

27th April 2018

BY EMAIL ONLY TO: RIIO2@ofgem.gov.uk

Dear Sirs

RIIO-2 Framework Consultation

We write in relation to the above consultation, and specifically in respect of “Competition” as a means to drive innovation and efficiency.

As part of the Transmission Capital Partners consortium, Transmission Investment 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, Lincs and Westernmost Rough offshore wind farms – a portfolio of over 1000MW (circa £800m in capital employed) – and we are preferred bidder for the Dudgeon OFTO.

Transmission Investment has long been a strong advocate of introducing competition into the delivery of onshore transmission and we continue to support the development of the required arrangements *inter alia* through industry groups, responding to consultations and, when called upon, providing evidence to parliament.

Transmission Investment is leading, in partnership with the French national grid company RTE, the development of a proposed 1400MW HVDC interconnector between France and Britain via Alderney (“the FAB interconnector project”). This project was granted cap & floor regulatory treatment in 2015 and is scheduled to commence construction once all final regulatory approvals have been received.

As such you will not be surprised to read, we strongly support the proposals in the RIIO-2 Framework Consultation (pp 52 to 56) to extend the scope of competition to deliver benefits for consumers and to facilitate the energy system transition.

The consultation document notes the very significant savings that have been made through the OFTO regime, and our experience is that competitive forces are incredibly effective in driving innovation and efficiency in the financing, and operation & maintenance of offshore electricity transmission assets. There is every reason to expect that extending the scope of competition to other network infrastructure assets, whether onshore or offshore, transmission or distribution, electricity or gas, would also bring innovation and efficiencies in these sectors too. Moreover inclusion of construction within the scope of competition should provide even greater opportunities for innovation.

Our responses to the specific questions on this subject are contained in Annex A. This response is not confidential.

If you would like to discuss any of the comments above please feel free to contact me.

Yours faithfully



Chris Veal
Managing Director

Annex A – Responses to Q16, Q17 and Q18

Competition - questions	TI response
<p>Q16. Do you agree with our proposal to extend the role of competition across the sectors (electricity and gas, transmission and distribution)?</p>	<p>As noted in our letter above we fully support the introduction of competition across the sectors.</p> <p>In our experience, offshore electricity transmission could be regarded as one of the more difficult sectors in which to introduce competition given:</p> <ul style="list-style-type: none"> - Customers are directly dependent on the performance of the assets (i.e. no redundancy or alternative route to market); - The challenging marine environment; - There are complex interfaces (both with the offshore wind farm owner and with the onshore grid owner); - The sector is relatively new, revealing new technical issues that have to be managed (for example the recent spate of fibre optic cable related faults). <p>Onshore transmission and distribution, whether electricity or gas, will have different challenges, but the OFTO sector has demonstrated that new entrants are very capable of meeting these challenges.</p> <p>In introducing competition across these sectors, it would be very valuable, in order to obtain market interest, if a pipeline of projects could be established for each sector.</p>
<p>- What are the trade-offs that will need to be considered in designing the most efficient competitions?</p>	<p>In our experience the tender process will need to trade off the following:</p> <ul style="list-style-type: none"> i) <i>The costs of running the tender process versus benefits gained by the tender process:</i> typically this will mean that only projects above a given size should be tendered, but if the £100m capex threshold is used initially (as per the CATO sector), it should be kept under review; ii) <i>Certainty of delivery outcome from the process versus maximising the benefits of the process:</i> in particular the decisions on when to run the tender (i.e. early v late model), and particularly if running an early model, to what extent delivery risk is with the winning bidder (who would then need to price this in); iii) <i>Attracting new entrants v ensuring quality of delivery:</i> a current issue in the OFTO tender process. Whilst it is clearly

Competition - questions	TI response
	<p>beneficial to attract new entrants, this should not be to the detriment of the quality of delivery of a project (whether measured by reliability/availability, health & safety or other measure);</p> <p>iv) <i>Cost v quality</i>: similar to the above but noting that the lowest headline price is not necessarily in the interests of consumers over the life of a project.</p> <p>These issues need to be thought through carefully in respect of all sectors as indeed they have been, and continue to be, in respect of the OFTO and CATO/SPV models.</p>
<p>Q17. Do you consider there are any reasons why our new, separable and high value criteria might not be applicable across all four sectors?</p>	<p>We do not, at this time see the need to have different criteria between the sectors. In respect of the high value threshold we note that a similar threshold level has also been used in the water sector under PR19 for DPC although the criteria is £100m whole-life costs rather than capex.</p>
<p>- If so, what alternative criteria might be suitable?</p>	<p>See our response to Q17 above. It would be worthwhile keeping the criteria, and in particular the high value threshold level, under review as experience is gained.</p>
<p>Q18. What could the potential models be for early stage competitions (for design or technical solutions)?</p>	<p>This is not a simple question as no doubt Ofgem appreciate. Transmission Investment participated in the industry working group investigating the early CATO model, and whilst that group made significant progress it is fair to say that it did not solve all the issues which arise with an early model.</p> <p>In particular there is the issue of how one runs a partially price-based tender when there is so much uncertainty with respect to risks associated with land right acquisition and consents (which may delay the project or require alterations to its design), project need (it would not be unusual for the required delivery date to be deferred), and when it is not possible to fix finance costs (in particular debt finance costs).</p> <p>Our suggestion to try and deal with these issues was to borrow some of the aspects of the interconnector cap & floor regime – i.e. run an early competition based in part on price, but have defined reopeners which adjust the outturn price based on events outside the control of the bidder, but only up to a capped price. If the price reaches that cap then the bidder has the choice to accept it or the project would be retendered at that point (perhaps based on a late model).</p> <p>Our recommendation though, as it was and still is in respect of CATOs/SPVs, is that the late model is</p>

Competition - questions	TI response
	implemented first and it is only once experience has been gained, that early models are considered for implementation.
<ul style="list-style-type: none"> - What are the key challenges in the implementation of such models, and how might we overcome them? 	<p>As noted above the main challenges in running an early stage competition are:</p> <ul style="list-style-type: none"> i) Obtaining meaningful price competition; and ii) Dealing with the inevitable changes that will occur which are outside of the control of the bidder.

{End}