

Electricity Transmission	
<b>REFERENCE NUMBER:</b>	<b>CATEGORY:</b> Associated Documents
<b>LICENCE CONDITION NUMBER:</b> <i>(if relevant):</i>	Associated Documents
<b>TITLE:</b>	Guidance on the Competition Proxy Model (CPM) re-opener in RIIO-ET2
<b>RELEVANT LICENCE CONSULTATION QUESTIONS</b> <i>(if any):</i>	Special Condition 6.2 Competition Proxy Model pass-through cost and Re-opener (CPMRt)
<b>RELEVANT ISSUES LOG:</b>	
<b>POLICY ISSUES</b>	
<b>Overarching View on CPM</b>	<p>We continue to have concerns regarding the design and implementation of the proposed CPM model, which has come at the consequence of the lack of development of true forms of competitive models. It is incorrect to describe CPM as a late competition model as it involves no actual competition nor any project delivery by a third party (as would be the case in a genuine competition). We remain of the view that the CPM model is incapable of delivering benefits for consumers, not only based on Ofgem's own assessments to date, but also the uncertainty the model creates in the delivery funding mechanism for TOs, investors and suppliers.</p> <p>Considering Ofgem's acknowledgement that there is a considerable amount of uncertainty around the CPM delivery model, we question why the implementation of CPM is still being pursued when Ofgem's own analysis has shown (in particular on the Shetland and Hinckley Seabank projects), that CPM is not in the benefit of consumers. We consider that the pursuit of CPM takes away valuable time, resources and effort from implementing a true-form of competition (such as CATO) which has the potential to drive greater benefits for consumers.</p> <p>We note Ofgem's comments at paragraph 9.9 of the Draft Determinations (DD) that "<i>..recent market conditions and our finance proposals for RIIO-2 suggest that we may not be able to have sufficient confidence that the application of the CPM would deliver benefits to consumers for the projects that require imminent decision...</i>" and in light of this would ask that a new Regulatory Impact Assessment is undertaken to reflect the latest information that has been made available following on from Ofgem's recent assessments on both HSB and Shetland and the proposed RIIO-2 price control package.</p> <p>We formally responded with our concerns on the CPM model in the Draft Determinations (please see Q32 of DD Core document response for a detailed response to our CPM concerns) and we do not repeat those concerns here in detail. Please note that our comments below are without prejudice to that position.</p> <p>This document should also be read in conjunction with our draft CPM licence and LOTI guidance document consultation responses.</p>

<p><b>General Concerns regarding CPM process as outlined in the draft CPM guidance</b></p>	<p>Leaving aside our concerns on the design and implementation of CPM, we are of the view that the proposed CPM process as outlined in the draft guidance is long and inefficient, requiring considerable time and resources from both TOs and Ofgem to undertake the various assessments and reporting that are required (including annual construction updates), leading to significant additional costs. We note the proposal is seeking to increase consumer value, however, the evidence to date and administrative burden of the proposed process undermines this stated objective.</p> <p>The timing of such assessments, the associated submissions and decisions, lack flexibility and will have a material impact on project delivery, leading to likely delays that will not be in the interests of consumers. We consider there are good reasons why it may be appropriate for the assessment process and associated decisions to be flexed to respond to different circumstances, for example the timing of the MCR when a generator project is cancelled or delayed, or where the indicative timings for the Project Assessment would compromise timely project delivery. We would welcome the opportunity to discuss with Ofgem how such flexibility may be transparently built into the process.</p> <p>We note that all EISDs submitted into the NOA process to date have largely been based on following the existing SWW processes, or in some cases on the assumption that this process could be compressed where adherence to the existing guidance would delay the actual delivery programme.</p> <p>As we have previously requested in licence drafting working groups, we would welcome a run through of the proposed process (utilising a real project example), to aid better understanding of how a project would flow through to the CPM condition once identified as a LOTI project and to ensure any pinch points and inconsistencies between the CPM assessment process and key project milestones and delivery timelines are fully understood.</p>
