



RES UK & Ireland Limited
Beaufort Court, Egg Farm Lane, Kings Langley
Hertfordshire WD4 8LR, United Kingdom
T +44 (0)1923 299 200 F +44 (0)1923 299 299
E info@res-group.com www.res-group.com

James Norman
Ofgem
9 Millbank
London
SW1P 3GE

Our Ref: TRANS01-000751

9 October 2017

Dear James,

Re: RES Response to Hinkley - Seabank Consultation on Final Needs Case and Delivery Options

RES is one of the world's leading independent renewable energy companies, working across the globe to develop, construct and operate projects that contribute to our goal of a secure, low carbon and affordable energy future. RES has been an established presence at the forefront of the renewable energy industry for over three decades. Our core activities are the development, design, construction, financing and operation of wind and solar PV projects. We are also active in electricity storage, DSM and transmission markets. Globally, we have built approximately 10GW of renewable energy generation, including almost 10% of the UK's current wind energy capacity and over 1,600 km of transmission lines.

RES welcomes the Hinkley – Seabank Consultation on Final Needs Case and Potential Delivery Models dated 30 August 2017 (“the HSB Delivery Options Consultation”) and supports all efforts to introduce competition into onshore transmission delivery and ownership. Responses to the detailed questions posed in the HSB Delivery Options Consultation are set out in Appendix 1 below but our key messages are highlighted below.

- We welcome Ofgem’s continued commitment to establishing the full CATO regime once a window for due Parliamentary process arises.
- We agree the needs case for HSB is clear and that the proposed solution meets SQSS.
- We agree that the repackaged HSB satisfies the new, high value and separable criteria
- We agree that either the SPV or the Competition Proxy model would deliver a more favourable outcome for consumers relative to status quo. However, we would highlight that there is no substitute for the introduction of full competition in terms of revealing best value to the benefit of the consumer. With this in mind, we encourage further consideration of options, with particular focus on introducing competition into asset ownership and / or operation post completion of construction.

- We are confident that the SPV model would deliver best value for consumers relative to the Competition Proxy model and status quo but timescales, as currently proposed, would make implementation very challenging.
- Were Ofgem to adopt the Competition Proxy approach, we would encourage Ofgem to apply a full benchmarking exercise to ensure robustness of proxy assumptions and value for the GB consumer.

We hope you find this response helpful and if you wish to discuss any of the points raised herein, we would very much welcome the opportunity to discuss it with you.

Yours sincerely,



Patrick Smart
Head of Energy Networks
E Patrick.Smart@res-group.com
T +44 191 3000 452

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?

In theory, yes. We remain convinced of the benefits to consumers of introducing competition to onshore transmission in GB. The purpose of the criteria is to ensure that the integrity of the GB transmission system is not compromised and unjustifiable risk of cost to the consumer is not introduced through the introduction of that competition. We do not think that the delivery vehicle for that competition is relevant to the applicability of the criteria.

Whilst we are supportive of the criteria in general, we are not convinced that projects appearing in the Network Options Assessment (NOA) represent the entirety of transmission investment that could reasonably be made available for competitive delivery and operation. From an investor perspective, the NOA process would appear to afford the incumbent TOs significant opportunity to structure projects in a way that fail the competition criteria. New investors in competitive transmission would welcome greater transparency around the derivation of the NOA projects by the incumbent transmission licensees. We would also request that Ofgem consider expansion of the criteria to include transmission connections and asset replacements during the current RIIO-T1 period in advance of its currently planned introduction in RIIO-T2.

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?

Yes, OFTO is a good example of the effectiveness of competition in delivering value relative to regulation. We understand that the currently proposed CATO criteria were established in order to ensure that the benefits to consumers would outweigh the costs associated with the CATO process. However, we would encourage Ofgem to ensure that they do not present a barrier to the development of effective competition in onshore transmission. For example, we think it is foreseeable that there are multi-locational transmission investments (e.g. voltage compensation at different substations) which, if considered as individual projects, would fail the competition criteria but could be tendered as a grouped package at significant benefit to the consumer.

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.

In light of evidence provided, yes, we agree.

Question 4: Do you agree with our initial conclusions?

In light of evidence provided, yes, we agree. However, in light of current delivery timescales (commencement of construction in 2020 with completion in 2025) and the potential for delay to those timescales we encourage Ofgem to keep options open on introducing competition into the delivery process.

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

We support Ofgem's view that it is inappropriate for the consumer to bear costs associated with the generic development of the T Pylon and that these costs should be stripped out of any funding outcome. We understand that additional costs associated with the T pylon design, relative to the more "business as usual" lattice tower are justified on grounds of reduced environmental impact and more efficient planning process. We would ask how these additional costs were bench marked relative to existing low visual impact monopole transmission line designs that could have been used?

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?

