

OFGEM  
Transmission Competition Policy  
9 Millbank  
London  
SW1P 3GE

22<sup>nd</sup> July 2016

**For the Attention of Joe Baddeley**

Dear Sirs

**Extending Competition in Electricity Transmission: criteria, pre-tender and conflict mitigation arrangements - Consultation Responses**

We are pleased to submit our responses to the consultation issued by OFGEM in respect of Transmission Competition on the 27<sup>th</sup> May 2016, which is enclosed.

Yours faithfully



**Graham Carr**  
Managing Director  
Carillion Transmission & Distribution Services

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### Question 1

**What are your views on our proposed arrangements for asset ownership and responsibilities? In particular, can you provide examples of specific scenarios where it may be necessary for ownership transfer of existing physical assets to occur between network operators?**

- 1.1 In respect of the “Non-physical asset transfer” relating to the transfer of preliminary works, land or access agreements, consents, land rights, surveys and the like, we concur that these agreements will need to be transferred in the case of late CATO builds. There may also be a need to utilise existing wayleave’s and accesses in both late and early CATO builds, which may require temporary or permanent access permissions for both construction and maintenance of the new CATO build.
- 1.2 Understanding all agreements or constraints, either official, unofficial or tacit will be crucial to the development of a CATO in terms of design requirements, construction schedules and operational maintenance.
- 1.3 We agree that the potential for ownership transfer of existing physical assets between network operators is likely to be limited. We could however foresee instances where redundant assets and / or assets which could be upgraded could provide part of a technical solution within a CATO build proposal, for instance the use / upgrade of an existing 132kV OHL, or the extension of existing sub-station location. We could also envisage that Load Related upgrades associated with New Connections may also require the ownership transfer of existing physical assets.

### Question 2

**Do you agree with our proposed principles for packaging projects?**

- 2.1 We agree that packaging of projects will need to take into consideration the timing of the need, the anticipated timescales for delivery and the geographic the location(s) of the works together with any network dependency criteria.
- 2.2 *Bundling or combining smaller projects*  
We believe that bundling or combining smaller projects where there are common need/drivers and where to makes technical or commercial sense is a sensible approach. This approach could be particularly relevant in the area of New Connections, which could drive a number of smaller interrelated projects, including load related overhead line upgrades as well as extensions to existing substations.
- 2.3 *Splitting or separating larger projects.*  
We agree that from a technical perspective the splitting or separating of larger projects may make sense. However, in our experience complex projects with multiple



interfaces can provide significant challenges and cost escalation.

We do however concur that where there may be a limit on the pool of potential bidders or capacity/funding constraints or in highly technical areas, splitting or separating these elements could provide a sensible solution. We can see that in terms of HVDC interconnectors it may be relatively easy to separate assets e.g. subsea cable; converter stations and substations; transmission lines. In the case of long transmission lines, unless there is a substation that forms a natural break in the line it may not be so easy. There is also the potential issue of asset compatibility / end to end system design and reliability if the designs and materials for separate portions of the same project are different.

### **Question 3**

**Do you consider the processes we have set out for determining which projects to tender are appropriate?**

- 3.1 We feel that the proposal for the SOs to identify (through the NOA process) projects which are suitable for tender through the CATO arrangements, together with the aim of providing a wider system outlook, will provide better clarity and visibility of the potential opportunity pipeline. Accordingly we feel that the present proposals are appropriate.

### **Question 4**

**Beyond the NOA and the connections process, what other routes should we be utilising to identify suitable projects for competition, eg for non-load projects?**

- 4.1 With the aging profile of existing UK transmission assets and the approaching need for widespread replacement and or refurbishment, we believe this could be an area where competition could be extended.

### **Question 5**

**What do you consider should constitute 'early development works' for options ahead of their assessment in the NOA process, ie what works should be undertaken in order to ensure that the most appropriate tendered options are developed for submission at the initial tender checkpoint?**

- 5.1 We believe that early engagement process with technology providers and potential developers ahead of project assessment in the NOA process could assist developers and technology providers contemplate and share alternative technical and more cost effective solutions.



