MOTT MACDONALD

Hinkley - Seabank Consultation Response

RE: Consultation on Final Needs Case and potential delivery models

11 October 2017

Dear James Norman

We welcome the opportunity to respond to your latest consultation "Hinkley-Seabank – Consultation on Final Needs Case and potential delivery models" published 30 August 2017.

Mott MacDonald is a US$2bn engineering, management and development consultancy including over 1,400 staff working directly on power-related projects. We are seen as world leaders in the power sector.

James Norman

New Transmission
Investment
9 Millbank
London
SW1P 3GE
United Kingdom

NTIMailbox@ofgem.gov.uk

For more than 100 years, we've delivered the industry's most prestigious and challenging assignments, playing a leading role on some of the world's milestone energy projects.

We are structured to support our global clients wherever in the world they are funding, developing or constructing power transmission and distribution projects and assets. We work closely with them and other parts of our business to bring together the skills needed for the specific requirements of their projects. We blend skills from our team of electrical, civil and environmental consultants, scientists, economists and project managers bringing this together with the rich and diverse skills available within our wider business as needed for our projects.

We have notable experience in working on the UK onshore transmission systems for current asset owners and have also been engaged on all the OFTO tender rounds. We are very familiar with the competition approach and mechanisms associated with the OFTO regime. We therefore consider ourselves well placed to comment on the important items addressed in this consultation.

Our responses to each of the questions that we have identified as key areas where we can add value to the discussions are included in the following sections of this document.

We trust that you find our responses valuable and we would be very happy to provide further support as may be required.

Duncan Broom

Power Transmission and Distribution Practice Leader

Mott MacDonald
Victory House
Trafalgar Place
Brighton BN1 4FY
United Kingdom

T +44 (0)1273 365000
F +44 (0)1273 365100
mottmac.com

Response to 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 have reviewed Ofgem's initial views on the criteria for the SPV and competition models. We are aligned with Ofgem's view that the criteria of new, separable, and high value criteria are appropriate for the SPV model. We are similarly aligned with Ofgem that a competition proxy model would not necessarily trigger the same interface challenges as the SPV model and thus that the criteria of separable and new may not be as appropriate in this instance. However, the proposed Competition Proxy model still requires separation of operating costs and this may present challenges where there is a mix of existing and new assets in a single circuit.

Response to 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.

Transmission infrastructure is required to export power from a large generation source. Whilst there is existing 400 kV and 132 kV infrastructure within the area of the South West in which the Hinkley Point C (HPC) project will be located, we understand that there is insufficient capacity in the existing network and that enhancement is required to provide appropriate power transfer capacity across the B13 boundary whilst maintaining SQSS compliance. Following our review of the information that has been presented by NGET and TNEI we are aligned with NGET's conclusion that the proposed network enhancements are required. We therefore conclude that there is a technical need for HSB (or equivalent) if the HPC project goes ahead.

We have reviewed the information presented by Ofgem and TNEI and conclude that the upgrade and reconfiguration of some of the existing Hinkley Point lines and replacement of the existing 132 kV double circuit with a new 400 kV double circuit is compliant with the SQSS requirements.

Response to Question 5

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

We consider the factors that have been considered sufficiently inform the Initial Needs Case assessment.

Response to 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 have reviewed the documentation presented by Ofgem and TNEI and conclude that the repackaged project meets the three criteria for tendering: i.e. New; Separable, and High Value.

We agree that it is appropriate that the short existing overhead line section between Shurton and Bridgwater (that reuses existing 275kV infrastructure) is categorised as an existing asset and is excluded from the project to be tendered.

Response to 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?

Whichever model is ultimately selected, we consider it of critical importance that the project is delivered and operable on time and to the required quality. The consequences of not doing so, given HPC's importance to the UK electricity supply, would be very damaging. Whichever model is selected the following should be ensured:

- Proper commercial and technical monitoring to ensure quality, progress, and sufficiency of funding
- Commercial incentive mechanisms and ability to take on appropriate liabilities to ensure/encourage timely and high-quality delivery
- Adequate contingency plans in case the monitoring shows that the selected delivery is not performing.

All of these need to be in place to a far greater extent that on an OFTO project, although we do recognise that being onshore, the physical and construction risks are significantly lower than those in the OFTO cases. The costs of implementing the above three elements would have to be included in any assessment of the likely cost and benefits of each delivery model.

We believe that it is appropriate for funding to commence during construction, provided that the above three elements are implemented. A significant lag between earned value and payment on the asset would be required to ensure that Ofgem has sufficient

financial leverage and sufficient time would have to be in hand to allow contingency plans to be implemented.

Response to 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?

We consider that obtaining comparable benchmarks against which to develop the Competition Proxy model could be extremely challenging. We expect that the benchmark costs will need to be more refined than standard unit costs and in order to be valuable, should take in to account individual tower designs and ground conditions. Identifying and developing comparable benchmarks could be a detailed costing exercise which, whilst not impossible, could prove challenging.

For further information, please contact us:

Duncan Broom **Power Transmission and Distribution Practice Leader** +44 (0) 1273 365413 duncan.broom@mottmac.com	**Fay Lelliott** **Lead Advisory Engineer** +44 (0) 1273 365280 fay.lelliott@mottmac.com
Paul Fletcher **Technical Director** +44 (0) 1273 365405 paul.fletcher@mottmac.com	**Michael Walker** **Lead Advisory Engineer** +44 (0) 1273 365233 michael.walker@mottmac.com

mottmac.com