

11<sup>th</sup> October 2017

James Norman  
New Transmission Investment  
9 Millbank, London, SW1P 3GE  
02079 017 420  
NTIMailbox@ofgem.gov.uk

Eugenio Herrero  
Amey Investments  
4th Floor, 10 Furnival Street  
London EC4A 1AB

Dear James,

### **Hinkley-Seabank – Consultation on Final Needs Case and potential delivery models.**

Amey welcomes the opportunity to participate in the consultation process regarding potential delivery models for Hinkley-Seabank project under competitive arrangements. As a major service based organisation, active in the design and construction of new transmission projects and with broad based experience in financing, building, owning and operating major infrastructure assets in the UK, we recognise the opportunity to deliver value to the consumer through consideration of such an approach for onshore transmission assets and are keen to contribute to the consultation process. We thus respond to your questions as follows:

#### **Chapter 1: Regulatory framework for Hinkley-Seabank and other similar projects**

##### **Question 1: Do you agree with our initial views on the appropriateness of the new, separable and high value criteria for the SPV and Competition Proxy models?**

We concur with Ofgem's assessment of the appropriateness of the 'new', 'separable' and 'high value' criteria for the SPV and Competition Proxy models as clearly detailed in Appendix 5.

##### **Question 2: Do you think the criteria for identifying projects suitable for delivery through models intended to secure the benefits of competition should be the same, irrespective of which delivery model is used?**

We believe that the benefits of competition are maximised when the three criteria are fully achieved. When a project fulfils the three criteria, we believe that an SPV model brings further levels of competition when compared to the Competition Proxy. However, when the new and separable criteria are not fully met (or not to a very large degree), then the Competition Proxy model may be more applicable. In both situations, we agree with Ofgem that the high value criterion is still broadly applicable.

#### **Chapter 2: SWW Final Needs Case assessment**

##### **Question 3: Do you agree that there is a technical need for the HSB project and that the proposed connection is compliant with SQSS requirements? If not, please give evidence.**

We agree with Ofgem's view on the technical need for the HSB project.

**Question 4: Do you agree with our initial conclusions?**

We agree with Ofgem's initial conclusions, in particular with regards to the use of T-pylons.

**Question 5: Are there any additional factors that we should consider as part of our SWW Final Needs Case assessment?**

We believe that the consultation document summarises all relevant factors to be considered as part of the SWW Final Needs Case Assessment.

**Chapter 3: Assessment of suitability for competition and potential delivery models****Question 6: Do you agree with our assessment of HSB against the criteria for competition, including our view on potentially re-packaging the project so that it meets all the criteria?**

We agree with Ofgem's view on the assessment of HSB against the defined criteria. We concur with Ofgem's view to extract from the scope the section that is not new, under the 'new', 'separable' and 'high value' criteria. We believe the benefits of carving out that section out of the scope to ensure full compliance with the 'new' criteria outweigh the benefits of including it into the competitively tendered package, when considering the additional complexity of transferring the asset from the transmission owner to the successful bidder.

However, NGET will be required to ensure that this section of the project extracted from the scope progresses accordingly to the overall Hinkley programme under the traditional regulatory framework in RIIO-T1. There may be synergies with the HSB delivery entity which can and should be explored.

**Question 7: Do you agree that the SPV model or Competition Proxy model would deliver a more favourable outcome for consumers relative to the existing status quo SWW delivery arrangements under RIIO?**

We agree with Ofgem's view on competition for HSB. Based on previous policy papers, we agree that HSB meets fully the requirements of new, separable and high value criteria (with the exception of the small section that does not meet the 'new' criteria), therefore being subject to competition.

We would like to bring Ofgem's attention to the timeline proposed in the consultation paper. We believe it may be challenging to meet the proposed deadlines with the procurement time allowed. Although we fully support short and cost competitive procurement processes, previous experiences in large, privately financed infrastructure projects indicates that the allowed procurement period (from PQQ to Financial Close) may not be sufficient to ensure a robust appointment.

**Question 8: What are your thoughts on the SPV model, including:**

We believe the SPV model is the most appropriate model to achieve the benefits of competition. It is in line with the models and structures followed by other regulated businesses and it has more similarities with the latest CATO proposals than the Competition Proxy model.

