

Ofgem
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Email to: NTIMailbox@ofgem.gov.uk.

10 October 2017

Dear James,

Lewis Wind Power Holdings (“LWP”) is a 50/ 50 joint venture between EDF Energy Renewables and Wood Group (formally Amec Foster Wheeler).

LWP own two consented pre construction wind farm sites on the Isle of Lewis in the Western Isles of Scotland. These projects have a potential combined installed capacity of over 340MW and have grid connection agreements with a current connection date of 2021, but are currently forecast to be connected c. 2023. The connection is reliant on Western Isles Link (“WIL”) going ahead. The WIL has been identified as SWW, and therefore LWP consider that whatever delivery model is implemented for Hinkley- Seabank will be an important precedent for the delivery and charging of the WIL. LWP’s response is provided in this context and thus LWP have not commented on the questions that relate directly to the needs case for the Hinkley- Seabank connection. LWP is in a different phase to Hinkley Point C given our projects have not yet reached final investment decision and we are currently undertaking an extensive project optimisation exercise as part of our plans to compete in a CfD auction in late 2018/ early 2019.

LWP welcome the general consideration of delivery models for SWW, and support any initiative that would reduce the cost of delivering these transmission projects to the benefit of electricity consumers. As connection costs to the transmission system represent 50% of LWP’s project costs a robust, grid delivery model is essential for meeting our cost reduction ambitions. It is also critical that Ofgem’s thinking considers how these new delivery models will work alongside the CfD auction process to ensure that the projects, and ultimately electricity consumers, secure the benefits.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Will Collins on 07966 475390, or me.

I confirm that this letter and its attachment may be published on Ofgem’s website.

Yours sincerely,

Mark Vyvyan- Robinson, Director Lewis Wind Power Holdings Ltd

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Responses to questions:

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?

LWP agree with Ofgem's initial view that for the SPV model, the new, separable and high value criteria are appropriate

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?

LWP believe that for the Proxy model, only the separable criterion is needed as there is a strong rationale for the charging for all transmission assets to be benchmarked to a 'market' cost of financing such assets, regardless of value.

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.

No comment.

Question 4: Do you agree with our initial conclusions?

No comment.

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

No comment.

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?

No comment.

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?

No comment.

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?

In any circumstances where the agreed rate of return is reduced, in this instance through linking it to current financing costs for the type of infrastructure being contemplated then,

yes, LWP would expect cost reductions. In the implementation of both models the allocation of risk will still require careful scrutiny to ensure that cost savings are achieved over the lifetime of the project.

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?

(a) To provide cost and operational certainty over the lifetime of the assets that LWP expect to connect to the electricity transmission system the revenue term should be at least 25 years, although we believe a term more analogous with the lifetime of the assets (c. 40 years) is more appropriate. In terms of structuring, when the SPV is created it will be key to ensure that it had all the necessary assets and expertise (e.g. TSO staff should be transferred to the SPV to ensure lessons and experience from other projects are learnt.) to deliver the SWW that currently resides with the TO. Contrary to the Proxy model where we rely on Ofgem to decide if the costs (including any contingencies) are fair, the SPV model will introduce a competitive process to assess the whole package covering financing and capex. In principle the SPV model could deliver a higher overall cost reduction which could be of benefit to LWP. However design of the arrangements will be critical to achieve this as set out below. Also the SPV model creates additional processes and interfaces which may increase overall delivery timescales. In selecting any alternative delivery model it will be critical to assess any risks/impacts on delivery and timescales.

(b) In order to provide the required focus on delivery, it makes sense for construction funding to start once the asset has been completed provided that this does not add significant cost. For prolonged investment timescales we can though understand that there may well be cost advantages from providing some funding during construction.

(c) Success in reducing costs will be driven by competition, but also by an appropriate risk allocation agreement with NGET. Getting the balance of risk right, both during construction and operations, will be key in delivering cost reductions. There should be reasonable protections for generators to ensure they receive the quality of connection that would have otherwise been delivered and operated by the TO, e.g. there must be appropriate incentives for the WIL asset owner to restore supplies in the event of a fault. Particular attention should be given to any proposed caps on liabilities.

(d) We believe to achieve the identified benefits the model will require extensive and comprehensive detail on risk allocation and legal structures to i) attract bids from a widest range of third party investors, ii) to ensure the competency of the bidders to deliver the projects, and iii) to ensure that the framework is optimal from a customer perspective. In particular in the case of projects like LWP it will be necessary for the

project to have a good understanding of the likely or confirmed cost reductions from these alternative delivery models before the CfD auction. If LWP are unable to have confidence in the potential cost reductions then these benefits will not be factored into the project and electricity consumers will not benefit. This is an important area for further consideration as Ofgem develops their thinking.

(e) See responses to (a) and (c).

(f) The implementation of the new model should be structured so as to not impact on project delivery. For the SPV model LWP do not believe there is adequate time for SWW being contemplated by this consultation's proposals to ask all investors to do the design and procurement themselves. The competition should be on the basis of the design and tender responses already prepared by the TSO (i.e. keeping steps 2 and 3 in Figure 3 separate in the consultation, not combining them).

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?

(a) To provide cost and operational certainty over the lifetime of the assets that LWP expect to connect to the electricity transmission system the revenue term should be a least 25 years though, as noted above, a term more analogous with the lifetime of the assets (eg. c.40 years) is more appropriate. LWP note that the Proxy model will only reduce cost in line with financing cost reduction but no other benefit. While we would expect this to be the most significant part of any benefit, the Proxy model will be reliant on Ofgem's cost assessment to derive cost reductions on the capex (or project assessment) and therefore will probably not be capable of delivering the full cost reductions of the SPV model.

(b) In order to provide the required focus on delivery, construction funding should start once the asset has been completed although, as noted above, over prolonged construction periods there may be merit in funding during construction if this can reduce overall costs.

(c) Recent experience of the delivery of OFTO assets should be able to indicate suitable benchmark along with Ofgem's assessment of interconnector cap and floor regime.

(d) We believe the identified benefits are achievable in the context of current cost of debt. However, as before, in cases like LWP it is important for the interaction

between the delivery models and the CfD auction to be considered. This is critical to securing the expected benefits for electricity consumers.

(e) See responses to (a).

(f) The implementation of the new model should be structured so as to not impact on project delivery.