

TRANSMISSION CAPITAL PARTNERS

James Norman
New Transmission Investment, Systems and Network
Ofgem
10 South Colonnade
Canary Wharf, London
E14 4PU

30th April 2019

Dear James,

Consultation on the Western Isles transmission project: Final Needs Case and Delivery Model

Transmission Capital Partners manages one of the largest offshore electricity transmission portfolios in terms of the capacity of offshore wind connected. Our managed portfolio of Offshore Transmission Owner (OFTO) assets includes the connections to the Robin Rigg, Gunfleet Sands, Barrow, Ormonde, Lincs, Westernmost Rough and Dudgeon offshore wind farms - a portfolio of circa 1.5GW (£1.1bn in capital employed).

We remain strong advocates of introducing competition into the delivery of onshore transmission and we continue to support the development of the required arrangements *inter alia* through industry groups, responding to consultations such as this one and, when called upon, providing evidence to parliament.

Our response provides our view on two of the questions specifically raised in the consultation, and also seeks clarity from Ofgem on whether the SPV model is still being pursued in the RIIO-T1 period.

Specific questions

We have only responded here to the two specific questions which relate to the suitability for competition of, and the delivery model for, the Western Isles transmission project (the "Project").

Suitability for competition (question 7)

We agree with Ofgem that the Project meets the criteria for competition of being 'new', 'high value' and 'separable'. The Project is clearly new, at an estimated cost of £596m (for the 450MW option) it easily exceeds the £100m threshold, and is also separable.

With respect of the estimated capital cost of the project we agree with Ofgem's assessment (set out in paras 2.43 to 2.44) that the estimated cost of £596m is excessive. Ofgem's assessment indicates the TO's estimated capital cost (for the 450MW option) is between 65% and 88% more than they would expect, which is a staggering potential range of overspend. True competition (via the CATO or SPV models) should reduce the overall cost and thereby achieve savings which would far exceed those achieved by the CPM model.

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Delivery Model (question 8)

We agree that given the continuing delay in the primary legislation necessary to implement the full CATO model, this model may not be available in time, and therefore the SPV model is the only competitive model that could be open for third parties to finance and deliver the Project.

We do not agree that if the Western Isles project needs to be ready for energisation by October 2023, then an SPV tender would need to have been devised and run by late 2019 or early 2020. An HVDC project of the scale of the Western Isles project should have no more than a 3-year construction period. In our view then, the tender only needs to have been completed by October 2020 for the SPV model to be used, and it should be possible to have completed an SPV tender by October 2020.

Ofgem policy on the SPV model and timing

The minded to decision not to use the SPV due to insufficient time is the fourth such decision (the others being the Hinkley-Seabank, Orkney and Shetland transmission projects).

The SPV delivery model not being an option due to time will suit the incumbent TOs and will incentivise them to submit needs cases at a late stage in order to achieve this. Not only does this prevent true competition in the delivery of transmission but can also remove options in respect of project design.

We believe that Ofgem should make a decision on the delivery model at an earlier stage in the process (perhaps at Initial Needs Case stage). The decision would clearly need to be caveated with Final Needs Case approval. An early decision to use the SPV (or CATO) model would remove the incentive on the incumbent TO to delay the submission of the Final Needs Case, and put the incentive on the TO to submit the Final Needs Case in time for truly competitive delivery.

We note that Ofgem has not provided an update on the work it is conducting to progress the SPV model since the workshop in October 2018. It would be helpful if Ofgem could clarify whether it is still considering this model for RII0-T1 projects.

Yours sincerely,



Chris Veal

Director, Transmission Capital Partners GP Limited,
On behalf of Transmission Capital Partners Limited Partnership