<p><b>Associated Documents Principles</b></p>	<p>As currently drafted, there are several areas where the draft guidance does not meet the Associated Document principles of use as set out by Ofgem in para 3.3 of the informal licence drafting consultation. In particular, there are a number of areas where obligations are not <i>“drafted clearly... so licensees can be sure what is expected of them”</i>. We have set out our concern in our response to the informal licence drafting consultation that guidance documents are often drafted less formally and precisely than licence conditions and this is the case with the draft CPM guidance. We have also noted that the licensee must be <u>able</u> to comply.</p> <p>Examples of this issue include:</p> <ul style="list-style-type: none"> <li>• Provisions which are ambiguous such that it is not clear how a licensee would comply, such as an obligation to <i>“provide a robust case that their proposed CPM OCAE application is justified”</i> or to provide an <i>“appropriate level of detail on technical designs”</i>.</li> <li>• It not being clear what the legal effect of particular provisions are. We understand that <i>“must”</i> denotes an absolute obligation. But it is not clear whether <i>“expect”</i> denotes a have regard to obligation or not, and it is not clear what is meant by other formulations, such as <i>“TOs will need to”</i>.</li> <li>• Provisions which include an obligation based on the actions of others which lead to an automatic licence breach. For example, the need to provide analysis from the ESO to support a CPM FNC.</li> </ul> <p>We do not note all such issues in this response but note a number of further specific areas below. As noted below, although the drafting should be made as clear as possible in any case, one way to partly mitigate this issue is to frame the provisions</p>

	<p>properly as guidance, rather than as absolute licence obligations. We note that where there is a lack of clarity and a degree of ambiguity this introduces significant regulatory risk for the TOs.</p> <p>We also note that SpC 6.2.22 requires the TO to comply with the CPM Guidance when submitting its re-opener application, an MCR application or a OCAE application as well as in submitting its Post Construction Review, we would suggest that if this obligation is to remain in the licence the document should not be referred to as guidance. We would however refer to our comments above regarding the nature of the content of the guidance document and the level of precision it contains.</p>
<b>Absolute Licence Obligations</b>	<p>The draft CPM guidance contains a large number of absolute licence obligations. It is not clear to us why it is justified for the provisions to contain such obligations, rather than being advisory guidance. Many of the proposed obligations are disproportionate as absolute obligations. For example, that there should be a breach leading to potential enforcement action where a licensee failed to detail land ownership as part of a submission narrative? Others are not appropriate for the reasons set out above in relation to Associated Document principles of use.</p> <p>We do not see the justification for such provisions being licence obligations, in circumstances where Ofgem may reject a re-opener application or give a negative opinion if all appropriate information is not provided. There is no need for this to be a licence breach.</p> <p>There is also a further issue, in the context where para 6.20 includes Ofgem reviewing whether it has all information. Under the current draft guidance, Ofgem stating that certain information has not been provided would be a determination of licence breach and so would (to be consistent with Ofgem's general approach) need to follow Ofgem's enforcement process, with the work and delay that this would involve. We do not consider that this is intended, and if intended we would suggest is inappropriate and disproportionate.</p> <p>We suggest that the provisions should properly be framed as guidance unless there is a justification to do otherwise. We note that there are also cases where the guidance merely duplicates the licence condition and so fails to meet the principle that <i>"Associated Documents should only be used where more detail and explanation is required"</i>.</p>
