

24 February 2017

James Norman
New Transmission Investment
Ofgem
9 Millbank
LONDON SW1P 3GE



Dear James,

Consultation: North West Coast Connections – Consultation on the project’s Initial Needs Case and suitability for tendering

Macquarie Capital (Europe) Limited (“Macquarie”) welcomes Ofgem’s assessment on the North West Coast Connections initial needs case and suitability for tendering.

We generally support Ofgem’s initial conclusions regarding the need for the project and agree that the overall projects as well as the potential sections of the project are sufficiently large, separable, and meet the criteria for tendering.

We concur with Ofgem that the current overall project timeline allows for sufficient time to run a CATO tender for the southern section. We note that the timing for NuGen’s Moorside nuclear station however remains uncertain and may necessitate changes to the transmission connection dates. We would therefore urge Ofgem to keep the option open for a CATO tender for other sections would there be delays in the project timeline.

We understand that NEG’s preferred route to the south of the LDNP section is through a tunnel under Morecambe Bay. We agree with Ofgem’s approach to reserve the right to revisit the decisions taken by NGET to reach its preferred connection option and would encourage Ofgem to continue assessment of both the direct costs of alternative solutions such as a subsea cable as well as the timeline considerations including the potential to reassess the possibility to tender the tunnel or subsea cable as a CATO.

An appropriate allocation of risks across the relevant parties (TO, CATO and consumers) is important to attract investor appetite. Risks associated with the early development stage of projects are less suitable for CATO to manage and we believe that an availability based revenue scheme with capped penalties and limited revenue adjustments for risks beyond a CATO’s control will provide appropriate incentive for the CATO to perform and ensure operations with a ‘whole network’ view while encouraging the broadest range of investors and financiers to maximize competitive tension.

Macquarie acknowledges that splitting the project into packages with different delivery parties will increase coordination challenges. However, interface agreements with a clear allocation of responsibilities can be set up between the relevant parties. In respect of the proposed re-packaging of the substation works we agree with Ofgem that options 1 (incumbent TO ownership of whole substation) and 3 (Ownership of substation split between CATO and incumbent TO) allow for division points with the clearest split in allocation of responsibilities and risks.

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Macquarie welcomes the opportunity to respond to questions raised in the consultation document and believes greater visibility of the tender process for this asset and for upcoming assets would generate further investor appetite. Information regarding the timing, process, specifications, and scope would enable all interested parties to start preparing prior to the formal tender process and allow Ofgem to run a tighter tender time schedule.

We would be delighted to discuss the above thoughts in an open and constructive manner with Ofgem.

Yours faithfully

On behalf of Macquarie Capital (Europe) Limited


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Vice President