.</p>
<p>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.</p>	<p>Please also see our feedback to Q1 above.</p> <p>From the investor's perspective and for the same reasons as we outlined above – and in addition to the project definition point in Q1 above – in our view this is another critical element for success of CATO projects. We believe that the principles in your letter are sound, but would need to be more specific to make sure that there is a clear understanding of how it would work in practise. We think that perhaps a workshop where these principles are applied and checked against some specific (and potentially real-life) examples would be very useful. Maybe this is something which can take place during the consultation period...</p>
<p>4. What are your views on the importance of electrical separability and electrical contiguity, including on the alternative approaches for considering electrical separability?</p>	<p>Please also see our feedback to Q1 above.</p> <p>We don't think that physical/electrical separability is a necessity (as it increases the cost and complexity) as long as the 'commercial/operational separability' is clearly defined (the 'clearly defined' statement also needs to be clearly defined). Re contiguity, we agree that non-contiguous projects will increase complexity, and potentially make it more difficult to compare bidders' proposals like-with-like. But we don't think that this is an unsurmountable obstacle as long as the commercial/operational criteria are clearly defined</p>
<p>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?</p>	<p>We think that major consideration should be the deliverability of CATO project. This is an umbrella statement and involve consideration regarding many aspects, some of which are related to:</p> <ul style="list-style-type: none"> <li>• project development matters (planning/permitting/consents),</li> <li>• bidding costs (i.e. the complexity of the bid and the level of data/information available)</li> <li>• construction challenges (routes/ground conditions, timelines, etc.)</li> <li>• advanced technology</li> <li>• other parties/TOs interfaces</li> </ul> <p>A matrix of selection criteria (i.e. the bullets above and others, which need to be developed in the consultation phase) should give a view of how to 'package' a project to ensure deliverability within the envelope of the main criteria: 'high value', 'new' and 'separable'.</p>
<p>6. What are your</p>	<p>We believe that applying Criteria 1 (strictly new and separable) would</p>

<p>views on the three approaches we suggest for applying the criteria? Are there other options for applying the criteria that we should consider?</p>	<p>be too restrictive and too few CATO project would reach the market. We believe that the most realistic proposition for success are the Criteria 2. (with limited scope) and Criteria 3. We believe that Criteria 3. offers the best potential as long as the elements like 'commercial separability', asset transfer criteria, etc. are clearly defined and managed by the regulator before and during the bidding process.</p>
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