<b>Criteria for Competition</b>	<p>We would reiterate our views, as previously stated, that due to the significance of the criteria for competition and the scope for licence conditions such as CPM to be materially varied by changes to the definition of these criteria, they should be defined on the face of the licence and not in guidance, ensuring that the scope of the licence condition is fully transparent and has appropriate check and balances. We would also note however, that as per our previous comments, CPM is not a genuine competition model and no third-party project delivery is involved as suggested in paragraph 3.8 of the draft guidance.</p> <p>Section 3 appears to confuse whether it is describing the process to determine the application of one of the 3 potential late competition models Ofgem has identified or the process of whether to apply CPM. It is not clear if these are in fact two separate decisions and what the relevant criteria are for each. We would suggest that in the absence of any other late competition models being developed, the decision is whether the application of CPM to a LOTI project is in the interests of consumers. We would also note that CATO/SPV have not been developed. We suggest that this paragraph needs to be updated to reflect the comments from the DD and the current position in regard to SPV and CATO. We assume that this guidance document would be updated when either or both models become available. We also note that the reference in</p>

	<p>criteria 1 to “new” is an abbreviation, the full meaning as per the referenced document should be included to avoid confusion. This is an example of where a materially critical condition for the TOs is only stated in a twice removed document under little or no apparent governance commitment.</p>
<b>Relationship to LOTI mechanism</b>	<p>We note that all projects will start as LOTI and either at INC or FNC a decision will be made as to the appropriate delivery model to proceed with. It is however unclear, what provisions are or will be put in place, if a CPM project is no longer in the best interest of consumers but is instead beneficial to be delivered through LOTI. Currently no provisions have been drafted to allow for such a change to take place in the proceeding submissions of PA, MCR and PCR.</p> <p>It is our understanding that Ofgem may decide that only some assets within a LOTI will be subject to CPM, however it is not clear what would drive this decision or what criteria Ofgem would use to split the LOTI assets. We also understand that where only some LOTI assets are selected to be subject to CPM, this subset of assets will nonetheless be required to meet the competition criteria in order for CPM to be applied, however, this is not clear from the draft guidance. Please can Ofgem confirm this understanding is correct.</p> <p>As regards to more specific interactions between the two models, our discussions with Ofgem on LOTI timings indicate there is flexibility and movement on Ofgem’s views on the timing and duration of regulatory submissions. We note that some of the timings referred to in the draft LOTI Guidance do not line up with our current understanding of the latest policy position (which will also feed into any CPM projects). We very much support shorter timelines and the ability to be flexible with milestones – in particular for earlier submission of the FNC.</p> <p>In discussions, we have made clear that a rigid interpretation of the timelines would potentially delay projects. For example, requiring the INC 12 months prior to planning consultation may delay that consultation if planning is on the critical path for delivery. Requiring the FNC only after planning consents are secured, or even possibly nearly to being secured, is very late in the process, given that many projects are likely to be nearing contract award by this point. A delay or impact upon LOTI, will consequently impact upon delivery of CPM projects too.</p>
<b>Implementation of MCR and PCR decisions</b>	<p>We welcome Ofgem’s clarification through the draft licence condition that the Project Assessment decision will result in modifications to the licence under s11A EA, however, we do not consider there is any reason why the other Ofgem decisions that are made pursuant to the draft CPM licence condition should not similarly be implemented via the statutory modification process. The MCR and PCR decisions may result in material changes to some or all of the CPM output, the associated allowances, and/or material financial parameters (including the operational cost of capital that will endure for the 25-year term), and it is therefore appropriate that a TO should be afforded the right of appeal to the CMA in respect of such matters.</p>
<b>General Consistency</b>	<p>We note generally that the draft CPM guidance does not always adopt the same terminology as the CPM licence condition, and this reduces the overall clarity of the document. We suggest that where terms are defined in the licence the same term should be used in the guidance document. Similarly, the draft guidance document purports to use defined terms for</p>

