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James Norman
9 Millbank, Westminster
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Dear James,

Thank you for providing an opportunity to provide feedback on the North West Coast Connections project. In responding to the consultation and as a potential CATO tenderer and owner, we have focused on questions related to the suitability of the project as a CATO tendered project.

We continue to believe that stimulating enhanced competition in the delivery and operations of onshore transmission will deliver significant benefits and value for money to the consumer and is very much central to our investment strategy. We look forward to further consultation and discussion on the regime and the commencement of the tender process.

If you have any further queries or wish to discuss the response with us, please do not hesitate to contact us.

Yours faithfully,

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Question 5: Do you agree with our view that:

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

We concur that the overall project meets the criteria for tendering.

New – The significant majority of the project is new. We are not aware of any reason why the extension/modification work required at the existing substations Harker and Middleton cannot be classified as new and/or included in the proposed packages of work.

Separable – Whilst the design needs to be completed and further consideration to interfaces need to be made at the existing substations we do not expect separation to be an issue. These interfaces should be manageable in line with normal industry arrangements and therefore should not create additional operability challenges. If an interface can be improved by the transfer of existing assets to the CATO, this could be considered.

High Value – The cost of the project is clearly above the value threshold of £100m.

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

With respect to individual sections satisfying the criteria for tendering, we concur with the analysis provided by TNEI, in that we would expect the north, south and tunnel (or combination of) sections of the NWCC project, to meet the eligibility criteria. Consideration will have to be given to physical and management interfaces, but we do not consider this to be a limitation.

Assuming that some of the individual elements of the project do not meet the value threshold criteria, as indicated by TNEI, tendering of the individual elements of the project separately would mean that not all individual packages would be eligible. However, we see little benefit in tendering individual elements of the project separately in consideration of the increased interface complexity and the lost cost and value synergy benefits.

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.

Programme considerations

We broadly concur with the overall programme assumptions for the delivery of the north, south and tunnel sections of the NWCC. It is however, not clear why further consideration has not been given to a 3 core cable across Morecambe Bay which would have programme and cost benefits. With respect to the NuGen milestones we are also unclear why the “site supplies” needs to be delivered through the permanent solution for the north section.

(a) the overall project?

In consideration of the timescales of the **current** Customer Choice Programme it would appear that the deliverability of the overall project as a single tendered CATO is not possible, specifically the programme requirements of the delivery of the northern section and the Morecambe Bay tunnel. However, given the programme requirements are subject to change in line with the potential changes to the NuGen delivery programme, the programme constraint may reduce and the deliverability should be reassessed when the NuGen requirements are understood.

A single CATO for the overall project benefits from a single party being responsible for integration of the various sections, managing local labour and other resources, and provide a single interface with key stakeholders (such as landowners, NGET, ENWL and NuGen).

We concur that tendering of the project should enable the CATO to introduce innovation in the design, procurement, delivery and funding of the Project. We do not feel that the considerations of physical/management interfaces with NGET, ENWL and NuGen will be a limitation to the deliverability of the CATO. Similarly, the commercial arrangements with ENWL require further consideration as the programme is developed. We concur that it should be feasible for the ENWL contract to be novated to the CATO and that interface should be cost and risk neutral for the CATO. Ofgem will need to ensure that the terms and conditions of this contract and any associated licence conditions support this principal.

TNEI note in their report the factors that may contribute to the design and cost uncertainty and we have provided comments on the allocation of key risks below. The deliverability of the project by a CATO (as well as its individual elements) will be dependent on appropriate provision of information during tendering and corresponding allocation risk, which we understand Ofgem intend to consult further on in spring 2017.

(b) the potential sections?

Similarly to the overall project, programme constraints for each section are the primary drivers for the deliverability of the competitively tendered CATOs. As noted above, as the NuGen programme potentially changes, the constraints may reduce for the northern and tunnel sections. It would therefore seem reasonable to wait until the NuGen programme is better understood before confirming the deliverability of these sections.

Notwithstanding the benefits of one project, there are number of benefits of tendering the three sections individually, including; enhanced competition in the CATO market, more manageable CATO projects in consideration of the project(s) being the first CATO(s) and potentially more financing options.

The deliverability and benefits/risks of a single project or 3 projects should be thoroughly developed in detail.

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?

On the assumption that the project will be split into two (north and south) or three sections (with the tunnel being delivered by NGET) we see a limited need for overall coordination, beyond the role of the SO ensuring system security and grid code compliance of the scheme as a whole. There would be a manageable number of interfaces for the CATO, TO, NuGen and other stakeholders.

If smaller individual packages were to be tendered separately, then an overall management/ coordination role may need to be provided to coordinate the delivery of each package, providing confidence to NuGen on the timely delivery of the transmission connection. We do not believe this represents an optimum route.

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?

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As noted in our response to the August 2016 consultation "Extending Competition in Electricity Transmission: Tender Models and Market Offering", we recognise and broadly agree with the principles adopted in the proposed allocation of risk for CATOs, and that sharing factors are not likely to be efficient. We noted that more detail needs to be provided on the treatment of risks related to the treatment of new information post tender and unexpected external factors, which the CATO cannot contract to its supply chain e.g. unexpected ground conditions. A form of licence protection may offer consumers best value, rather than a full pass through of risk to the CATO.

The comment above also applies to the NWCC project and ultimately the most appropriate allocation of risk will be dependent on the information provided to the CATO through the tender process. In commenting on the most appropriate allocation of risk below for the construction and operations phases, we have provided an assumption on the information provided to the CATO during the tender process along with the view on the management of risk.

We note that Ofgem are to consult further on the allocation of risk in spring 2017, and we recognise that where possible there needs to be a consistent approach across CATOs. However, specific consideration will need to be made for each project to ensure value for money to the consumer.

Risk	Information Provided/Work done – prior to CATO award	Risk Allocation
Land Access	The TO will be responsible for negotiation voluntary access arrangements with landowners but involuntary access arrangements may need to be acquired.	The TO should be responsible for procuring the necessary agreements and the CATO complying with these requirements. Licence protection may need to be provided for unexpected land access issues.
Land Compensation	Final values on land compensation may not occur after construction.	Licence protection for change in land value compensation.
Ground Conditions	Detailed ground investigations	CATO for known issues and careful consideration required for unforeseen conditions considering recent experiences in the industry
Archaeology	Heritage studies and targeted geo-physical investigations	CATO for known issues/Licence protection for unknown issues
Flood risk	Flood Risk Assessment	CATO for known issues/Licence protection for unknown issues
Ecology and Ornithology	Preliminary assessment, surveys (including baselines), Consent conditions	Consent risk – TO Construction and Operations - CATO
Topography	Detailed topographical surveys	CATO for known issues/Licence protection for unknown issues
Interface with other network operators/users etc.	Draft Interface arrangements	CATO (all parties)

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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?

The overall approach must be to optimise value for money to the consumer in balancing the competitive delivery of transmission assets with manageable interface risks. In consideration of the potential technology interface issues with GIS, Option 1 (as presented in Figure 3 of the consultation documents) is the “cleanest” interface option. However, each CATO project should be considered on its own merits and each interface should therefore be considered on a case by case basis.

We also see no reason why the CATO could not acquire existing assets from the TO where there is a construction or operational benefit, and the concept of due diligence and acquisition of existing assets will not be new for most CATOs. At this stage we would therefore not discount Option 2 if the resulting interface is simplified.

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