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All interested parties

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Dear stakeholders,

Our updated view on the North West Coast Connections project

Summary

This letter sets out our updated view on the initial needs case and competitive delivery assessment of National Grid's (NGET) North West Coast Connections (NWCC) project. We publish this letter now to reflect recent developments in relation to NWCC; however we are deferring finalising our position on the initial needs case and suitability for competition for NWCC until there is greater certainty on the project's need, design, and timing.

NWCC is an electricity transmission project to connect the proposed 'Moorside' nuclear generation project. We consulted in December 2016,¹ based on information available at that time, on NWCC's initial needs case and suitability for competitive delivery, via our proposed Competitively Appointed Transmission Owner (CATO) regime. Annex 1 sets out context on our initial needs case and competitive delivery assessments for NWCC.

Since our December consultation, NuGeneration Ltd (NuGen), the developer of Moorside, has launched a strategic review to explore its options around technology and funding for the Moorside project. In response, NGET announced a pause on all its work on NWCC, including the development and submission of a Development Consent Order (DCO).²

In parallel, we recently published an update on our work to introduce competition into delivery of electricity transmission,³ confirming that we will not take forward further development of the CATO regime until there is greater clarity on timing of enabling legislation. We noted however that we continue to consider that there are significant benefits to consumers in introducing competition into the delivery of new, separable and high value electricity transmission projects such as NWCC.

Given the current uncertainty around the Moorside and NWCC projects, we do not consider that it is appropriate to finalise our position on the initial needs case and suitability for competition for NWCC at this time. The need, design, and timing of NWCC are integral to

¹ <https://www.ofgem.gov.uk/publications-and-updates/north-west-coast-connections-consultation-project-s-initial-needs-case-and-suitability-tendering>

² <http://www.northwestcoastconnections.com/>

³ <https://www.ofgem.gov.uk/publications-and-updates/update-extending-competition-transmission>

the outcome of our assessment, and some or all of them may change following NuGen's strategic review of Moorside.

We expect NGET to re-engage with us to discuss any updates to the needs case for NWCC when there is more certainty on the projects, such as for example a revised connection agreement and confirmed design for Moorside following the strategic review by Nugen.

Strategic Wider Works initial needs case assessment

Introduction

The initial needs case is the first assessment stage in our Strategic Wider Works (SWW) process. It provides an opportunity for us to consider whether there is likely to be a need for a project, and how the technical design has been selected. Its timing allows us to give an early view on the proposals being taken forward by the incumbent Transmission Owner (TO) for public consultation through the planning process.⁴ Projects at this stage of development will still be subject to potential change, and therefore the initial needs case is not our final decision on need or funding.

We set out in our consultation of December 2016 on the initial needs case for NWCC that:

- Subject to the NuGen project going ahead, there is a clear consumer benefit in the NWCC project as the consumer benefit of the Moorside connection more than offsets the cost of connecting it.
- Overall, NGET followed a sensible and logical process to select the proposed design for NWCC. Based on NuGen's proposed design NGET has demonstrated that the use of four circuits is a sensible and secure way to connect Moorside. It had also demonstrated that there are significant benefits in routing two of the circuits to the south of the Moorside site.
- However, in this southern section, we considered that the decision between NGET's favoured use of a tunnel under Morecambe Bay and an alternative approach of using subsea cables around the bay was relatively finely balanced.
- Significant changes in the cost of the tunnel, or additional mitigation identified through the planning process, could indicate in the future that the subsea cable option could be better value for consumers.
- If costs of the preferred option escalate significantly due to factors that NGET should have reasonably foreseen, we reserve the right to revisit the justification for its selected option as part of our final needs case assessment. At project assessment (where we determine the efficient costs associated with delivering NWCC), we may then disallow any inefficient costs that could have been avoided through selection of an alternative option.

Summary of consultation responses

The non-confidential consultation responses we received can be found on our website.⁵

Several respondents queried the reasoning for Ofgem approving the initial needs case for NWCC and for NGET submitting its DCO application when NuGen's situation remains uncertain.

⁴ Whilst final decisions on specific planning considerations, such as detailed siting and environmental/visual mitigation requirements are ultimately the decision of the Planning Inspectorate, during our assessment process we consider the efficiency and robustness of a TO's planning and design choices.

