

Cathryn Scott  
Legal Director  
Ofgem  
9 Millbank  
London SW1P 3GE

10<sup>th</sup> July 2015

Dear Cathryn,

**Criteria for onshore transmission competitive tendering**

Transmission Investment, as part of the Transmission Capital Partners consortium, manages one of the largest offshore electricity transmission portfolios in terms of the capacity of offshore wind connected. Our managed portfolio of Offshore Transmission Owner (OFTO) assets includes the connections to the Robin Rigg, Gunfleet Sands, Barrow, Ormonde and Lincs offshore wind farms - a portfolio of over 800MW (circa £600m in capital employed).

We have long been advocates of introducing competition into the delivery of onshore transmission and we welcome the steps taken by Ofgem to bring this forward and the announcement of the introduction of competition in onshore transmission as a means to save consumers around £390 million over the next 10 years in the recent budget statement.

We are very much encouraged by the progress demonstrated at the workshop we attended on 12<sup>th</sup> February and by your letter of 29<sup>th</sup> May. We also welcome the intention to provide an indication of the pipeline of projects which be open to competition as this should be very helpful to those bidders considering taking part in the process.

We note that ownership separation of the SO has been parked for the moment but will be kept under review. This continuing review is very important as the onshore transmission competitive tendering develops; complete SO independence could solve many of the potential issues that could arise (e.g. the concern noted in your letter that projects could be deliberately assembled to avoid being tendered and also noted in the Jacobs Report – para 4.1.1).

Our response to your specific questions is attached as Annex 1.

Yours sincerely,



**Chris Veal**  
Managing Partner

## Annex 1 – Responses to specific questions in the Consultation Letter dated 29<sup>th</sup> May 2015 (the “letter”)

Consultation Question	Response
1. What are your views on the analysis and conclusions in Jacobs’ report?	<p>In general we agree with the conclusions and analysis in Jacobs’ report (the paragraph references below are to Jacobs’ report):</p> <p>4.1.1 We agree that the SO should lead on the project scope definition and early development. <b>We agree that it is important that the SO is seen to be independent in this process.</b></p> <p>4.2.1 We agree that transfer of existing assets should be allowed for and note that <b>it is important therefore that Ofgem has the necessary legal powers in order to ensure this transfer happens in a timely fashion.</b></p> <p>4.3.1 <b>We agree that the minimum percentage of new assets should be set at 75%.</b></p> <p>4.4.1 Electrical separability is not essential and there are already established procedures (such as TO-TO boundaries) for dealing with this issue. <b>We have a different perspective on the issue of contiguity, we believe that for non-contiguous assets the presumption should be that they are separable unless there is a good reason why this will not be practicable.</b></p> <p>4.5.1 We agree with the lifetime project cost recommendation.</p>
2. What are your views on using £100m as the high value threshold? Should this be whole life or capex?	<p>The threshold is a balance between competing as much as possible but only when the level of transaction costs makes it sensible.</p> <p>£100m is a good starting point as transaction costs are likely to be higher in the early bidding rounds as everything will have to be done for the first time. It will be important to ensure that the tender process doesn’t lead to increasing bidding costs as competition develops (i.e. very significant increasing expenses incurred to substantiate the deliverability of bids around the margin when competition is very tight – cf OFTO process).</p> <p>Over time we would expect that the threshold should be able to be reduced, but this should still be on the basis that it can be demonstrated that the benefits of competition outweigh the transactions costs.</p> <p>Over time also the threshold value should also incorporate lifetime costs as well as the initial capital cost – lifetime costs are both important for the consumer and an area where competition has already demonstrated in the OFTO sector that it can significantly reduce costs.</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	<p>We generally agree with the principles and also that there should be a threshold when defining what “complete replacement” means. Approach 3 and the threshold of 25% of the project value in existing assets being transferred to the CATO seems to be a sensible level (although see below</p>

tendering would bring value to consumers? If not please explain and suggest how we can improve them.	<p>about retaining flexibility in this). It is important therefore that Ofgem has the necessary legal powers in order to ensure this transfer happens in a timely fashion</p> <p>Our view is that ownership boundaries will always be able to be clearly delineated, these boundaries already exist between TOs and DNOs, TOs/DNOs and OFTOs and TO/OFTOs/DNOs and generators.</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>We generally agree with Jacobs' view on electrical separability and indeed some of the OFTOs we manage do not have OFTO owned circuit breakers at each interface. We therefore agree that it should not be necessary to design in extra components to allow for increased separability but that tenderers should be allowed to propose this as part of their bids if they feel this would make their bid more competitive.</p> <p>We disagree with Jacobs on the issue of contiguity in that we believe that the presumption should be for non-contiguous projects to still be separable unless there are good reasons to decide otherwise.</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>We assume this is referring to "What to apply the criteria to".</p> <p>Our initial reaction is that this will be determined largely by the project scope devised by the SO, and evidenced in ETYS, in order to meet a system need. We agree with the description in the letter of the factors that usually go into how works are packaged.</p> <p>We do also strongly agree though that this needs strong regulatory oversight (in the absence of SO ownership unbundling) to ensure that consumers' interest are protected (see our comment in the covering letter).</p>
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?	<p>Whilst the strict approach (Approach 1) may be the simplest to apply, it could also potentially be open to abuse and to result in many large schemes not being tendered to the detriment of the savings that would otherwise be made for the consumer.</p> <p>Approach 2 has some benefits but essentially may lead to more complicated projects and interfaces if larger schemes have to be split up to ensure that only entirely new parts of schemes are tendered out.</p> <p>Approach 3 which allows for the transfer of some existing assets appears to be the best approach for the consumer although we recognise the complications of requiring asset transfer. As such we would recommend that a cap on the required asset transfer be used (e.g. 25% of the project total) and that a flexible approach be used such that on a case-by-case basis Approach 2 could be used if the benefits of that approach outweighed the disbenefits created by it.</p>
7. Are there any additional considerations that should be taken into account in relation to	<p>If not already obvious from the above we consider that it should be possible to cluster smaller projects to provide a critical mass that it makes sense to compete but this should</p>



Sixth Floor · 135 Cannon Street · London · EC4N 5BP  
T +44 20 3668 6680 [www.transmissioninvestment.com](http://www.transmissioninvestment.com)

the new, separable and high value criteria?	be looked at on a case-by-case basis and perhaps this is not relevant for the for the first few tenders which are expected to focus on Strategic Wider Works projects.
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