	<p>example “CPM Cost of Capital” that are neither defined in the guidance document itself or in the licence condition, so it is not clear what is meant by such terms. Please can the drafting be updated such that consistent terminology is used across the licence condition and guidance document.</p> <p>We also note that that the draft CPM guidance document is in places internally inconsistent and in some instances also inconsistent with the draft CPM licence condition, leading to a lack of clarity on what is required of the TO. We comment on specific instances of this in more detail below, but one example is the timing of the Post Construction Review.</p> <p>We would ask that a thorough review of the document is carried out to ensure that its content is consistent both across the guidance document itself and with the draft CPM licence condition, and that consistent terminology is used across the licence condition and guidance document. We are happy to work with Ofgem to support this.</p>
<b>DRAFTING ISSUES</b>	
<b>Comments on specific sections of the draft guidance</b>	<ul style="list-style-type: none"> <li>• We note that there are numbering and typo errors throughout the document that should be corrected in the next version.</li> <li>• We note that the term ‘Developers’ is used across the document, whilst the reference should be to TOs (as CPM is not a third-party delivery model).</li> <li>• <b>Section headed “Costs not falling into CPM qualifying cost areas”:</b> we note that SpC 6.2.16 of the draft CPM licence condition suggests that multiple sharing factors may be applied, however this section suggests that a single sharing factor will be applied to each CPM project. We would ask for clarity on which is the correct position and if the intention is to apply multiple sharing factors further clarity is needed on how this will work, and the governance process for proposing and agreeing these.</li> </ul> <p><b>CPM Assessment Process:</b></p> <ul style="list-style-type: none"> <li>• <b>CPM Project Assessment:</b> it is not clear what is meant by “financial terms” for the project. We assume this is referring to the CPM Project Financial Model and CPM Variable Inputs, the CPM Construction Cost of Capital and CPM Sharing Factor(s) as per SpC 6.2.16, if so, please could this be made clear.</li> <li>• <b>Mid-construction Review:</b> We note that the focus of this section is on the MCR being used where the TO has a requirement for additional funding to deliver the CPM Output, we would also note that this is the mechanism that the TO should use where there is a customer driven change that impacts the CPM project, such as delay or cancellation of the customer project. It is also the process for the TO to seek adjustments to the CPM Output itself and/or the delivery date for numerous reasons, such as changing project drivers. We would ask that this is clarified in this section.</li> <li>• <b>Post Construction Review:</b> our understanding per the draft CPM licence condition, is that the PCR may also change the CPM Output, including the delivery date, and would ask that this is clarified in this section. Currently the focus is on changes to allowances.</li> </ul>

	<p>We note there is inconsistency of timing for the PCR both within the draft guidance document itself and as against the draft licence condition, please can Ofgem clarify the timing. Our recommendation would be within 12 months. In the course of reviewing the draft guidance document it has come to our attention that the definition of Post Construction Review has been omitted from the ET section of the Definitions Appendix in the documents that were issued for the informal licence consultation.</p> <ul style="list-style-type: none"> <li>• <b>CPM Operational Cost Adjustment:</b> We note there is no reference to the process for seeking a CPM Operational Cost Adjustment direction. For completeness we consider this should also be referenced and a suitable timeframe included for assessment of the TO's application.</li> <li>• <b>2.1:</b> In the DD it is stated that the earliest a competition decision can be made (including whether to apply CPM) is at the INC stage under the LOTI process. However, the INC as per the LOTI process, is not included as an assessment stage for CPM within this section. We request that reference to LOTI INC be included in the opening paragraph to make clear this step will have already happened under the LOTI UM in respect of the assets that are to become CPM projects. We also ask that reference is included to the Ofgem direction that a LOTI project is to be treated as a CPM project (as per SpC 6.2.4) as this a key step in the process.</li> <li>• <b>2.4:</b> We ask that this section is redrafted to make clear that each of the relevant sections contain the minimum requirements for the TO's submission and this may be supplemented on a case by case basis with additional evidence/information that is identified as being required through bilateral engagement with Ofgem. Where both requirements are met by the TO the expectation is that the submission would not be rejected.</li> <li>• <b>2.5:</b>        Bullet 6 – we suggest that it is more appropriate to replace 'justify' with 'evidence'.        