⁵ <https://www.ofgem.gov.uk/publications-and-updates/north-west-coast-connections-consultation-project-s-initial-needs-case-and-suitability-tendering>

Two respondents stated that if the costs of the preferred option escalate significantly it would be insufficient for Ofgem to prevent NGET recovering the cost difference between the preferred option and the subsea alternative from consumers. The respondents argued that NGET should change options, even if this delayed the connection project, because the risk of delay should not force a decision that would result in long-term damage to the local environment that could otherwise have been avoided.

More than half of the respondents suggested that NGET has not accurately assessed the visual impact of the NWCC route on the 'setting' of the LDNP and that NGET has underestimated the importance of the setting in legislation and planning guidance. A number of these respondents identified factors they consider support undergrounding in the setting of the LDNP that NGET could have reasonably foreseen and avoided by pursuing an alternative route.

The majority of respondents expressed a view that NGET has not done enough work to explore the cost or deliverability of subsea alternatives to its preferred connection option. Most of these respondents welcomed our view that the cost difference between the preferred connection option and the subsea cable alternative is relatively finely balanced. One respondent proposed a new subsea route that NGET had not previously assessed in detail.

In response to our observations about the cost difference between options, NGET stated that the cost of the preferred option may fall as opportunities to innovate emerge, whereas the cost of the subsea cable options could increase if their designs were developed further. NGET also emphasised that it can only make decisions based on the best information available at the time and that the delay impact of changing options is an important factor that should be given due consideration. Related to this, NGET expressed concern at the regulatory uncertainty that Ofgem would introduce if it retrospectively assessed, with the benefit of hindsight, the process through which a preferred option was selected.

Our updated view

At the time of our consultation, NGET and NuGen were both still working towards aligned DCO applications in 2017. Given that NuGen is currently undertaking a strategic review to evaluate its options, we welcome the announcement that NGET will be pausing work on the NWCC project. We expect both NGET and NuGen to keep Ofgem and local stakeholders informed of further updates on their respective projects.

Once there is clarity on the extent to which the Moorside project is likely to change and the length of any delay, we expect NGET to reassess whether its current preferred connection option for NWCC remains the most appropriate option to take forward in its planning application. As part of this process, we expect NGET to re-engage with us to discuss whether the initial needs case for NWCC should be updated. At that point we will also further consider responses to our December consultation. Until then, we do not consider it to be in consumers interest for us to further consider or confirm the need for NWCC.

Competition assessment

Introduction

In our December consultation we asked stakeholders for their views on our competition assessment for NWCC. This included specific questions about our assessment against the criteria for identifying projects for competition, and of NWCC's deliverability under the CATO regime.

Our key views were that:

- The NWCC project as a whole meets the criteria for competitive delivery (ie we consider that it is new, separable, and high value).
- The 'north' and 'tunnel' sections of the NWCC project may not be deliverable by a CATO based on the connection dates, which were driven by the requirement for relatively early 'site supplies' to Moorside and the long lead times associated with tunnel procurement. However, these sections individually met the criteria for competition.
- The 'south' route met the criteria for competition and had no CATO deliverability issues.
- We did not see the interactions with the local Distribution Network Owner, Electricity North West Limited (ENWL), as a barrier to a CATO delivering the project.
- We noted that Moorside's programme may be subject to change, which could change our CATO deliverability assessment.

Summary of consultation responses

Most stakeholders agreed with our view that both the whole NWCC project and the potential sections set out in the consultation meet the criteria for competitive delivery.

Most stakeholders agreed with our CATO deliverability assessments for both the project as a whole and the potential sections. Many respondents noted that there was significant uncertainty in the timetable for the Moorside project, and that this should be taken into account when making our decision. In particular, respondents were keen for us to keep the deliverability assessments for the 'north' and 'tunnel' sections under review, as those sections are tied to two specific generation connection dates that could be delayed.

We asked stakeholders for their views on the need for overall coordination of the whole project if it was to be split into packages with different delivery parties. Some respondents said that no overall coordination would be required, and that parties could engage bilaterally. Many noted that the existing industry codes and network owner licences have appropriate processes to manage these interactions. Some respondents stated that a single coordination party would be sensible, with some naming particular bodies, for example the System Operator (or an Independent System Operator), NGET, an independent third party, or Ofgem. Local stakeholders noted concern that any repackaging of the project to different delivery parties may affect their ability to respond effectively, and would therefore prefer a single point of contact for the duration of the project.

