



DALMORE CAPITAL



**North West Coast Connections**  
**Consultation on the project's Initial Needs Case and Suitability for Tendering**

**24 February 2017**

## 1. Executive Summary

Dalmore Capital Limited (“Dalmore”) welcomes the opportunity to respond to Ofgem’s recent consultation ‘North West Coast Connections Consultation on the project’s Initial Needs Case and suitability for tendering’.

Dalmore was established in 2009, with the aim of becoming a leading player in the UK core infrastructure sector. It is now a firmly established infrastructure manager with over £1.7bn under management. We believe the proposed Competitively Auctioned Transmission Owner (“CATO”) regime represents an attractive new opportunity for long-term UK infrastructure investment, and is one that can deliver significant savings to the consumer in a similar vein to those delivered to-date through the Offshore Transmission Owner (“OFTO”) regime.

Dalmore remains enthusiastic about the opportunity to participate in the upcoming offering. As set out in our previous response, we are currently raising a new investment fund for long-term investors with considerable appetite for deploying capital into UK infrastructure with the potential CATO investment opportunity earmarked as a core investment area. It is an opportunity that we feel our experience and expertise is well aligned with, and one in which we can generate value through the development and delivery of innovative approaches and best in-practice operations.

Dalmore is experienced and familiar with the energy transmission sector and the industry regulator, Ofgem, through our existing OFTO<sup>1</sup> and our participation in the TR4 and TR5 procurement processes, and it is a sector in which we intend to participate in the foreseeable future. Our active management approach is based on achieving best value for the consumer, namely the efficient delivery of new assets to cost and programme, and the best use of facilities in operation. To this end, Dalmore aims to build and maintain strong working relationships with clients and regulators.

UK core infrastructure has long attracted institutional investors due to the many positive, and generally homogenous, characteristics of the assets. Dalmore, through our predominantly UK pension fund investor base, is seeking to take part in the potential opportunities to invest in the transmission sector. We believe CATOs will exhibit many qualities that appeal to our long-term, low risk investor base, including:

- Long established and stable regulator;
- Opportunity to deploy significant capital;
- Long-term investment horizon;
- Low volatility inflation-linked yield; and
- Liability matching opportunity for pension fund investors.

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<sup>1</sup> West of Duddon Sands

## 2. Dalmore responses

Dalmore has provided responses to the questions arising in the December 2016 consultation paper. We note the recent media coverage of Toshiba, a 60% shareholder in the Nugen project. We are comfortable that there has been no prior commitment from Toshiba to engage in construction of the proposed plant and this has been further bolstered by Toshiba's public confirmation that they intend to continue with project development. We would seek further comfort from Ofgem that it does not envisage any adverse change in procurement of the NWCC project in light of the current uncertainty regarding Toshiba's financial position and commitment to developing the project.

### Section 2. Strategic Wider Works assessment

***Question 1: Do you agree that there is a technical need for the project if Nugen's project goes ahead?***

We agree that there will be a technical need for the project if Nugen's project goes ahead. We believe the technical requirement for the project at Moorside is reinforced by the fact that it is proposed in an area where there is currently no existing transmission infrastructure, meaning new circuits will need to be built to connect with the main transmission network.

***Question 2: Do you agree that connecting the Moorside site using four 400kV circuits is appropriate and compliant with SQSS requirements?***

[No response]<sup>2</sup>

***Question 3: Do you agree with our initial conclusions?***

We agree with Ofgem's initial conclusions regarding the SWW assessment. We agree that there will be a technical requirement for the project to go ahead with four 400kV circuits to be constructed in the local area. At this stage, we are in agreement that the project design will be subject to significant uncertainty and look forward to receiving further information around mitigation measures that may affect the final proposal and cost as the project matures.

We are supportive of Ofgem's right to revisit the decision taken by NGET to reach its preferred connection option should the cost of the preferred option escalate significantly.

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<sup>2</sup> Due to the highly technical nature of these questions, Dalmore has not provided a response.

**Question 4: Are there any additional factors that we should consider as part of our Initial Needs Case assessment?**

At this stage, we are comfortable with the high-level factors considered in the Initial Needs Case assessment. We believe the current assessment should focus on the feasibility and technical requirement of the project, both of which we feel have been suitably analysed at this stage of the process. As the proposed tendering progresses, we will aim to revisit the project in more detail, with particular focus given to potential revenue streams, return on equity and suitability for investment.

### **Section 3. Competition Assessment**

**Question 5: Do you agree with our view that:**

**(a) The overall project meets the criteria for tendering?**

**(b) The potential sections meet the criteria for tendering?**

- a) We agree that the overall project meets the tendering criteria of being new, separable and high value. The proposed value of the overall project is in excess of the £100m threshold (P50 £2.5bn / P80 £2.8bn) and would be of significant interest to Dalmore and our longstanding base of institutional investors, aiming to deploy significant capital in core UK infrastructure. We understand that the project will involve the construction of new transmission infrastructure, (as well as some refurbishment work at existing substations) and are in agreement of the designation of the project as new. Clearly delineated ownership boundaries, as proposed in paragraph 3.12 and the options presented in paragraph 3.39 (in particular option 3) lead us to agreement that the project will meet the separability criterion.
  
- b) The potential for the sections to be delivered separately is of interest to Dalmore and we believe that the sections delivered in this manner would meet the tendering criteria. We are familiar with this approach as major shareholders on the Thames Tideway Tunnel project, where the main construction works are being delivered through three separate efficiently procured contracts. We are aware that there may be complications in delivering the project via a CATO due to timing on construction and procurement. We look forward to receiving more information in this regard.

**Question 6: What are your views on our deliverability assessment for:**

**(a) The overall project?**

**(b) The potential sections?**

**In particular, considering our analysis of the design, procurement, and construction timelines as submitted by NGET.**

We are comfortable with Ofgem's initial deliverability assessment as provided. We understand that the project will be subject to further scrutiny at Final Needs Assessment case and, at this stage, we would be in a greater position to comment on the timelines proposed by NGET.

**Question 7: What are your views on the need for overall coordination of the whole NWCC project if the project were to be split into packages with different delivery parties?**

As a major shareholder on the £4.2bn capex Thames Tideway Tunnel project, we have experience in the management of a large scale and complicated engineering project. Dalmore's experience on Tideway has allowed us to develop a greater understanding of the management of multiple contracts and delivery parties. Of critical importance is the management of the various interfaces. We believe that introduction of a well-versed interface manager and potentially a programme wide project manager is crucial. It is often the case that deliverables due from one party may bear significance on those required elsewhere in programme delivery; we are of the opinion that should the project be separated for ease and efficacy of delivery, clear and detailed interface arrangements are critical, together with strong and experienced over-arching project management.

**Question 8: If some or all of NWCC were to be tendered, what, in your view, is the most appropriate allocation of risks across the relevant parties (TO, CATOs, and consumers)? How should these risks best be managed?**

[No response]<sup>2</sup>

**Question 9: What are your thoughts on the substation modification and extension works at Harker and Middleton, in the context of efficient CATO delivery, including the options presented in this document?**

[No response]<sup>2</sup>

### 3. Contact Details

For any further information please contact:

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