## **CHAPTER: Three**

### **Question 6**

**What are your views on the suggested process for carrying out the pre-tender roles?**

- 6.1 In terms of the proposals for late CATOs, we believe that the proposed support of the incumbent TO in undertaking the necessary preliminary works and providing tender support to develop a project ahead of a tender event is essential, in that it provides clarity, constancy and a level playing field during the procurement process.
- 6.2 In terms of the early CATO model, we believe the proposal for the SO to both carry out preliminary works and provide tender support is a logical one.
- 6.3 Our only observation and reservation in this respect is that the SO organisation have to our knowledge not been involved in these elements of transmission project development. This may provide some challenges during the early stages of the of the market development.

### **Question 7**

**Regarding preliminary works and the tender specification**

**(a) What are your views on the scope of the baseline tender specification?**

- 7.1 The baseline tender specification defined in 3.8, Table 1 of the consultation document seems to provide a comprehensive generic specification. The only area which we feel needs expanding is around any early obligations required by the Development Consent Orders (DCO) process.

**(b) How likely is it that additional preliminary works will be required, and if so, what types of works are likely to be required?**

- 7.2 In our experience, particularly in Over Head Line Construction, access to undertake Geotechnical Surveys is often withheld by landowners, until such time as planning consents have been granted. The absence of specific Geotechnical Surveys can be a significant cost escalator. We believe that expansion of the base line specification to include, where possible, a full Geotechnical Survey of the route / accesses and foundation locations could be beneficial.

**(c) What are your views on**

**(i) The role of bidders in identifying the need for further information / additional preliminary works (eg additional independent surveys) to inform robust bid assumptions?**



- 7.3 As indicated in our response to item (c) above ground conditions can have a significant cost impact which without the benefit of Geotechnical Surveys will result in a higher risk profile for the project.

**(ii) The most efficient process for enabling this?**

- 7.4 The establishment of an early engagement with potential bidders could provide the platform to identifying the need for further information / additional preliminary works.

**Question 8**

**What are your views on the proposed arrangements for the data room and bidder clarifications?**

- 8.1 We consider the proposals for the provision of a Virtual Data room are suitable. We presume that in respect of Early CATO events the SO will have responsibility to populate and manage that data room.
- 8.2 As with our comments in respect of the Virtual Data Room, we also believe the proposals for Bidder Clarifications are appropriate. Again we assume that the SO will manage the bidder clarification process for Early CATO events.

**Question 9**

**What are your views on our proposals regarding the funding of preliminary works and tender support activities in RIIO-T1?**

- 9.1 We have no objection to the proposal for the cost of preliminary works and tender support activities is borne by the successful CATO bidder through its revenue. We would note that dependent on the revenue arrangements, the funding of the preliminary works and tender support activities would attract finance costs.

**Question 10**

**Do you have any initial views on risk allocation across the preliminary works party and the CATO?**

- 10.1 In our experience the risk issues usually crystallise around the areas of uncertainty, Access, Ground Conditions and Consents and Restrictions resulting from Environmental, Archaeological and community impact. We believe these can be minimised and mitigated by the TSO's in the Late CATO model through the preliminary works process.

Our view is that the preliminary works information should be warranted by the provider / TSO. Any agreements, that are procure as part of the preliminary works, consents, designs, licences etc, could be assigned, transfer or novated to the CATO. This might involve a need for the CATO to do due diligence, assurance etc. on the preliminary works which is made available via the data room, we feel this should be relatively



straightforward to do.

#### **CHAPTER: Four**

##### **Question 11**

**Do you agree with our proposed requirements for incumbent TOs to mitigate potential conflicts of interest, where they are both bidding for and developing a project in RIIO-T1?**

- 11.1 We are happy with the proposed conflict mitigation arrangements detailed in the consultation document.

##### **Question 12**

**Is internal scrutiny of the arrangements the TO has in place to mitigate conflicts of interest sufficient, or would there be significant additional value in having an independent party scrutinise and audit the TO's arrangements?**

- 12.1 We believe that independent scrutiny and audit of the TO's conflict mitigation measures would be beneficial.

##### **Question 13**

**Do you agree with our proposal to manage conflicts for other bidders?**

- 13.1 As with the proposed independent scrutinise and audit the TO's conflict mitigation measures, we believe that conflicted bidders should also be held to the same standard of independent scrutiny.