

All interested parties

Direct Dial: 020 7901 7046
Email: NTIMailbox@ofgem.gov.uk

Date: 23 January 2018

Dear stakeholder

Decision on the Needs Case for the Hinkley – Seabank project

This letter outlines our decision to approve the Final Needs Case for National Grid’s (NGET) proposed Hinkley – Seabank (HSB) connection project, following our August 2017 consultation¹ and our consideration of the responses. It also provides our updated view, following the August consultation, on certain areas of the HSB project that we will consider further as part of our process for determining efficient delivery costs for the project.

Alongside this letter we have published a minded-to consultation on the delivery model for HSB.²

Context

HSB is NGET’s technical solution for connecting EDF’s Hinkley Point C (HPC) nuclear power station in Somerset to the GB transmission network. NGET is contracted to connect the first HPC reactor by late 2024 ahead of EDF beginning commercial operation of the power station in 2025.³

NGET submitted its Final Needs Case for HSB to us in March 2017. Following a thorough assessment of NGET’s proposals and underlying cost-benefit analysis, we consulted on our findings in August. In that consultation we outlined that we considered there to be a clear technical and economic need for HSB, and that it is in consumers’ interests for the project to progress. We also provided our view on certain areas of the HSB project that we will consider further when we formally assess costs in 2018. We said that:

- we did not agree that the additional estimated £65m cost of T-Pylons, included in NGET’s Development Consent Order (DCO) application to mitigate the project’s impact on the local landscape, was adequately justified; and
- NGET’s approach to calculating extreme weather risk did not appear to be appropriate.

Overview of consultation responses

We provide below a brief overview of the comments in the responses to our August consultation that related to our findings on the Final Needs Case. A more detailed summary of these responses can be found in Annex 1 to this letter.

¹ <https://www.ofgem.gov.uk/publications-and-updates/hinkley-seabank-consultation-final-needs-case-and-potential-delivery-models>

² <https://www.ofgem.gov.uk/publications-and-updates/hinkley-seabank-minded-consultation-delivery-model>

³ NGET is contracted to connect the second reactor by late 2025.

Respondents unanimously agreed that there was a technical and economic need for HSB to progress.

In response to our comments on T-Pylons, NGET argued that the inclusion of T-Pylons was crucial to mitigating the risk of delay to, or refusal of, planning consent, and stressed that T-Pylons had been thoroughly consulted on before the proposal was submitted for planning approval. NGET also stated that it intends to work with us ahead of Project Assessment to fully justify its design choices and that it will continue discussions with us regarding best treatment of extreme weather risk.

Our position on T-Pylons also received responses from other stakeholders, several of whom have connections to the area where HSB is to be located and/or have been engaged with the planning process. These responses outlined a view that the DCO was granted following an overall assessment by the planning inspectorate of the visual benefits provided by T-Pylons, which considered all relevant evidence (rather than just costs), and that the route may have been refused planning consent if T-Pylons had not been proposed. The responses also argued that we should have raised publicly our concerns with the costs of T-Pylons during or before the planning process instead of raising concerns about cost after planning consent had been granted.

Our decision on the Final Needs Case

Based on our assessment of NGET's HSB Final Needs Case, including consideration of consultation responses, we consider that:

- There is a clear technical need for the reinforcement. Without HSB, HPC would not be able to safely connect to the National Electricity Transmission System due to the lack of transmission capacity in the local area.
- There is a clear economic need for the reinforcement. If HPC were unable to safely connect to the grid this could represent a significant cost to consumers.
- The technical scope and proposed routing of HSB appears to be appropriate.
- The detailed cost-benefit analysis that National Grid as System Operator has undertaken suggests that the timing for reinforcement is in consumers' interests.
- Overall, the proposed solution is likely to be in the interests of existing and future consumers.

Based on the above, we have decided to approve NGET's Final Needs Case for the proposed HSB project.

Our view on the wider responses to our consultation

Alongside reaching a decision on the need for the project, we have considered the responses to our August consultation which related to matters that we will consider further as part of our Project Assessment (when cost allowances are formally set). We have provided our updated view on those areas below:

Justification for the additional costs of T-Pylons

We remain of the view that before we can be comfortable that consumers should fund the full cost differential between lattice towers and T-Pylons, NGET needs to share with us the supporting analysis it used at the time of its planning application to:

- come to its decision to propose T-Pylons; and
- quantify the visual benefit that T-Pylons provide.

Failing this, it would need to provide further analysis to support its argument that consumers are willing to fund these additional costs.