Bullet 8 – Please can Ofgem clarify if the expectation is that the TO will inform Ofgem of changes during the assessment period or post?        Bullet 10 – As this is a CPM guidance document, query whether the reference should be to 'CPM outputs' instead of 'LOTI outputs'.</li> <li>• <b>3.4:</b> With regards the wording '<i>as soon as practicable once the relevant project design is sufficiently settled...</i>', we understand that a decision on whether to apply CPM can be made as early as INC and late as FNC. Here it could be interpreted that the FNC is the earliest (around when project design is unlikely to be significantly changed). Please can Ofgem clarify the policy intent here.</li> <li>• <b>3.11:</b> With regards to the words "all other relevant considerations", if the list in para 3.12 is intended to be a list of non-exhaustive examples of those other relevant considerations then we suggest it would be clearer to amend to "all other relevant considerations, including for example "and then list the 3 bullet points.</li> </ul>
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	<ul style="list-style-type: none"> <li>• <b>4.1:</b> The reference to LOTI CPM Needs Case is incorrect, our understanding is that this is referring to circumstances where a TO has obtained approval for a LOTI FNC and therefore does not need to obtain approval for a CPM FNC. Please confirm this understanding is correct.</li> <li>• <b>4.4:</b> It is not clear what is intended by the term ‘...<i>material planning consents</i>’, please can Ofgem provide examples of what is intended.</li> <li>• <b>4.10:</b> We suggest that this should refer to the CPM Final Needs Case for clarity. In addition, as a CPM Needs Case will not be required in every case this should be recognised in this paragraph.</li> <li>• <b>4.12:</b> It is not clear what is intended to happen where the NOA recommendation changes after the INC is submitted. We welcome the opportunity to discuss what would happen in these circumstances with Ofgem.</li> <li>• <b>4.13:</b> We note the LOTI INC requirements reference is in 3.8-4.11.</li> <li>• <b>4.16:</b> We note this paragraph contains a typo and we suggest this should refer to “we expect the focus of the assessment to be on...”</li> <li>• <b>4.18:</b> Please confirm what the process will be where the CPM Needs Case is not approved.</li> <li>• <b>Section 5:</b> It is unclear between paras 5.2 and 5.13 as to whether the PA is to be submitted pre or post contract signature, please clarify. We welcome clarity on what action the TO is expected to undertake pending Ofgem’s PA decision, and how any costs the TO incurs in the period up to Ofgem’s decision will be treated.</li> <li>• <b>5.4:</b> ‘Structure of submission’ and ‘relevant information’ do not appear within the draft guidance document. If the former is referring to section 5.13 “Structure” please can this be made clear.</li> <li>• <b>5.5:</b> Drafting states costs will be benchmarked where comparable data is available, if no comparable data is accessible, how do Ofgem propose to assess our submission? In the absence of data, Ofgem’s decision will be subjective.</li> <li>• <b>5.6:</b> We would note that the objective of ensuring effective and efficient handling of TO applications will also be aided by Ofgem ensuring that TOs are provided with their requirements in a timely manner through such engagement as well.</li> <li>• <b>5.12:</b> We suggest the obligation to provide additional information should be limited to information that is reasonably available, we therefore propose the words “reasonably available” are inserted before “additional information or documentation” and be reflected across the guidance document.</li> <li>• <b>5.6:</b> We would note that the objective of ensuring effective and efficient handling of TO applications will also be aided by Ofgem ensuring that TOs are provided with their requirements in a timely manner through such engagement as well.</li> <li>• <b>5.12:</b> We suggest that the obligation to provide additional information should be limited to information that is reasonably available, we therefore propose the words “reasonably available” are inserted before “additional information or documentation”.</li> <li>• <b>5.14:</b> We note that Bullets 3 and 14 are the same.</li> </ul>
