

Thomas Johns
Senior Manager
10 South Colonnade
Canary Wharf
London
E14 4PU

26 November 2019

Dear Thomas,

Re: Hinkley - Seabank: Consultation on Ofgem's updated delivery model minded-to position

We support Ofgem's minded to decision to take forward the Hinkley - Seabank transmission project through the main RIIO price control framework, as part of the strategic wider works mechanism.

The RIIO framework incorporates lessons from decades of network regulation. Many aspects of it have been developed to "proxy competition". For example, debt costs are indexed over time to reflect changing market conditions. Ofgem then re-calibrates this index at each successive review based on the debt costs actually observed in the sector. Debt costs are therefore passed on to consumers in a similar way to a competitive market. Ofgem has also developed many of its other tools, such as cost assessment, to mimic the effect of competition.

At the same time, there may be unintended consequences of the competition proxy model. For example, Ofgem lists potential "hard to monetise" benefits including ring fencing certain risks for a specific project in a way that can reduce financing costs. This is likely to transfer risks to consumers and therefore carry other hard to monetise costs, for example it could reduce incentives towards cost efficiency. Full competition models can also increase fragmentation of the system, leading to higher risks of system instability, although we recognise this issue would not apply to the competition proxy model.

The minded to decision to revert to the strategic wider works mechanism would also leave intact this aspect of the RIIO-T1 settlement for transmission companies, which cannot be negative for investor confidence in GB energy network regulatory decisions. This could therefore carry wider benefits to energy consumers in future (provided that other important aspects of the framework also support confidence).

Yours sincerely

A handwritten signature in black ink that reads "Keith Noble-Nesbitt".

Keith Noble-Nesbitt
Head of Regulatory Economics

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