

24th February 2017

Our ref: N0016595

James Norman
New Transmission Investment
9 Millbank
London
SW1P 3GE

By email to: NTIMailbox@ofgem.gov.uk
and First Class Post

Dear James

North West Coast Connections - Consultation on the project's Initial Needs Case and suitability for tendering

We welcome the opportunity to provide Ofgem with a response to the above consultation.

The consultation includes a number of detailed questions within the Strategic Wider Works and Competition Assessment Chapters that it is proposed to address below from NuGen's perspective as the developer and future operator of the Moorside Project.

Whilst NuGen recognise and is supportive of the policy rationale underlying Ofgem's proposals for Extending Competition in Transmission (ECIT) through the CATO regime so as to provide savings to electricity consumers, there are concerns that timing of the introduction of the CATO regime should not result in introducing further significant investment, delivery and/or cost risk, which would cause uncertainty that could impact upon the viability of the Moorside project.

It would be detrimental to UK government wider objectives if CATO's introduction were to increase risks for projects such as Moorside and potentially impact investor confidence and, therefore, the underpinning of viability of those projects.

Strategic Wider Works assessment

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

As developer of the Moorside project, NuGen agrees that there is a technical need for the North West Coast Connections (NWCC) project although in addition it is also a fundamental requirement for underpinning the Moorside's project viability.

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When fully operational, the reactors planned for Moorside will have a combined generating capacity of up to 3.8GW gross, enough to power up to six million homes. The current construction plans identify that a connection to the grid is required by August 2022 to support construction of the first of three Westinghouse AP1000® reactors targeted to come online in the mid-2020s.

The Moorside Project will help support UK Government's low carbon and energy security objectives at a time when existing power plants are retiring and low-carbon generation is a necessity if the UK is to meet its national and international commitments.

Construction of the new reactors at Moorside will create thousands of skilled jobs over the next decade, and the project is expected to significantly boost the local, regional, and national economies, with a large portion of the development and construction programme accessible to the UK supply chain.

The NWCC project remains a pre-requisite for connecting the Moorside project to the transmission network and ensuring safe and reliable operations. Confirmation that NuGen's project is funded, can progress in line with its programme requirements and to establish confidence in meeting connection dates are significant factors in the Final Investment Decision yet to be made in respect of the Moorside Project.

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

The proposal to use four 400kV circuits for Moorside satisfies NuGen requirements for reliability and Nuclear Safety for the power plant. Satisfying the SQSS requires significant network knowledge and will be an output from National Grid Electricity Transmission (NGET) studies. At this point NuGen is reliant on NGET having undertaken suitable and sufficient studies to ensure all SQSS requirements are met.

Question 3: Do you agree with our initial conclusion?

Addressing the conclusions set out in the Strategic Wider Works chapter in turn, NuGen comments as follows:

'It's our initial view that if NuGen commissions Moorside there will be a technical need for the NWCC project and that this would require four 400kV circuits to be constructed in the local area.'

Agreed from a NuGen point of view - see response to Question 1 & 2 above.

‘Based on our assessment of NGET’s proposals, we are satisfied that NGET followed a sensible and logical process in initially narrowing down its preferred routeing and agree that, using NGET’s current cost estimates, it appears to have selected the appropriate option.’

From information available to us through both the Ofgem consultation document and NGET NWCC Stage 2 Consultation, NuGen agrees that a sensible and logical process has been utilised to select the preferred routing.

The proposal for a North and South connection provides the required technical solution in terms of meeting both requirement for two independent power supplies to a nuclear power station and NGET’s proposed routing aligning with NuGen’s planned layout for Moorside.

‘However, the project’s design will still be subject to significant uncertainty. It is possible that additional mitigation will be required through the planning process, or that additional costs will be identified as the project matures.’

It is accepted that the NWCC project’s design is currently being progressed through the planning process and as such will be subject to challenge and possible change due to mitigations required by the consultation process. NuGen’s assumption is that a robust cost estimating process has been utilised together with an appropriate risk management process that has identified a suitable level of contingency and provide cost certainty as that project matures.

‘For this reason, if costs of the preferred option escalate significantly due to factors that NGET should have reasonably foreseen, we reserve the right to revisit the decision taken by NGET to reach its preferred connection option. We would do this as part of the Final Needs Case assessment and possibly disallow inefficient costs that should have been avoided.’

NuGen assumes that Ofgem’s process and procedure associated with the Strategic Wider Works and its Final Needs Case assessment allow it to reserve a right to revisit the NGET decision on its preferred connection route and disallow any inefficient costs that could have been avoided.

The consultation document is currently unclear as to how Ofgem and NGET propose to manage application, and any resultant impact of disallowed costs on NGET, and as such NuGen would have significant concerns on how this approach might impact delivery of the NWCC project.

NuGen’s concern in this regard is focused on gaining complete clarity and certainty on delivery of the required connection dates at its Final Investment Decision. Any NGET delay due to disallowed costs assessed of as part of a Final Needs Case assessment, or subsequent programme delivery delay due to additional funding constraints, could impact the Moorside project’s investment decision.