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	<ul style="list-style-type: none"> <li>• <b>5.28:</b> Please provide examples of what other aspects Ofgem considers could be included?</li> <li>• <b>5.32:</b> If no appropriate comparison can be made, please clarify if Ofgem will share with TOs the basis on which it has determined cost efficiency.</li> <li>• <b>5.40:</b> We note there is no definition of 'Pre-construction engineering work'. We assume this is aligned with the definition of Pre-Construction Works in Spc 3.22, please can Ofgem clarify. Also, it is not clear how CPM interacts with the Pre-Construction Funding Re-opener in Spc 3.22 as this is expressed to apply to LOTIs and contains no reference to CPM projects. We welcome the opportunity to discuss this with Ofgem.</li> <li>• <b>6.2:</b> We note that this should also include 'programme changes'.</li> <li>• <b>6.3:</b> Please clarify whether it is Ofgem's intention that cost increases would be the only trigger for MCR or is the intention for cost decreases to trigger the MCR too? Bullet 2, we suggest this should also include the words 'and the TO intends to delay delivery'</li> <li>• <b>6.4:</b> We note that there is no reference in the draft licence condition to the TO being able to request an MCR for a material delay in/cancellation of a generator project at any time, this remains subject to the requirement of SpC6.2.10(a) (that the request is at least 1 year before the CPM Delivery Date). Please can you review to ensure the guidance is consistent with the licence condition.</li> <li>• <b>7.2:</b>        Bullet 1 – Genuine outperformance should not be removed, it would be useful to provide comfort of this to avoid eroding incentives.        Bullet 2 – We are unclear as to the requirements on annual reporting during the construction period and note that there is no reference to this within the draft licence condition. We welcome clarity on the purpose of the reporting and what the obligations on TOs will be. As previously stated, we are concerned this may be overly burdensome compared to the consumer benefit.</li> <li>• <b>7.9-10:</b> First bullet – We consider this should also include reference to the MCR, as if it is triggered, MCR would be the latest view of costs.</li> <li>• <b>7.22:</b> We query why there is an assumption that only cost increases will occur? Please could Ofgem clarify what the approach would be if costs decrease due to a new technology being implemented or process efficiencies have been identified.</li> <li>• <b>8.2:</b> The draft CPM licence condition requires the TO to apply to Ofgem for an OCAE within 14 days of the TO becoming aware of the circumstances giving rise to the cost increase. However, based on the level of information requested by Ofgem, it would not be feasible to make this information available within this timescale. We suggest that the TO should be given up to 3 months to make such submission to Ofgem. It may also be true that triggers for the increase and the resulting cost impact could be greater than 14 days apart, indeed we would expect this in most cases- given the implications and risk we would suggest this should be reflected in the licence.</li> </ul>
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	<ul style="list-style-type: none"> <li>• <b>8.15:</b> The description of the engagement between the TO and Ofgem in this paragraph, in particular reference to TOs engaging <i>‘with us in the months leading up to their submission to ensure that the submission we receive is of the quality that we expect.’</i> is unrealistic and appears inconsistent with the timing for the OCAE application set out in the draft licence condition (and referred to above). Whilst we agree that such engagement is helpful it will not be practicable unless Ofgem allows TOs longer than 14 days to submit the OCAE application.</li> </ul>
<b>FINANCE ISSUES</b>	
<ul style="list-style-type: none"> <li>• <b>General</b></li> </ul>	<p>We are concerned this guidance document does not contain information all of the information that we would have expected to be included. It covers information provision and the assessment process but does not explain or cover the following:</p> <ul style="list-style-type: none"> <li>• The CPM cost of capital methodology, including how and when the operations cost of debt is now set and how construction cost of debt is set;</li> <li>• How Ofgem will compare NPV across different time periods - RIIO (45 years) and CPM (25 + construction)</li> <li>• Clarification that Ofgem’s comparison will include the costs of a project finance solution (there will be differences in non-finance cost to achieve project finance)</li> <li>• Clarification as to whether the intention remains for revenue to be paid during construction?</li> </ul> <p>Notwithstanding the above, given the material implications of these financial parameters we consider it more appropriate for these to sit within the licence rather than guidance. This would allow for more appropriate governance and checks and balances to be applied.