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Cathryn Scott
OFGEM
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Our Ref: EN01-005164

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Dear Cathryn,

Re: RES response to Criteria for onshore transmission competitive tendering consultation

RES is the UK's largest independent renewable energy developer with interests in onshore wind, wave and tidal, offshore wind, solar, energy storage, demand-side management and transmission assets. A wholly owned UK company at the forefront of innovation and infrastructure development around the world with more than 570km transmission lines already built, RES now employs over 1000 people and has built over 1000MW of wind energy assets in the UK – around 10% of the UK's total installed capacity.

RES welcomes the Ofgem "Criteria for onshore transmission competitive tendering" open letter consultation letter published on 29 May 2015 ("the consultation"). RES continues to strongly support the introduction of competition to onshore transmission assets and welcomes timely progression of arrangements necessary to support its implementation. In summary, RES;

- questions the rationale behind the proposals to set an arbitrary minimum value of £100million, and would propose that a lower value range supported by appropriate qualitative criteria represents an approach likely to deliver even greater benefit to the GB consumer through promotion of competition.
- questions the rationale behind assessment of project value based on CAPEX and agrees with the Jacob's conclusion that assessment based on lifetime cost would better reflect value to the consumer.

However, RES would hope that consideration of these questions can be progressed in a way that does not sidetrack the programme for introduction of competition to onshore transmission. Responses to the questions posed in the consultation are outlined below.

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

RES welcomes the thinking outlined in the Jacobs report but is surprised at the absence of supporting analysis. A good example of this is in relation to the proposal to exclude constraint costs from the assessment of project value. Optimisation of the balance between transmission investment capex versus lifetime operating costs forms the core of transmission infrastructure investment

decisions. To then exclude this factor from assessment of a transmission project's suitability for competition would seem to rather undermine its effectiveness as a signal of true project value. It would be good to be able to view the analysis behind the proposal in order to better understand Ofgem's rationale.

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

A £100 million CAPEX threshold seems high and arbitrary. RES understands that an OFTO type tendering process carries a significant amount of administrative and regulatory burden but RES would highlight that Jacobs indicate a potential benefit of competition in the region of 20% of lifetime costs. RES proposes that any threshold be linked to the securing of benefits to the consumer that exceed the forecast cost of the tendering process, taking into account a prudent level of contingency.

In relation to the question of CAPEX vs whole life costs, RES would encourage Ofgem to take heed of the views submitted by Jacobs in section 4.5 of its report which notes that a CAPEX only approach...*may send the wrong message in terms of behaviour – using only project capex would go against Total Expenditure (TOTEX) principles, plus it may raise concerns (expressed at the workshop) over competition being a 'cost of capital battle' based on a narrow capex definition.*" Section 4.5.1 of the Jacobs report goes on to state that *"We consider that project value should include an element of lifetime project costs – with costs evaluated over the appropriate depreciation life of the project."*

From RES' point of view whole life costs enable comparative cost assessments to be made over a specific period of time where all relevant economic factors, both in terms of initial capital costs and future operational costs, are considered. Only this approach demonstrates to the customer the optimum cost and value of services for the long term. We understand assessing whole life costs is a complex exercise and requires an individual approach from project to project. RES therefore would welcome the opportunity to discuss possible ways to evaluate whole life costs with Ofgem in more detail.

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.

RES supports the "Basic principles" defining new and separable as proposed on page 3 of the consultation, however RES would also seek to ensure that any definition does not exclude the application of new innovative technologies that, over an asset lifetime, may deliver higher value to the consumer when compared with conventional transmission technologies. Such new technologies may include energy storage.

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

RES agrees that there needs to be clarity of responsibility both in terms of delivery and subsequent operation in order for CATO arrangements to be effective, however, RES also agrees that electrical separability is no more than a "nice to have" in achieving this clarity of responsibility. RES considers that the need to establish clarity of separability should not override adherence to planning and design standards, which should encourage optimum transmission design and operation.

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?

RES agrees with much of the reasoning outlined in the Jacobs report in relation to the key factors that should influence the definition of electrical separability. In particular, RES agrees that electrical contiguity, in isolation, should not be an overriding factor and that the arrangements need to cover circumstances where not all aspects of a CATO project are new and that, in the right circumstances, transfer of asset ownership may be appropriate. That said, RES can see how asset transfer of ownership of existing TO assets could introduce risk and complexity for a CATO so this aspect of any new process will require careful consideration.

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?

RES considers that the “Strict” approach appears unnecessarily restrictive and would not support its further progression. RES agrees with the Jacob’s view that transfer of ownership, where that can be demonstrated to be to the benefit of the consumer, should be an option. Similarly, repackaging would appear to be an option that is prudent to be kept open for the time being, although this option would seem to infer that either the original scope was incorrect or that some transfer of ownership is required in order to achieve the desired benefits. A repackaging option may afford the incumbent onshore transmission licensees the opportunity to reclaim projects that would otherwise be opened up to competition so RES would emphasise that repackaging criteria be clear and the process be transparent / auditable.

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

RES would not support any further issues in relation to the new, separable and high value criteria, but RES considers that generator transmission connections should also be opened up to competition. Their exclusion seems to be, on the face of it, arbitrary and represents a significant missed opportunity to generate consumer value and drive down electricity prices.

Yours sincerely,

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