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

NuGen has identified two additional factors that should be considered as part of an Initial Needs Case assessment.

(i) Alignment of a Final Needs Case assessment with Development Consent Process and NuGen's Final Investment Decision

Currently NuGen understands that the Final Needs Case decision for the NWCC project is scheduled to be undertaken 6 to 12 months after granting the required Development Consent Order for that project. NuGen is concerned that timing and outcome of a Final Needs Case assessment by Ofgem in respect of the NWCC project will not align with timing of NuGen's Final Investment Decision. This disparity in programme dates could significantly impact investor confidence when making an investment decision regarding the Moorside project and it is a significant concern that delay to Final Investment Decision could result in delays for both project commencement and subsequent commercial operations.

(ii) Indemnification in respect of costs incurred by NuGen due to poor performance by NGET and/or an appointed CATO delivering the NWCC project

NuGen has been requested to indemnify and provide significant guarantees in respect of potential wasted costs and expenditure to ensure NGET's early progress regarding construction activities ahead of a Final Needs Case assessment and support achieving the required connection date milestones.

NuGen acknowledge that within current Strategic Wider Works arrangements and under the CUSC Construction Agreement with NGET no reciprocal arrangements, in terms of indemnification for additional costs incurred (or loss of revenue) caused by the NWCC project failing to achieve required connection date milestones is currently available. Further consideration should be given to introducing such arrangements under both the Strategic Wider Works and any proposed CATO process to protect a developer/operator against costs incurred and losses occasioned should contractually agreed transmission connection dates be missed and to give increased investor confidence to underpin bankability of projects.

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) NuGen agree with Ofgem's assessment that overall the NWCC project is both new and high value. However, NuGen does not have sufficient knowledge of network operation to be able to comment on whether the project as a whole is capable of being separable. NuGen remains cautious of increasing risk to deliverability meeting agreed connection dates or operational security standards. There is also increased

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interface management that would be required as a result of ‘additional operability challenges if a CATO were appointed’.

- (b) Further to response provided to Question 5(a) NuGen’s view is that splitting the NWCC project between multiple parties is likely to generate a higher level of risk in the areas identified.

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.

- (a) NuGen agree with Ofgem’s view that there could be challenges for deliverability of the overall project schedule if constructed by a CATO. The level of programme risk and uncertainty introduced as a result of both a CATO tendering process and need for any additional legislative framework causes NuGen significant concern regarding investment confidence and its ability to progress to a Final Investment Decision.
- (b) In accordance with the response to question 5 above, NuGen would wish to ensure that contracting strategy for transmission works does not adversely impact agreed dates within the existing connection agreements and/or NuGen’s construction programme.

Additionally, NuGen reiterates its view expressed in answer to Question 4 (ii) above that some form of indemnification for developers/operators in respect of additional costs and expenditure incurred or losses arising as a result of late delivery of works against connection dates should be considered.

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?

Given that a generator’s Connection Agreement is with the System Operator (NGET), NuGen believes it to be a sensible low risk option to seek to ensure a single interface is maintained and that any subcontractor coordination in respect of both the build and/or operation of transmission assets is done within current arrangements.

As proposed contracting arrangements and approach is currently not clearly defined as part of appointing of a CATO, NuGen’s concern is to avoid multiple contractual interfaces. Multiple contracting routes invariably add complexity and risk to projects, as well as additional management effort, and increase ongoing system maintenance costs due to multiple organisational interfaces.

The system maintenance interface could significantly impact NuGen’s generation capacity, current system limitations will require NuGen to reduce output in an SQSS n-1 scenario. With a single maintenance management interface between NuGen and the System Operator (NGET) any outages can be foreseen and managed to the mutual benefit of all parties (including consumers) while limiting operational restrictions. By

introducing multiple parties to the process there is increased risk of misalignment of requirements when managing maintenance outages and in turn could result in periods of reduced power output needing to be addressed within NuGen's cost model supporting its Contract for Difference (CfD).

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

In terms of the allocation of risk associated with the NWCC, NuGen's view is that there should be no increase in risk or liability to NuGen as developer, operator, and generator. Further consideration should be given to ensure that performance of the TO, or prospective CATO is underpinned for developer/operators by indemnification against any impact on projects by a failure to meet agreed dates to connect to the network.

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

NuGen reiterates its view that any additional risk to deliverability introduced by separating elements of the NWCC project as part of a CATO regime would be a concern.

NuGen remains keen to continue to engage with Ofgem as the Moorside project continues to develop and progresses through its planning process.

If you have any queries relating to this consultation response, please do not hesitate to contact either Chris Brennan - Head of Utilities and Grid Connections for NuGen, in the first instance, or myself.

Yours sincerely



Esa Heiskanen
Commercial Director and Deputy CEO

For and on behalf of
NuGeneration Limited