SP ENERGY NETWORKS

Network Planning & Regulation

James Norman
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Your ref

Our Ref

Date
24th February 2017

Contact / Extension
Alan Kelly
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Dear James

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

SP Distribution plc, SP Manweb plc, and SP Transmission plc ("the network companies") are the "asset-owner companies" holding Scottish Power's regulated assets and distribution and transmission licences. Scottish Power operates along divisional lines, and together, the activities of these companies fall within the Energy Networks division "SP Energy Networks" (SPEN). This response is from SP Transmission plc (SPT) the onshore Transmission Owner (TO) for the South of Scotland. As a TO we must ensure that we develop an economic, efficient and coordinated onshore transmission system. We therefore welcome the opportunity to comment on Ofgem's views on National Grid's proposed North West Coast Connections (NWCC) project, in respect of which National Grid submitted an Initial Needs Case in May 2016.

We broadly support Ofgem's proposals on the future regulatory treatment and NGET's design of the proposed project to connect the new "Moorside" nuclear power station in Cumbria. However, we do wish to highlight the additional risks and uncertainty associated with competing elements of this project and may result in significant delays to the delivery of this project. These risks are increased as this will be the first onshore transmission project to be competitively tendered in GB.

<u>NGET's proposals</u>

We agree that the provision of four 400kV circuits to connect a nuclear generating station of the size of the proposed Moorside development is appropriate and consistent with the requirements of the NETS SQSS Section 2 – Generation Connection Criteria Applicable to the Onshore Transmission System.

With regard wider compliance with the NETS SQSS however, we note the significant apparent reduction in power transfer capability from Scotland to England (B6 capability) following the Moorside connection.

Separability of extension works at existing substations

It is our view that there is a clear need for the project and that the overall project does meet the 'New, High Value and Separable' criteria and therefore meets the suitability for tendering. However, we do not consider that the specific element of the project involving extension works at existing substations fulfils the 'separable' criterion.

Implications over project life not adequately assessed

It is our view that the consultation and the supporting TNEI/Pöyry report do not give sufficient consideration to the implications of the operational impact of the proposed packaging following commissioning and for the duration of the asset life. An assessment of the impact of this arrangement in the operational phase is required to ensure future consumer benefit is not diminished through a detrimental effect on the operation and maintenance of vital transmission infrastructure.

Risk of delays to project

The consultation states that NGET requires to complete the Moorside to Harker section of the project by the target date of August 2021 and full connection by 2025. As the CATO will require to be in place by mid-2020 to ensure the delivery of the southern section by August 2025, we do have doubts about the viability of a competed project achieving the proposed timescales.

Land Rights/Planning Transfers

Whilst the implications of the transferability of the planning consents and land rights to the CATO are untested in Scotland, it is our understanding from previous Ofgem publications that the DCO can readily be transferred to a third party.[1]

We continue to work with Ofgem and other TOs in the development of the ECIT regime and will continue to highlight areas that need to be addressed to ensure best interests of GB consumers are met by these proposals.

Please do not hesitate to contact me should you have any queries in relation to our response. We have addressed the questions posed in the above consultation in Appendix 1.

Yours sincerely,

Alan Kelly
Transmission Commercial and Policy Manager
Network Planning and Regulation

[1] Ofgem Consultation, Extending Competition in Electricity Transmission: Tender Models and Market Offering. Page 30 (Published 4th August 2016)

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Appendix 1: Response to Questions

Question 1: Do you agree that there is a technical need for the project if Nugen's project goes ahead?

There is a clear need for the project should the proposed generation go ahead. TOs have a statutory obligation to make an offer to connect and the project is justified on this basis.

Question 2: Do you agree that connecting the Moorside site using four 400kV circuits is appropriate and compliant with SQSS requirements?

We agree that the provision of four 400kV circuits to connect a nuclear generating station of the size of the proposed Moorside development is appropriate and consistent with the requirements of the NETS SQSS Section 2 – Generation Connection Criteria Applicable to the Onshore Transmission System.

With regard wider compliance with the NETS SQSS however, we note the significant apparent reduction in power transfer capability from Scotland to England (B6 capability) following the Moorside connection.

Question 3: Do you agree with our initial conclusions?

We agree there is a technical need for the project and the optioneering process undertaken by NGET appears appropriate. We agree the preferred solution is reliant on key variables, such as the timetable of the DCO, which have the potential to change the scope or optimum solution. We do not agree therefore that it is appropriate to disallow any inefficient costs that should have been avoided by NGET as part of the Final Needs Case. This appears to be retrospective regulation that presents undue risk to the TO. Whilst we agree, the consumer should not fund any excessive costs, there needs to be a fair balance of certainty for NGET and if Ofgem have identified failings in the process so far this should be addressed at this time.