**(a) The structure of the model and length of revenue term?**

We agree in principle with the structure proposed for an SPV approach and the proposed duration and revenue stream (25y), which is in line with the proven approach of other regulated businesses.

**(b) Should construction funding start during construction, or once it has completed?**

Providing funding to the delivery entity (either under an SPV or Competition Proxy model) during construction can bring down the cost of financing and therefore potentially make the projects more competitive. However, this should be weighed against other criteria and priorities such as de-risking the delivery of large infrastructure, minimising customer exposure to construction delays and extra costs, etc. Considering the wider policy papers already written about introducing competition in onshore transmission, our recommendation would be to not issue any payments (either under an SPV or a Comp Proxy model) until the project has been completed and the infrastructure has entered into service.

**(c) The contractual and regulatory arrangements?**

We agree with the views of Ofgem with regards the proposed contractual structure. NGET is a key party in the project and a fundamental enabler to the success of it. It is mentioned in the consultation paper that NGET may take a percentage of equity in the SPV, under an SPV model. There may be a benefit in having NGET as shareholder in the SPV. However, considering that the project is clearly new and separable, the benefits may not be so clear. We see NGET's role (under this assumption) as an actively interested party, being the ultimate transmission operator of the infrastructure. Should the section of the project considered 'not new' be part of the scope, we would see potential benefits in having NGET as part of the SPV. With regards to the regulatory arrangements, we agree with the proposed approach, leaving the regulatory reporting responsibilities and consents management with NGET.

**(d) The identified benefits?**

We concur with Ofgem's view about the identified benefits of competition for the scheme.

**(e) Any potential downsides or implementation risks?**

The main risk we have identified is the procurement programme, which we have commented above.

**(f) Any other considerations?**

None at this stage.

**Question 9: What are your thoughts on the Competition Proxy model, including:**

**(a) The structure of the model and length of revenue term?**

We agree in principle with the structure proposed for a Competition Proxy approach and the proposed duration and revenue stream (25y), which is in line with the proven approach of other regulated businesses.

**(b) Should construction funding start during construction, or once it has completed?**

Providing funding to the delivery entity (either under an SPV or Competition Proxy model) during construction can bring down the cost of financing and therefore potentially make the projects more competitive. However, this should be weighed against other criteria and priorities such as de-risking the delivery of large infrastructure, minimising exposure to construction delays and extra costs, etc. The Competition Proxy model may not effectively place the key

risks onto the industry as NGET remains the delivery entity. Considering the wider policy papers already written about introducing competition in onshore transmission, our recommendation would be to not issue any payments (either under an SPV or a Comp Proxy model) until the project has been completed and the infrastructure has entered into service.

**(c) How we identify comparable benchmarks?**

Experiences across other industries, and relevant assessments performed by Ofgem for the CATO process could provide comparable benchmarks.

**(d) The identified benefits?**

We understand the benefits brought by the Competition Proxy model. As mentioned before, we believe this model is highly relevant when a 'large' project does not fully meet the 'new' and 'separable' criteria. The HSB project would meet the three criteria, after a small (2% CAPEX) re-packaging process; therefore we do not clearly identify the benefits of the Competition Proxy when compared to the SPV model for the HSB project.

**(e) Any potential downsides or implementation risks?**

The actual implementation of the cost monitoring and benchmarking of NGET in the HSB project under a Competition Proxy model can be challenging. Construction costs will likely be similar to a "business as usual approach" and, as there are no 'new' or 'separable' reasons for introducing the Competition Proxy model, it may not fully realise the savings required for introducing competition under this approach.

**(f) Any other considerations?**

Not at this stage.

We trust these responses are of use and should there be any comments in this letter that Ofgem would look to discuss further, we would welcome the opportunity. We look forward to monitoring the development of this opportunity, continuing to participate in consultation process, and ultimately the competitive tender process when it comes to market.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Eugenio Herrero".

Eugenio Herrero  
Mobile: 07711 561376  
Email: eugenio.herrero1@amey.co.uk