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11 October 2017

Dear James

Hinkley – Seabank: Consultation on Final Needs Case and potential delivery models

Thank you for the opportunity to respond on the above consultation. Electricity North West Limited is the electricity distribution network operator based in the North West of England, with no supply or generation interests.

In delivering large new transmission projects such as Hinkley–Seabank, there is often significant interaction with electricity distribution networks. We have been working with National Grid on proposals for a potential new transmission connection for Moorside power station in Cumbria, for which Ofgem consulted on the Initial Need Case during early 2017. If taken forward, these proposals would affect our customers in Cumbria. This response is therefore from the perspective of an energy network provider regulated by Ofgem, having contributed to the development of another large new transmission project.

Delivering long term benefits to consumers is central to our aims so we support considering alternative delivery models for the Hinkley-Seabank (HSB) project, so long as they deliver net benefits for consumers and are consistent with the price control framework set out for RIIO. We agree it looks uncertain whether a parliamentary window is available for the introduction of enabling legislation for the proposed Competitively Appointed Transmission Owner (CATO) approach, especially given the current construction timescales for the Hinkley C project.

From the information available, it is difficult for us to assess if the SPV or competition proxy model could deliver the outlined benefits. The CATO model has been developed over a number of years by Ofgem and enhanced through engagement with the industry, and yet there are aspects of the CATO approach that need further development. So there are risks as well as potential opportunities to developing these new alternative delivery approaches which should be thoroughly evaluated. Any risks from a new delivery approach could be accentuated if regime development has to be driven by pressing project delivery timescales.

The potential impact on distribution customers through developing new delivery models needs careful consideration. At present, there is a high level framework for how we as a distribution company would work with a transmission company under the RIIO arrangements to deliver the distribution elements of a large new transmission project. Therefore it is important to reach sufficient clarity and provide regulatory certainty for any

impacted distribution company under an alternative delivery model and ensure that inappropriate risks are not transferred to distribution customers. In the case of the SPV model, this seems to entail more significant change than competition proxy arrangements. In particular, under SPV, how distribution and transmission companies work together could be a relatively complex area to address to ensure risks do not inadvertently transfer between parties and to avoid creating any additional costs that might be avoidable.

Please do not hesitate to contact me if you have any comments or questions on this response or related issues.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Paul Auckland', with a stylized flourish at the end.

Paul Auckland
Head of Economic Regulation