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Dear James,

Re: North West Coast Connections – Consultation on the project’s Initial Needs Case and suitability for tendering

On behalf of Electricity North West Limited (ENWL), we appreciate the opportunity to respond to this consultation. Our detailed response to the questions posed in the consultation document is provided in Appendix 1 and reflect those areas where we believe we are suitably placed to respond. To assist your process, we have summarised our key points below.

(i) Technical Need for the project

We have worked with National Grid Electricity Transmission (NGET) to consider the impact on the distribution network of a number of transmission solutions to help NGET identify the efficient “whole” solution to meet NuGen’s connection application. At present, there are no transmission assets in the western part of Cumbria and as such believe that the introduction of transmission infrastructure is an appropriate and necessary response to meet the customer’s requirements to connect a 3.6GW power station.

(ii) Implications of NWCC for ENWL

Through this process, we have worked with NGET to develop an appropriate solution to meet the needs of the connecting customer and also wider GB transmission customers. Accordingly, we are in the process of agreeing significant works at the distribution level to facilitate and mitigate the impact of these transmission works. It is essential for our customers across the North West (NW) that the full impact of our works are appropriately considered and that recognition is accorded to the steps being undertaken by ENWL, on behalf of our customer, to facilitate this process.

We acknowledge the intention stated in para 2.38 to undertake a more detailed assessment of our costs if the project progresses and remain committed to working with Ofgem on this. Similarly, if additional information is required on our works or costs to facilitate the process then please let us know.

We appreciate the dialogue to date with Ofgem regarding our works but believe it is important to recognise that there are a number of key strands to this that remain to be addressed. The most notable of these from our perspective is the development of an

appropriate incentive mechanism to enable us to appropriately manage the risks on behalf of all customers associated with the delivery of works on our network with the relevant transmission licensee/s. There are elements of risk associated with the work that we are more appropriately placed to mitigate and manage and believe that an appropriate framework to do this is in the best interests of all parties. We look forward to further discussions on this aspect.

In addition, there are a range of potential direct impacts to ENWL, our customers and shareholders that we are currently working through with you and the wider Ofgem team, in terms of both the RIIO-ED1 and ED2 periods. We are particularly mindful of the importance of ensuring we deliver on our wider commitments to our customers and stakeholders for these periods. We look forward to progressing consideration of these issues further over the coming months.

(iii) Interactions with the CATO framework

As previously set out, we support the introduction of competition where it is in customers' interests. Based on our work to date, we do not believe our works should, in and of themselves, present a barrier to the introduction of competition and are continuing to engage with yourselves and NGET on the presumption that we are likely to need to be able to work with one or more further parties in due course.

As set out in your document, we are working on agreements with NGET to cover our work. However, unless all of the works are tendered to an alternative provider, we do not believe it will be possible to transfer that agreement in its entirety as we will need to remain contracted to NGET for any works we are required to undertake under its Strategic Wider Works (SWW) mechanism. It is therefore our view that we will develop a 'shadow' agreement that largely mirrors the terms agreed with NGET, whilst reflecting differences between the RIIO and CATO regimes, that can be signed with any CATO/s on appointment. To this end, we would welcome the opportunity to engage with parties interested in bidding under the CATO framework in an open and transparent forum to ensure that work undertaken on this shadow agreement is fit for purpose.

One element of the CATO framework that remains unclear to us is in relation to the costs we incur in supporting the data-room process. As previously discussed, we believe it is appropriate that we engage directly with yourselves to provide the necessary information on our works, costs etc to facilitate this and to answer relevant questions from potential bidders. We would be particularly nervous about the potential contractual impact if a third party answered such questions on our behalf that a CATO was to rely on in determining its bid. We would therefore appreciate clarity on how Ofgem anticipates our costs associated with this component of the process to be funded. As we are current revising our agreement with NGET to cover works prior to the outcome of the CATO process, a prompt response would be appreciated.

Finally, it should be noted that the timeline for works provided within the consultation document (p. 28) does not allow for all of the works on the distribution system that we understand will be required to facilitate this project. Whilst we do not believe this is likely to impact on the proposed tender process, we are happy to provide an overview of our works if this would be useful.

We hope this response will assist you in this process. We appreciate the time taken to discuss our specific concerns and thoughts in relation to this project to date and remain keen to continue to engage across Ofgem to ensure the optimum outcome for the customers of the North West and for the whole of GB. If you have any comments or questions, please do not hesitate to contact me.

Yours sincerely

Jen Carter
Client Manager

Appendix 1: ENWL response to the consultation questions

Q1: Do you agree that there is a technical need for the project if NuGen's project goes ahead?

Q2: Do you agree that connecting the Moorside site using four 400kV circuits is appropriate and compliant with SQSS requirements?

Q3: Do you agree with our initial conclusions?