The proposal to compete part of this project is dependent on the necessary legal and regulatory framework being in place. As the timescales for delivery are already short, competing the project may add further unnecessary risk.

Question 4: Are there any additional factors that we should consider as part of our Initial Needs Case assessment?

We consider that all material factors have been considered at this stage.

Question 5: Do you agree with our view that:

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

From the information available, it appears that the overall project would meet the criteria as they are understood at the time of writing. However, we do not consider that the extension works at existing substations fulfil the 'separable' criterion as it is currently understood.

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

From the information available, it appears that each potential section would meet the criteria as they are understood with the exception of the extension works at existing substations which do not appear to fulfil the 'separable' criterion as it is currently understood.

Question 6: What are your views on our deliverability assessment for:

(a) the overall project?

From the information available, we agree that the only potentially viable section for delivery under the CATO model would be the south section. However, there are a number of risks which may impact on the 2025 completion date. These risks include the fact that this would be the first project being delivered under the ECIT regime, uncertainty around the transfer of the DCO and Compulsory Powers to the CATO, uncertainty on which planning conditions may be attached to the DCO and the interface arrangements between different delivery parties, all of which could delay the completion date.

(b) the potential sections?

The indicative design, procurement and construction timescale blocks submitted by NGET in Figure 2 appear reasonable. It should be noted that should the south package be delivered by a CATO, then the tendering process would more realistically be launched in 2021/22 making the overall programme more challenging and delay more likely, coupled with the risks highlighted in a).

Question 7: 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?

We agree that through several packages of work, the number of technical and commercial interfaces required to successfully deliver the project would be significant and that this presents a risk to project delivery. Further development of the ECIT policy would be required to define responsibilities and agree risk sharing for management of interfaces.

The consultation and the supporting TNEI/Pöyry report do not appear to address the significant levels of stakeholder engagement that would be required by the CATO for post-consent consultation activities and explanation of which party is delivering which element of the works.

Question 8: 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, CATOs, and consumers)? How should these risks best be managed?

We note that Ofgem have not proposed any views in respect of risk allocation at this stage. The existing sharing factor in the RIIO-T1 price control between TO and consumer is 50%. We see no reason to diverge from this apportionment in principle. However, there are additional risks to delivery and cost by tendering some or this entire project that Ofgem lay out in this consultation. We would therefore recommend an impact assessment describing the extent and mitigation of this risk should be

prepared by Ofgem should they decide to tender these works. This impact assessment should clearly lay out the extent of these risks and demonstrate how the consumer will be protected.

Approaches to managing these risks have been identified in an ENA working group on the Early tender model[2] and include:

- CATOs could be allowed to bid against a range of costs within a cap and floor, providing for commercial risk to be partially shared with consumers.
- In addition, specific 'sharing factors' could be identified in which any additional unplanned costs of the project would be shared between the CATO and consumers. These sharing factors could vary according to the particular risk and the CATO could propose these in their tender bid.
- To manage the large cost uncertainties identified in the scope of this project, Ofgem could retain an option to re-tender at a later stage in response to significant material increases in the CATO's projected costs at a threshold relative to its winning bid.
- To manage the risk of the connection being cancelled, NuGen as the developer should have full liability for the costs incurred and committed up to the point at which a cancellation notice was issued. If there was a delay to the delivery of the connection, the CATO could be penalised through the recovery of the time value of revenue provided in advance of expenditure arising unless the delay was clearly down to negligence or incompetence, in which a penalty could be applied according to Ofgem enforcement rules.

Question 9: 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?

It is our view that the consultation and the supporting TNEI/Pöyry report do not give sufficient consideration to the implications of the proposed packaging following commissioning and for the duration of the asset life. The proposal to tender only the 'South' package would result in a nuclear power station being connected to the MITS by two TOs, these circuits crossing three major system boundaries (B7, B11 and B16). Under the existing Nuclear Site Licence Provisions Agreement, on the assumption that a similar arrangement will be required with the operators of Moorside, these circuits would be 'coloured' and additional considerations need to be applied in their operation in relation to the nuclear station. In our opinion, an assessment of the impact of this arrangement in the operational phase is required to ensure consumer benefit is obtained and that there is not detrimental effect on the operation of vital transmission infrastructure. This aspect does not appear to have been considered in the current consultation.

We do not consider that the extension or modification works fulfil the 'separable' criterion. As described in the opening paragraph, the impact assessment of option 3 of figure 3 must be considered in detail to determine if the operational risks that this introduces are justified by the projected benefit of this very small element of the works. There appears to be no justification for the wholesale asset transfer represented by option 2 of figure 3. Option 1 provides clear delineation of ownership and

[2] Report submitted to Ofgem on 22nd February 2017

consistent with existing arrangements and in our view is the only feasible option which is compliant with the competition criteria as they are understood at this time.

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