

Stuart Borland
Competitive Networks
Ofgem
9 Millbank
London.
SW1P 3GE

15 November 2016

Dear Stuart,

Response to Final Project Assessment consultation for the NSL interconnector to Norway

The developers of NeuConnect, the GB – Germany interconnector project, are pleased to provide a response to your Final Project Assessment of the NSL project. The developers of NeuConnect are Frontier Power, Meridiam and Greenage Power.

At this stage, and noting our own project's recent submission for the second window for cap and floor support, we would like to target our response on those areas that will relate to financing, in particular the use of project finance.

We note that the NSL project is sponsored by major utility groups who we anticipate will finance their project using an on balance sheet / corporate finance solution. NeuConnect will be financed using limited recourse project finance. We have therefore focused our response to your consultation request on principles that we believe will be extremely important for all interconnectors seeking to secure project finance.

We note that Ofgem has concluded that the procurement process has generally resulted in efficient and competitive pricing for the major capital items of the NSL interconnector. Well run procurement processes help align the interests of both Ofgem and project developers. Analysis of NSL has highlighted the potential variability in the fundamental costs of interconnectors and/or the impact that allocation of risk in the related contracts can have. We also note your view that the project management costs are reasonable. Both these outcomes are helpful in the context of future project finance structures.

Eligibility, efficiency and foreseeability of costs incurred: In relation to your questions 4 and 5, we note that up to £150m of expected costs (UK share only) related to risk & contingency and variation orders, options and additional provisions will be further assessed at the PCR stage. Whilst we understand the approach Ofgem has taken, and the related need to protect consumers, we are concerned that such ongoing uncertainty would make it very difficult for investors and lenders to release material funds without confidence that correctly incurred expenditure will be supported by Ofgem. We would therefore like to propose more detailed discussions around your existing process to ensure that confidence can be maintained in the period between the FPA and PCR stages. This is very important if new entrants are to be encouraged and efficient project finance put in place.

We hope that this response is helpful in highlighting the importance and value of more certainty between the FPA and PCR stages to give the required confidence to investors and future lenders.

Yours sincerely

Mathew Rose
NeuConnect