</p> <ul style="list-style-type: none"> <li>• <b>1.2:</b> The guidance references key benchmarking source to be from Offshore projects. We challenge the credibility and the appropriateness of this benchmark in that onshore and offshore projects/assets are very different and hence is not a like for like comparator or even a benchmark. As we have queried previously, Ofgem we are yet to see an appropriate benchmark for both the construction and operational phases of potential CPM projects. Offshore is not sufficient and does not truly reflect the risks likely to be borne by TOs and/or consumers if it is the only source. We question the interpretation of ‘data’ and how commercially sensitive data is proposed to be utilised which legally cannot be shared (even if a CMA appeal was to take place). Can confirmation be provided on how benchmarking and comparisons will take place to ensure consumers are not impact negatively. We continue to challenge and question the true returns Ofgem claim that would be allowable from the use of OFTO data, such as terminal value and outperformance assumptions etc.</li> <li>• <b>2.1: 2 – CPM Project Assessment,</b> what assurances will TOs be given to keep developing projects until a funding decision is given? It is unclear and invites TOs to spend at risk (when main works contracts are due to be signed) till a decision is provided on funding.</li> </ul>

	<p>- <i>Finance Model</i> is consistently referenced, however, TOs have not had sight of the model to date and are concerned with the application of a model that will be drafted into licence with no scrutiny, especially as our construction and operational revenue allowances will be set based on the parameters of this model. Without sight of model, it is difficult to understand Ofgem's policy as we are unable to see what it means in practice.</p> <p>- <i>Qualifying Costs Areas</i>: This is new information that has not been shared as part of DD or licence workshops. Ofgem is requested to provide more clarity on the cost areas that are likely to be allowed. Reference to low probability, high impact risk areas are not sufficient of the costs likely to qualify or not, especially as current benchmarking sources are offshore projects. Onshore projects will have a completely different risk profile and may exclude certain costs as a result. Further detailed clarity of qualifying costs is needed to help provide informed feedback.</p> <ul style="list-style-type: none"> <li>- If costs don't 'qualify' why would there be an allowance?</li> <li>- More detail of the cost-sharing element is needed. Though mentioned in DD, it is still unclear how it will be applied in principle to CPM projects.</li> </ul> <p><b>3 – Mid Construction Review</b>, <i>'the TO may also request an adjustment to funding to cover costs that fall within a CPM qualifying cost area'</i>, it is unclear how they differ from the rest of the costs/ risk – a clearer definition should be used.</p> <p><b>5 – OCAE</b>, how will this threshold be determined? This is a risk to TOs, as any costs up to this threshold will need to be adsorbed by them unless a partial allowance is made. This does not seem to have been factored in or allowed in current policy?</p> <ul style="list-style-type: none"> <li>• <b>3.12</b>: In our view an assessment is needed to ensure the project is financeable on a stand-alone basis. Projects financed via competition (e.g. OFTO) typically use project finance which has a separate company that must be financeable on a stand-alone basis (non-recourse financing). If the project is not financeable on a stand-alone basis it is not a proxy for a competitive outcome.</li> <li>• <b>3.14</b>: CPM Cost of Capital (CoC) has not been defined nor has the methodology been published. We note that RIIO Cost of Capital is only 5 years, while CPM is for 25years, how is this NPV comparison able without knowledge of the next 4 RIIO periods? Please review our DD response (Q32 of the Core Document) on the limitations of CPM and why the approach is not beneficial to consumers.</li> <li>• <b>5.38</b>: If this is a standalone project (for 25years) that will span across multiple regulatory years, we question why the TOs RIIO-T2 expenditure may be adjusted? We assume this is in reference to Ofgem undertaking a network financeability assessment before enacting into ET licence, on whether it is still appropriate to deliver the project via CPM and the network can continue to be financeable without adverse impact from a CPM project.</li> <li>• <b>6.24</b>: In our view it would be appropriate to have tax rate as a re-opener for CPM construction (MCR). Please can Ofgem clarify if it is intended to be a variable value / re-opener for the operational period too?</li> <li>• <b>6.29</b>: As per 6.24, would TOs be able to use an MCR if there is no change in costs but the tax rate has changed?</li> </ul>
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	As stated in 5.31, we understand that only the indicative cost of capital will be updated and will only be finalised in the PCR stage.
<b>SUPPORTING INFORMATION</b>	
<b>OFGEM ENGAGEMENT:</b>	