

ofgem

CONSULTATION

Extending competition in electricity transmission: arrangements to introduce onshore tenders

FROM :



Bouygues Energies & Services

Appendix:

CHAPTER 2

Question 1: What are your views on the proposed detailed interpretations of new, separable and high value (the 'criteria')?

We consider that the £ 100m threshold is appropriate. We believe this number should be kept under monitoring during the first years of the process. We believe that once the stakeholders will gain experience and tendering process will get smoother, this threshold could be lowered and still bring benefits to the consumers. Moreover, it might be interesting to define separate thresholds for late and early model: lower threshold could be envisaged for late CATO when financial institution may favor higher threshold for early CATO.

We consider that the new and separable scheme is well defined by Ofgem. Our experience in implementing and developing new assets with financial partners showed that this concept is a must if we want the process to be successful. However, as it has been well described in Ofgem and Jacobs works, the definition should have a part of flexibility to insert some existing assets for instance.

Question 2: Under what circumstances do you think asset transfer from an existing asset owner to a CATO would be required, recognising the principle that projects identified for tendering should be new?

We see at least two cases:

In the "late model", a transfer of the preliminary studies and works should be organized, for the CATO to take afterwards the full project responsibility. We do not consider this as contradictory to Ofgem's CATO criteria.

When the projects will concern replacement / revamping / renovation of existing assets. Obviously, in such case, there could be a clear benefit to the consumers if some assets are transferred to the CATO and CATO can decide the exact program of replacement and decommissioning.

Question 3: What are your views on our proposal that electrical separability should not be required at each interface, but that the SO can propose it to us if it thinks there is a cost-benefit justification based on system operability?

We are in agreement with Ofgem's position.

Question 4: What are your views on the suggested process and roles for identifying projects for tendering? We have proposed specific roles for the SO – do you think there are any additional roles the SO could take on to support competition? - What's the most appropriate way to ensure that the network options assessment (NOA) considers the widest range of network options, including those that would be tendered?

We consider that the proposed process is adequate.

We welcome the proposition that CATO Stakeholders will be able to provide their views on the NOA and we encourage Ofgem to find a way to give weight to any appropriate comment that would arise in this context.

Question 5: What incentives and obligations should the SO and TOs have for undertaking preliminary works for tendered projects, and is there any value in considering a success fee incentive?

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Question 6: Should CATOs pay for the preliminary works at the point of transfer?

We believe those two items are essential if the stakeholders want late model CATO (and CATO) process to be successful.

We consider that the value of the preliminary works should be defined at the same level for every competitor. However, we could envisage a part of the tender process where every competitor could propose, define and explain the value it would recommend for the preliminary works.

CHAPTER 3

Question 1: What are your views on our proposed late CATO build tender model? Including: - the basis of bids; - the use of cost sharing factors; and - what risks, if any, it would not be efficient for a CATO to manage during construction.

We support the development of "late CATO model" as the main scheme in the early years of this program. We believe this will ease the understanding and creation of these new assets.

We confirm that the use of sharing factors does not seem necessary in this model. However, a reduced factor could be useful in case the proportion of existing assets is significant and the performance of these existing assets cannot be fully audited.

Question 2: What are your views on our proposed early CATO build tender model? Including: - what tender specification would best facilitate innovative but deliverable bids; and - how we can best manage cost uncertainty after the tender.

We think that your approach re. early CATO tender model is correct.

We believe it could be interesting to make a first selection during the tender process in order to avoid that too many competitors invest time and money in a phase that will be demanding in terms of value engineering and environmental analysis.

We consider that requesting for a mix of firm costs (where possible) and (firm) unit costs otherwise, is the most appropriate solution in this kind of tender.

In addition, we would like to highlight the fact that confidentiality of the proposed design may be one of the most important issues in this process.

Question 3: Do you have any views on the best way to tender projects using high voltage direct current (HVDC) technology?

We share your views that HVDC projects should not come at the very first stage of CATO process.

We also share your views that some opex reopener could favor the bankability of such innovative projects. However, we believe that this new and innovative technology could perfectly be included in the CATO process.

Question 4: Do you have any views on our proposal to prioritise late CATO build? Do you have any views on specific circumstances where early CATO build might lead to better outcomes than late CATO build?

We agree on that fact that late CATO should be easier to implement and finance and, thus, should come at first stage.

However, given the time schedule necessary to develop early CATO, the process for these projects should be kicked-off not too long after the late model starts.

Question 5: Do you have any views on how we could mitigate the risk of a CATO not being in place?

The proposed "CATO of last resort" mechanism seems appropriate.

Question 6: What are your views on our proposed revenue package for CATOs? Including: - the proposed duration of the revenue term, including how it links to the asset cost recovery period and whether operations and maintenance costs can be fixed over this period; and - our proposed approach to indexation, refinancing and enabling new asset investment.

This issue is indeed, a very complex one and you have already highlighted the gap between the optimal [20-25] years duration for financing & fixed opex; and the 45 years period for costs recovery for such assets.

We believe that a joint discussion with several stakeholders from different areas (construction, O&M, equity provider, lenders and consumers), is necessary to define the preferable scheme.

Considering re-financing and new investment, we consider that Ofgem's views are correct and we believe that they would be also welcomed by the financing parties.

Question 7: What are your views on our proposed package of financial incentives for CATOs? Including: - how we could structure an availability-based incentive to ensure CATOs operate their assets with a 'whole network' view; - the proportion of a CATO's annual revenue that should be at risk; and - whether there are circumstances under which 'payment on completion' would not be appropriate to incentivise timely asset delivery.

Our view is that your proposals are globally in line with what the stakeholders are expecting. The proposed scheme does not deviate from the usual infrastructure program and should be well accepted by the parties. We think that one of the main concern might in the end be the process to determine the residual value of the assets in case the contract has a 25 years duration and cost recovery period is fixed at 45 years.

Question 8: Are there other types of incentives not covered in this chapter that you think should apply to CATOs?

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CHAPTER 4

Question 1: Are there any risks or conflicts of interest arising from the SO's role that we haven't identified?
No comment at this stage.

Question 2: Are there any risks or conflicts of interest arising from the participation of incumbent onshore TOs that we haven't identified?
No comment at this stage.

Question 3: Are there any additional conflicts of interest that we haven't identified?
No comment at this stage.

Question 4: What measures do you think would be appropriate to mitigate the risks and conflicts of interest? What additional conflict mitigation measures would be needed if the SO takes on a broader role in supporting competition?

No comment at this stage.

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