We asked stakeholders for their views on the substation and modification works required at the existing Harker and Middleton electricity substations, and presented three options for consideration for managing interfaces. Most respondents agreed with our view that the existing substations should not transfer into CATO ownership as a whole. Most preferred our first option for managing interfaces, which minimised the interaction of a CATO with existing TO assets, but noted possible operational control issues. Some preferred our third option, where a CATO would also undertake the extension works, but noted practical concerns around interfaces and coordination. Two TO respondents set out that they believe the extension works within a substation should not be classed as 'separable', and should not be included in any CATO package.

Our updated view

We continue to consider that the NWCC project as a whole and the potential sections set out in the consultation meet the criteria for competition. However, uncertainty on the Moorside and NWCC projects means that it would not be sensible for us to make a firm decision on introducing competition into the delivery of NWCC at this point. Changes to the

technology or programme could have substantial impacts on the design and timing of NWCC, which could impact our competitive delivery assessment. Additionally, if CATO enabling legislation is not in place at the time, we will need to consider what other options there might be for introducing competition into delivery of NWCC.

We therefore propose to make a decision on whether and how to introduce competition into delivery of NWCC when there is more certainty on the project's need, design, and timing.

If you have any queries in relation to this letter, please contact NTIMailbox@ofgem.gov.uk.

Yours faithfully,

James Norman,

Head of New Transmission Investment

Annex 1 – Context around our needs case and competition assessments for NWCC

Background

GB's onshore electricity transmission network is currently planned, constructed, owned and operated by three transmission owners (TOs): National Grid Electricity Transmission (NGET) in England and Wales, SP Transmission in the south of Scotland, and Scottish Hydro Electric Transmission in the north of Scotland. We regulate these TOs through the RIIO (Revenue = Incentives + Innovation + Outputs) price control framework. For offshore transmission, we appoint TOs using competitive tenders.

The current RIIO-T1 price control runs for 8 years until 2021. Under this price control, we developed a mechanism for managing the assessment of large and uncertain projects called 'Strategic Wider Works' (SWW). The incumbent TOs are funded to complete pre-construction works, and then subsequently follow up with applications for construction funding when the need and costs for the project become more certain.

As part of our decision on the RIIO-T1 price control, we set out that projects brought to us under the SWW regime could be subject to a competitive process, and potentially delivered by a third party TO. After further consultation, we decided that projects that are new, separable, and high value ($\geq £100m$ capital expenditure) could be competitively tendered. At the time of our December 2016 consultation on NWCC we were working closely with Government to develop the legislative and policy framework to support implementation of a Competitively Appointed Transmission Owner (CATO) regime. Since then we published an update in June 2017 on our proposals to extend competition in transmission,⁶ noting that we intend to defer further development of the CATO regime until relevant enabling legislation is taken forward by Government. In the interim, we continue to consider that there are significant benefits to consumers in introducing competition into the delivery of new, separable and high value onshore electricity transmission projects, and will, in due course, set out our thinking around alternatives to CATOs for introducing competition.

North West Coast Connections project

NuGen intends to develop a new nuclear power station at Moorside on the west Cumbrian coast to the north of the Lake District National Park (LDNP).

NGET, as the monopoly onshore TO, has developed the NWCC project to connect Moorside to the national electricity transmission system. NGET has been developing and undertaking preliminary activity on the project, including development of the Development Consent Order application required to secure planning permissions for the project. NGET undertook a statutory consultation as part of the planning process from 28 October 2016 to 6 January 2017.

NGET's current preferred connection option from NuGen's site comprises a double circuit going north to Harker substation and a double circuit going south through the LDNP to Middleton substation. NGET's planning consultation proposed that the whole section through the LDNP should be buried underground.

To the south of the LDNP, NGET currently plans to construct a cable tunnel underneath Morecambe Bay from Roosecote through to Middleton substation. NGET selected this option because it estimates that it will be lower cost than an alternative approach using subsea cables to go around Morecambe Bay, and because it considers that feasible onshore routes around Morecambe Bay are unlikely to be granted planning permission due to their environmental impacts, including on the LDNP.

⁶ https://www.ofgem.gov.uk/system/files/docs/2017/06/update_on_extending_competition_in_transmission.pdf

Initial needs case and competition assessment

In December 2016 we published a consultation on NGET's initial needs case in respect of the NWCC project, and the project's suitability for tendering. We asked stakeholders for their views on our assessment, focusing on the decisions and proposals NGET had made to date and our assessment of the project's suitability for competitive tendering. We received and considered 54 responses to our consultation from various stakeholders.