

Ofgem
9 Millbank
London SW1P 3GE

Email: transmissioncompetition@ofgem.gov.uk

10 July 2015

Sirs,

Criteria for onshore transmission competitive tendering

Vattenfall notes Ofgem's recent letter, dated 29th May, regarding Criteria for Onshore Transmission Competitive Tendering. We would like to take this opportunity to respond to the questions posed in the letter, and also to offer an opinion on other aspects of the ITPR proposals currently being developed by Ofgem.

Vattenfall is the Swedish state-owned utility and one of Europe's largest generators of electricity and heat. Renewable energy, and wind power in particular, is at the core of our business – 33% of Vattenfall's total investments in generation assets in the period 2012-2016 will be in wind power. Vattenfall is the second largest player in the global offshore wind market.

Vattenfall is a major inward investor in the UK, investing nearly £3bn since 2008 operating four onshore and three offshore wind farms with a significant portfolio in development. Vattenfall is constructing England and Wales' largest onshore wind project at Pen y Cymoedd in South Wales. Offshore, Vattenfall owns and operates 540MW in UK waters and are continuing to develop our 7.2GW offshore wind joint venture with Scottish Power in the Round 3 East Anglia Zone. In total, Vattenfall will have nearly 1GW in operation on and offshore by 2017. Finally, Vattenfall is the largest shareholder in the NorthConnect interconnector project, a proposed 1400MW cable between Scotland and Norway with first power planned for 2021.

Vattenfall routinely works with NG and other licensed TOs, to plan and implement new transmission infrastructure that facilitates grid access for our own generation projects – both onshore and offshore. Given that the ITPR proposals will affect how new onshore infrastructure is planned and delivered in future, we are primarily concerned to ensure that the new process does not increase the level of uncertainty and risk involved in this process, from the viewpoint of the developer.

Criteria for Competitive Tendering

In principle, Vattenfall supports the introduction of competition to the delivery and ownership of onshore transmission infrastructure. However there are potential downsides associated with fragmentation of the system and use of divergent standards for design, protection and maintenance of assets. As a user of the transmission system, our view is that competition should only be used insofar as it is consistent with the long-term integrity of the system as a whole and the continued effectiveness and timeliness of the UK's grid development process.

The following paragraphs set out our views with respect to the specific questions set out in Ofgem's 29th May letter.

1. Vattenfall considers the recommendations in the Jacobs report to be reasonable and sensible. We agree that there needs to be a clearly defined and transparent process for defining the project scope at the outset, as this process will be critical in determining whether work is tendered or not.
2. Given the additional costs involved in tendering, and in the ongoing management of asset interfaces between the TO and the CATO, tendering should only be used where the potential for cost savings is likely to outweigh these additional costs. Vattenfall considers that Ofgem's proposed figure of £100m is an appropriate threshold if applied with regard to project CAPEX value alone. However, if a 'whole life' costing approach is adopted, as recommended in the Jacobs report, then this threshold should be revised upwards. Depending on the details of the approach (discount factors, valuation of losses), the threshold would probably then fall in the region of £150-200m.
3. Vattenfall supports Ofgem's view that competitive tendering should only be used for delivery of assets that are both new and separable. The principles set out in the letter are clear, and provide a good basis for further development of suitable criteria and decision processes.
4. Vattenfall considers that multiple, non-contiguous assets could be included in the same tender so long as they are all part of the selected solution to a single need case. However, it should be a key aim at the stage of project scoping to minimise the number and complexity of asset boundaries. Vattenfall does not support the inclusion of circuit breakers at asset boundaries unless this is dictated by system design considerations. Given the fact that all CATO assets will fall under the operational control of the SO in any case, it is not at all clear how the provision of additional breakers at boundaries would be of benefit to users of the system, or to the CATO.
5. Given the 'new and separable' criterion for tendered projects, the solution to a given need case will necessarily comprise a 'TO scope' involving modifications or additions to existing TO assets, and a 'CATO scope' involving the construction of entirely new assets with suitably defined interfaces.
6. Of the three approaches outlined in the Ofgem letter, Vattenfall's view is that 'approach 2' (re-package) offers the clearest basis for further development of the proposals. In particular, we consider that this approach accommodates the complexity of transmission extension and reinforcement projects, while also being consistent with the 'new and separable' criterion for competitive tendering.
7. Vattenfall does not wish to propose any additional considerations in relation to the new, separable and high value criteria. However, the issues discussed later in this letter might suggest that additional criteria also need to be considered over and above these three.

Impacts of ITPR proposals on new generator connections

In order to secure access to the transmission system, developers of new generation projects often trigger the need for reinforcement and/or extension of the existing network. In fact, new generator connections, particularly for onshore and offshore wind, are one of the primary drivers for development of the onshore transmission system in GB.

Where a generation project is dependent on the delivery of new transmission infrastructure in order to secure access to the system, the developer of the generation project has a legitimate interest in the successful consenting and timely delivery of the necessary transmission works. In Vattenfall's experience, an open and collaborative relationship between the developer, the SO and the TO is vital to ensure a satisfactory outcome for both parties. The SO's role remains critical as the contractual counterparty.

- There is a need for sensitivity and collaboration during pre-consent project scoping and consultation activities.
- Following consent award, the developer needs to have confidence in the TO's construction programme, and in their willingness to share relevant information if and when delays appear likely.
- The developer must be kept 'in the loop' throughout the scoping, design and delivery process for the transmission works.

These considerations (ie. the priorities of prospective users of the transmission system) have not featured prominently in the ITPR consultation documents to date. Vattenfall considers that implementation of the ITPR proposals could materially increase the level of uncertainty and risk involved in the connection process, from the viewpoint of the Developer. We urge Ofgem to place these concerns 'front and centre' during the further development and refinement of its proposals.

In particular, Vattenfall understands that Ofgem is considering two possible approaches to tendering for high-value projects, namely the 'early tender' and 'late tender' models. In our view, the 'late tender' model offers two key advantages. Firstly, it provides developers with better confidence in the quality and consistency of stakeholder engagement during the consenting phase, and secondly, it provides a firm scope of assets and works at the point of tendering – which should facilitate keener pricing for the construction and operation of the assets which are the dominant components of life-time cost and the ones most able to benefit from competitive tendering.

We would also like to draw Ofgem's attention to two further issues, both relating to transmission works facilitating generator connections:

1. The 'late tender' model reduces the developer's flexibility with regard to timing the release of information about its project into the public domain. Information about project capacity and location will be inferred from the (public) tender for the transmission works to facilitate the generator connection, forcing the developer to go public before this point.
2. In the event that there are significant changes in the generator's contracted capacity during the development process, this change will need to be reflected in the transmission needs case, and in the scoping and design of the transmission solution. As this might occur following CATO tender award, the contract would need to include provision for re-scoping and re-design. The scope for competition in this scenario would be rather limited.

Opportunity to meet with Ofgem

Finally, Vattenfall would welcome the opportunity to meet with Ofgem in order to discuss our views and concerns with regard to the ITPR proposals. Please contact Mary Thorogood, Stakeholder Relations Adviser UK, who would be pleased to arrange and she can be reached on 07814

903568 or mary.thorogood@vattenfall.com.in order to discuss an outline agenda and possible dates.

Yours sincerely

Andy Paine
Head of UK Offshore Development