Yes, we agree that HSB, as proposed, satisfies the criteria for competition. We also understand and agree with the rationale for the proposed repackaging of the project, however we think that, were the full CATO regime to be in place, this repackaging could see the establishment of two separate CATO projects. This is of no significance to the Status Quo nor the Competition Proxy models but could be considered were Ofgem to pursue the SPV model.

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?

Yes, we agree that the SPV model or Competition Proxy model would deliver a more favourable outcome for consumers relative to the existing status quo under RIIO. Current NGET returns under RIIO indicate that status quo would represent very poor value for consumers.

We understand that current delivery timescales for HSB may challenge the extent to which competition may be introduced into the construction phase, however the potential for delay means that this should not be discounted at this stage. We reiterate that neither of these models will deliver the benefits that would arise from the introduction of full competition.

We would also encourage Ofgem to consider the benefits making asset ownership, operation and maintenance of the completed HSB open to competition. We are convinced that this would realise significant savings for consumers, particular in the later years of the asset lifetime. One approach could be to mirror the OFTO self-build model, in which the incumbent TO designs and builds HSB for the construction period only. Post completion, Ofgem would run a tender process to select a CATO bidder to own, finance and operate for a future term in process similar that used in the OFTO regime.

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

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

We can see how the CATO proposals, including the 25 year revenue period, provide a useful framework for an SPV structure. However, these proposals remain at a high level and we would reserve judgement until a further level of detail, reflected in a draft delivery agreement between National Grid and a successful SPV, is worked up and published. We note Ofgem's proposal for a possible benefit sharing arrangement between the SPV and NGET. Whilst we understand that Ofgem is attempting to engender a collaborative working relationship, the effectiveness of this proposal won't be known until the full detail of the delivery agreement and funding arrangements are made available. Such an arrangement could give rise to perverse incentives to the disbenefit of consumers.

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

Starting the funding of construction whilst it is ongoing would reduce the cost of financing delivery so we would support such a proposal on the understanding that suitable incentives to ensure quality and timeliness of completion were put in place.

(c) The contractual and regulatory arrangements?

We assume that NGET would seek to pass through its licence duties in a delivery agreement with the SPV. In order to reveal the true benefits of competition for the consumer, it is essential that this delivery agreement closely follows NGET's duties, delivery standards and typical ways of working. The detail of this delivery agreement will be the key risk factor in the eyes of new entrant SPV investors.

(d) The identified benefits?

We think the SPV model could deliver cost benefits to the consumer relative to status quo and the competition proxy model, we remain convinced that it would fall significantly short of those achievable under full competition.

(e) Any potential downsides or implementation risks?

Assuming that an efficient and equitable delivery agreement can be developed we think that, there would be no downsides in terms of asset delivery and a significant potential for improvement relative to status quo.

(f) Any other considerations?

Were the SPV model to be pursued, we would urge Ofgem to ensure that risk pass through terms in the delivery agreement with National Grid should not only reflect NGET's current RIIO arrangements but also the outcome of typical reopener requests associated with extraordinary events. This will ensure that investors are exposed to risk truly reflective of that to which the incumbent TOs are currently exposed.

More generally, we encourage Ofgem to keep its options open on introduction of competition in light of the fact that regulated revenues for HSB will not commence until 2025 with the possibility of further delay.

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

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

We would agree that the revenue term of 25 years is appropriate. In terms of the proposed model, we would question why ongoing ownership and operation should be included. The key driver for adopting competition proxy is the requirement to commence construction in 2020 and the potential for delay associated with the SPV model. However, given that operation of HSB will not start until 2025 at the earliest, there is clearly the opportunity to introduce competition into this activity. We would therefore propose that operation and maintenance be carved out from the proposed model and either be tendered along the lines of the SPV model or even pursued via the full CATO model assuming legislation and supporting regulatory change can be achieved in the required timescale.

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

We would support commencement of construction funding during construction provided it gave rise to a suitable reduction in WACC.

(c) How we identify comparable benchmarks?

We can see how the competition proxy models involves the review of equivalent market indicators and the establishment of funding and delivery arrangements based on those indicators. There are instances of infrastructure projects of a similar nature (e.g. PFI projects), where an external benchmarking exercise has been carried out to validate delivery and funding arrangements in order to confirm value for money. We would welcome the opportunity to discuss such an exercise further with Ofgem.

(d) The identified benefits?

We note Ofgem's view of the extent of likely benefits but would reiterate that this model is unlikely to deliver benefits that rival those that would be seen under a truly competitive model.

(e) Any potential downsides or implementation risks?

Whilst we would expect a competition proxy model to deliver better value than the Status Quo, we are also firmly of the view that there is no substitute for genuine competition. A proxy process will not reveal the true best value cost of onshore electricity transmission.

(f) Any other considerations?

As noted in response to 7(f), we encourage Ofgem to keep its options open on introduction of competition in light of the fact that regulated revenues for HSB will not commence until 2025 with the possibility of further delay.