

Ofgem  
9 Millbank  
London  
SW1P 3GE

Attn: James Norman, New Transmission Investment

10<sup>th</sup> October 2017

Dear James

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

We have reviewed Ofgem's consultation paper on the potential delivery models for the Hinkley – Seabank (HSB), connecting the new nuclear power station in Somerset to the main transmission network, and Equitix are pleased to provide the following feedback;

As you know, Equitix is an investor in four OFTOs (Greater Gabbard, Thanet, Gwynt y mor and Humber Gateway), actively bidding the future OFTO pipeline, and an established investor in both the transmission and energy sectors. We are keenly awaiting the proposed Competitively Appointed Transmission Owner (CATO) regime, to deliver benefits to consumers from introducing competition into the delivery of certain onshore electricity transmission projects. We understand that the timescales to pass the required legislation may not be able to be passed in time for the HSB project to be procured as a CATO, and therefore we would welcome the project being tendered as a Special Purpose Vehicle Model as set out in your consultation paper.

As you will know, Equitix is an independent investor and experienced Asset manager with a track record of developing and selecting market leading partners to deliver Infrastructure Assets. We have an outstanding record of leading consortiums through all stages of infrastructure developments from successfully bidding to achieving contract award and financial close, construction and operations of our infrastructure assets.

Equitix has specifically targeted investments in the Renewable energy and offshore transmission sectors and has successfully bid and invested in four OFTOs. Equitix also owns and operates onshore wind farms and solar portfolios on sites across the UK. We are also active in the energy-from-waste sector and own interests in a number of assets including York and West Yorkshire waste PFI, Northumberland Waste, Welland Biopower and The Full Circle Generation gasification project in Belfast.

Following our success in the OFTO market, competitively tendered onshore transmission assets are considered a natural progression for our business going forward, making best use of our related experience, expertise and relationships.

We are already in discussion with a range of potential partners (from the U.K and overseas) who have indicated considerable appetite to bid for the Hinkley Seabank project. In order for us to progress these discussions we would like to understand more on the programme, and process for bidding. In particular how the high level design of transmission assets by NGET will be split with the

**Equitix Limited**

detailed design by the SPV and associated planning, access and consenting risks split between Bidders and NGET?

We attach Annex 1 – response to specific consultation questions and look forward to finding out more about the project and would be pleased to meet to discuss in more detail

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Nick Parker', with a stylized, cursive script.

Nick Parker

COO, Equitix Ltd

## Annex 1 – response to specific consultation questions

### 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?

**Response 1:** Given that Hinkley Seabank (HSB) would be delivered by National Grid Electricity Transmission (NGET) the incumbent Transmission Owner (TO) for the competition proxy model we agree that 'separability' and 'new' criteria may not be required in this instance.

**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?

**Response 2:** We would agree that there is benefit in introducing competition into the delivery of onshore electricity projects prior to the CATO legislation coming into force. We support all projects that meet the 'new', 'separability' and 'high value' criteria to be procured through the SPV model, however where projects do not meet the 'separable' and 'new' criteria then believe there could still be value to consumers by considering the Competition Proxy model using appropriate benchmarks such as the offshore transmission section.

### 2. SWW Final Needs Case assessment

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

**Response 3:** There is a clear need for the HHSB project given EDF's Hinkley Point C (HPC) nuclear power station will need to connect and considering the existing local transmission system.

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

**Response 4:** Please see responses below taking each conclusion in this section of the consultation in turn:

#### *How NGET reached its favoured design solution*

NGET has considered viable design alternatives including a subsea cable link and we believe that from the process followed and the limited information provided in this report that the selected solution appears to be the most cost effective.

#### *Mitigation of HSB's impact on the local landscape*

Given that HSB crosses the Mendip Hills Area of Outstanding Natural Beauty we believe the whole project needs to be designed and constructed to best mitigate the visual impact to the surrounding area, whilst still delivering value to money to consumers. T shaped pylons have the advantage of being shorter than traditional lattice towers and less visual impact on the surrounding environment, so seem suitable for HSB.

#### *Undergrounding of the section through the Mendip Hills*

Based on the engagement with stakeholders and the information that Ofgem has reviewed to make its decision, we would support the undergrounding of the section through the Mendip Hills.

#### *Additional cost of using T-pylons*

The T-pylon is an innovative pylon design that is intended to reduce the impact on the environment and saves the costs of undergrounding the cables in order to achieve planning permission. We believe the costs of the smaller pylon should be offset but the risk of not achieving planning and the costs of alternative solutions.

#### *Risk funding*

There are two possible approaches to deal with extreme weather risks, which given recent events in 2012 and 2014 are likely to occur during construction even though they are low probability and high impact. The first is to pass the risk to NGET and pay an appropriate contingency for this. This would limit the consumers' exposure if there is severe flooding during construction. Alternatively a similar methodology to the income adjusting event regime from the offshore transmission regime could be considered where the consumer would pick up the costs only in the event that the extreme weather risk materialises.

Pricing of any risk should look at the probability and impact (cost of the event) and also consider if there are any mitigations that can be put in place to further reduce the risk.

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

**Response 5:** From the information provided we consider that you have considered the main factors required for the SWW Final Needs Case.

### **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?

**Response 6:** We agree with Ofgem's assessment of HSB against the criteria for competition. Given NGET the incumbent TO will be construction and operating this project does not need to be re-packaged in this instance and may cause additional administrative burden. Given the small value of the works at 2% of the capital value we believe that this should be able to be managed within the HSB project scope.

