

Energy UK response to Ofgem's Hinkley - Seabank: Minded-to consultation on delivery model

23 March 2018

About Energy UK

Energy UK is the trade association for the GB energy industry with a membership of over 100 suppliers, generators, and stakeholders with a business interest in the production and supply of electricity and gas for domestic and business consumers. Our membership encompasses the truly diverse nature of the UK's energy industry – from established FTSE 100 companies right through to new, growing suppliers and generators, which now make up over half of our membership.

Our members turn renewable energy sources as well as nuclear, gas and coal into electricity for over 27 million homes and every business in Britain. Over 730,000 people in every corner of the country rely on the sector for their jobs, with many of our members providing long-term employment as well as quality apprenticeships and training for those starting their careers. The energy industry invests £12bn annually, delivers £88bn in economic activity through its supply chain and interaction with other sectors, and pays £6bn in tax to HMT.

Response

Energy UK welcomes the opportunity to respond to Ofgem's Hinkley-Seabank project minded-to consultation on the delivery model for the connection. Below is a high level response regarding the key points we consider important for regulatory certainty.

- **Timing:** We understand that National Grid has spent several years developing the Hinkley-Seabank project, and with the need to connect the Hinkley Point C power station on time National Grid will need to begin construction in 2019, and has therefore begun its procurement process. It would appear very late in the day to introduce an alternative regulatory model for this project, particularly one which envisages a different contracting strategy and risk allocation.
- **Promoting sustainable investment:** Ofgem must ensure the parameters used to calculate the cost of capital is set high enough to attract finance to invest in this critical transmission infrastructure while delivering the project at least cost for consumers. In principle, we support Ofgem's efforts to bear down on the cost of capital, but this is subject to ensuring that projects are financeable, and that use of any novel delivery model is robust and will not impact on timely delivery of the project.
- **Regulatory Certainty:** We have some concerns that Ofgem's proposal may be perceived to be inconsistent with what was proposed at the RIIO-T1 price control, which stated that "Strategic Wider Works" projects such as Hinkley-Seabank would be delivered either by the incumbent Transmission Operator (TO) for its RIIO-T1 cost of capital, or by a third party TO through competition. It did not envisage alternative models such as a Special Purpose Vehicle (SPV) or Competition Proxy. If the price control could be changed in this way, this could reduce the perceived certainty of regulatory determinations, as investors might believe that any price control could be changed by Ofgem in the future. Investors may, therefore, require higher returns in the future if they believe the overall regime to be unstable. As the Hinkley-Seabank assets will be critical national infrastructure we consider that Ofgem must be certain that

Hinkley-Seabank will be financeable, and, if it decides to introduce any novel delivery model, that the model is robust and will not impact on timely delivery. Additionally we support strategic investment in network infrastructure where a needs case has been proven.

Energy UK welcomes the opportunity to further discuss the points raised within this consultation response with Ofgem. Should you require further information or clarity on the issues outlined in this paper then please contact:

Kyle Martin

Head of Generation Policy

Energy UK

Charles House

5-11 Regent Street

London SW1Y 4LR

Tel: 020 7747 1834

Kyle.martin@energy-uk.org.uk