In response to questions, 1, 2 and 3, we agree with your conclusion that there is a technical need for the project. Based on our involvement to date, we believe NGET has taken an appropriate process to developing its proposed option, working in conjunction with key stakeholders such as ourselves. We note that in determining the technical solution it is appropriate to consider the viability of obtaining necessary development and planning consents.

We agree that significant uncertainty remains in relation to this project, both in terms of design and programme as a consequence of a range of factors outside of a prudent Network Operator's control, including the outcome of the DCO process and the requirements of NuGen as a connecting customer.

Ability to foresee issues is not necessarily the same as ability to control them, especially on a project of this scale. We therefore suggest Ofgem considers whether or not NGET has taken appropriate steps to mitigate those uncertainties within its control as part of the Final Needs Case Assessment.

Q4: Are there any other factors that we should consider as part of our Initial Needs Case Assessment?

As previously highlighted, we remain concerned that the implications of this project for ENWL have not as yet been fully considered by Ofgem. We appreciate the ongoing dialogue and view that our costs are "broadly in line" with your expectations. However, significant works are required on our network in order to enable NGET (and/or CATO/s) to progress with the most economic and efficient solution for GB as a whole.

We believe it is essential that equitable treatment of the impact of this project on the customers of the NW is appropriately factored into consideration of the wider NWCC project. This is critical to ensure that our works for NWCC sit equitably alongside our commitments to our customers for ED1 and beyond and ensure appropriate balance of risks and reward for these works between all affected parties.

Q5: Do you agree with our view that:

(a) the overall project meets the criteria for tendering?

(b) the potential sections meet the criteria for tendering?

We are not aware of any reasons why the NWCC project or the identified sections would not meet the high level criteria for tendering, namely high value, new and separable. However, as previously discussed, these criteria can not be considered in isolation and it is important that the wider impacts of tendering are also considered as part of any decision on how best to proceed with a project of this nature.

Q6: What are your views on the deliverability assessment for:

(a) the overall project?

(b) the potential sections?

The deliverability assessment as set out in paras 3.24 to 3.26 does not seem unreasonable to us. However, as acknowledged in para 3.27, there are a significant number of uncertainties associated with this project that are likely to determine whether or not it is appropriate for some or all of the works to be tendered under the CATO framework. It may be beneficial to consider what is the determining milestone(s) at which point CATO is (or is not) a viable route to delivery as this may provide additional clarity and objectivity to support your assessment. For example, if the legislative framework is not in place but the time NWCC has received DCO approval, does this preclude deliverability of any of the works by a CATO?¹

We do not believe that the works required on our network should have an impact on your assessment as to whether or not the project is deliverable under the CATO framework and remain committed to working with Ofgem and all relevant transmission licensees to ensure that the project is appropriately delivered. As highlighted in para 3.43, there are significant works that we will be required to take ahead of formal decisions on transmission funding. We are currently developing appropriate measures to mitigate the impact of these works on NW and GB customers and will continue to update yourselves on these measures to ensure they do not unintentionally create any additional challenges.

Q7: What are your views on the need for overall coordination of the whole NWCC project if the project were to be split into packages with different delivery parties?

From our perspective, we do not anticipate that there would be a requirement for any significant increase in coordination activities if the project is delivered by multiple parties. Whilst additional work and hence costs would be incurred, the additional co-ordination required is not in our view insurmountable. Clear rules around how such coordination is to be handled will be essential to ensure all parties are able to proceed on a clear and transparent basis to ensure timely and effective delivery of all aspects of the overall scheme.

To date, we have based our costs on the assumption that our works are delivered for a single party. Depending on the coordination requirements that are landed on, there may be a slight increase in some elements of our strategic project management costs associated with managing multiple client interfaces. Whilst we will take appropriate steps to mitigate these wherever possible, we will need to agree appropriate allocation of this overarching costs between all relevant transmission licensees to ensure that no party is unduly affected.

Q8: If some, or all of NWCC were to be tendered, what in your view is the most appropriate allocation of risks across the relevant parties (TO, CATO, and consumers)? How should these risks best be managed?

It is our view that risks should sit with the party best placed to manage them (be it TO, CATO or DNO) or have them managed on their behalf (for consumers). We believe that this principle should be used to test, both at a high level and in the detail, whether or not a risk is being held by the most appropriately party. Following this assessment, the party identified as

¹ Note, this is purely provided as an example and does not presuppose an ENWL view that this is or is not the case.

being best placed to manage the risk should be appropriately incentivised to effectively manage or mitigate the risk to allow for timely and efficient delivery of the NWCC project as whole.

Q9: What are your thoughts on the substation modification and extension works at Harker and Middleton, in the context of efficient CATO delivery, including the options presented in this document?

We have worked closely with NGET's team throughout and the scope of works as we understand is in our view reasonable.