**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?

**Response 7:** We believe that the SPV model would deliver a more favourable outcome for consumers relative to the existing SWW delivery arrangements under RIIO.

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

- (a) The structure of the model and length of revenue term?
- (b) Should construction funding start during construction, or once it has completed?
- (c) The contractual and regulatory arrangements?
- (d) The identified benefits?
- (e) Any potential downsides or implementation risks?
- (f) Any other considerations?

**Response 8:**

- (a) 25 years seems a reasonable revenue term for the SPV. However, in the current market 25 year is considered a long tenor and it is possible the SPV may need to consider refinancing assumptions within this period.
- (b) Given the length of the construction period we believe that construction funding should start during construction.
- (c) We understand that under the regulatory regime that NGET will remain responsible for obtaining consents, high level design, legal responsibility for construction, regulatory reporting and consents management. We believe appropriate contractual arrangements can be made between the SPV and NGET to accommodate these proposals. It will be important to have a clear risk allocation between the SPV, NGET and ultimately consumers and this will determine the maximum value that can be delivered. There is insufficient information of the split of roles between NGET and the SPV and the risk allocation to be able to consider if the proposed is appropriate. We believe that during the discussions with NGET to develop the SPV model, risk allocation should be based on ensuring that the SPV is exposed to risks that it is economic and efficient for them to manage. As demonstrated by the offshore transmission regime we believe the SPV model could deliver substantial consumer savings when compared to the SWW status quo. This will be achieved by delivering a lower cost of funding and introducing competition into the regime for 'high value' projects.
- (d) The success of this model is dependent on the structure of the SPV model and the risk allocation between NGET, SPV and ultimately consumers. We believe given the work undertaken on the CATO regime supported by the proven success of the offshore transmission sector this is achievable in the time frames discussed in the consultation. If implemented, the HSB SPV model would serve as a pathfinder for developing the CATO model for future projects.
- (e) We have identified some of the potential downsides, and risk considerations as follows;
  - What is the timing of the completion of the new connection in relation to the new Hinkley Point C Nuclear power station. Bidders would not usually accept the risk of consequential loss, particularly in the context of a nuclear facility where the potential liquidated damages for loss of revenue would be disproportionate to the value of the project.
  - Land acquisition and planning/permitting could impact the feasibility of putting in place viable finance. SPV can take some of this risk but not unlimited in terms of time and money.
  - Risk sharing – an SPV approach does not preclude the sharing of even the most challenging of risks. This may prompt considerations of how best to generate value for money. Planning, permitting, land acquisition, consent and ground conditions risks can be managed if they are capped in terms of time and financial impact.
  - Land/title risk is a significant potential issue – NG ought to carry out extensive title due diligence and consider making available a certificate of title or title report available to the successful SPV bidder for reliance and also be prepared to discuss the occurrence of known and unknown risks. Asking individual bidders to diligence title/land risk is a burden that may dissuade interested parties from bidding, depending upon the complexity of the cable corridor and the land
  - Ground conditions risk is also a consideration in circumstances where NG is selecting the cable corridor. Again, detailed information should be provided to enable bidders to fully assess and price the risk. Ofgem needs to assess the risks involved and, as a result, the

approach to risk allocation that will best promote value for money, competition and bankability.

- The role of Ofgem and NG in the procurement requires further clarification. As recognized in the consultation document, there is an inherent conflict in the role of NG as the procuring counterparty since our understanding is that NG will potentially be competing with some of the bidders on future CATO procurements over a program of possible projects. Will Ofgem run the procurement having agreed the risk allocation parameters with NG in advance?
- (f) Another consideration is the size of the Project - £777m – both eminently financeable and capable of being wrapped into a single EPC contract, i.e. size of the EPC contract would not preclude a project financing style debt solution. Performance support would be available for an EPC of this size.

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

- (a) The structure of the model and length of revenue term?
- (b) Should construction funding start during construction, or once it has completed?
- (c) How we identify comparable benchmarks?
- (d) The identified benefits?
- (e) Any potential downsides or implementation risks?
- (f) Any other considerations?

**Response 9:**

- (a) 25 years seems a reasonable revenue term
- (b) Given the length of the construction period we believe that construction funding should start during construction
- (c) The Competition Proxy model does not involve the running of a full competition to determine the most efficient solution in the same manner as the CATO or SPV models. Comparable benchmarks may be difficult to establish and agree given that the specific risks will vary from project to project.
- (d) The Competition proxy model should have no direct impact on the procurement timetable currently proposed by NGET nor any transferability issues associated with the Competition Proxy model, as delivery of HSB would continue under the full responsibility of NGET. The proxy model will potentially deliver savings to the consumer, however this will not include the benefits that could be achieved by delivering a lower cost of funding and introducing competition into the regime for 'high value' projects.
- (e) As stated above, the Competition Proxy model does not involve the running of a full competition to determine the most efficient solution in the same manner as the CATO or SPV models. Comparable benchmarks may be difficult to establish and agree given that the specific risks will vary from project to project. The proxy model does not include the benefits that could be achieved by delivering a lower cost of funding and introducing competition into the regime for 'high value' projects.
- (f) The Competition proxy model would not serve as a pathfinder for developing the CATO model for future projects.