We intend to engage with NGET as part of the Project Assessment process to consider how the above can be best addressed.

For the avoidance of doubt, the above is not intended to suggest that NGET should seek to alter the design of its HSB project or revisit its DCO application. We acknowledge that any work to amend the project and the DCO would risk introducing a significant delay which may ultimately be to consumers' detriment.

Ofgem's interactions with the planning process

Since NGET submitted its application for development consent for HSB in 2014 we have introduced the Initial Needs Case into our Strategic Wider Works (SWW) process in order to provide, and consult on, our view of project need, routing and costs (including the costs of visual mitigation measures) before a TO conducts its final public consultation and submits an application for development consent.⁴ We hope that this will mitigate concerns that our assessment of the costs of visual mitigation on large electricity transmission projects may undermine the planning process on future projects.

Our priority on HSB is to ensure that consumers are not exposed to unjustified costs by challenging NGET to demonstrate that it took a robust decision in selecting T-Pylons and that the consumer impact of this decision was appropriately considered at the time.

Extreme weather risk

We received limited responses on this aspect of our consultation. We are still of the view that it is not appropriate for high impact low probability risks such as extreme weather to be funded in full up-front, particularly where we consider the methodology for estimating probability and cost could be more robust. As set out in our minded-to consultation on the delivery model for HSB, we propose that if delivery of HSB is funded through a Competition Proxy model, contingency funding for this sort of risk will not be included in the up-front allowance. Efficient costs will instead be determined via a post-construction review. As such, we do not expect to provide upfront funding to mitigate extreme weather risk. If extreme weather does occur, at the end of construction we will review the impact it has had on construction, the efficiency of NGET's mitigations and response, and the efficiency of the resulting costs. From this assessment, we would adjust NGET's revenue allowance accordingly.

Next steps

We are currently consulting on our minded-to position that Competition Proxy should be the delivery model used to fund the construction and operation of HSB. Subject to the outcome of that consultation, we envisage that HSB will undergo a Project Assessment from mid to late 2018 to determine NGET's permitted costs for delivering HSB.⁵

Please send any questions about the content of this letter to James Norman via NTIMailbox@ofgem.gov.uk.

Yours sincerely,

Akshay Kaul
Partner, Commercial

⁴ The SWW process is explained in our guidance document: <https://www.ofgem.gov.uk/publications-and-updates/guidance-strategic-wider-works-arrangements-electricity-transmission-price-control-riio-t1-0>

⁵ More information on the next steps that would follow a decision to deliver HSB through Competition Proxy can be found here: <https://www.ofgem.gov.uk/publications-and-updates/hinkley-seabank-minded-consultation-delivery-model>

Annex 1- Summary of consultation responses

This annex concerns those comments in the responses to our August consultation which addressed the questions in the Final Needs Case chapter. All of the non-confidential responses to our consultation have been published on our website.⁶

Question 3: Do you agree that there is a technical need for the HSB project and that the proposed connection is compliant with SQSS requirements? If not, please give evidence.

Of the 31 responses, 14 agreed that there is a technical need for the project. The remaining 17 responses did not address this question.

Question 4: Do you agree with our initial conclusions?

Of the 31 responses, seven were broadly supportive of our initial conclusions, 12 disagreed with elements of our initial conclusions and 12 either didn't provide comment or provided a mixed response.

Generally, the responses to this question focussed on our comments in the consultation regarding the justification for the additional costs of T-Pylons.

Amongst the respondents that broadly agreed with our initial conclusions, one respondent said that consumers should not cover the additional costs associated with developing T-Pylons and suggested that all manufacturing and construction costs associated with T-Pylons should be benchmarked against other "existing low visual impact monopole transmission line designs that could have been used." Two other respondents also suggested that alternative pylon types could have been considered as alternatives to T-Pylons.

All of the 12 responses which broadly disagreed with our initial conclusions indicated that NGET would have risked planning consent being refused had it not included T-Pylons as part of its application for development consent. Five respondents based locally to the HSB route flagged that the inclusion of T-Pylons had been a key factor in gaining public support for the route. Similarly, several respondents highlighted that T-Pylons had been thoroughly consulted on and ultimately approved by the Secretary of State.

Other themes that were apparent across the responses that didn't support our initial conclusions:

- Four respondents stated that if Ofgem had concerns with regards to the cost of T-Pylons then we should have raised our concerns publically as part of the planning process. These responses also raised concerns that Ofgem intervening at this late stage risked undermining the planning process on HSB and future projects.
- Two respondents flagged that Ofgem shouldn't hinder the uptake of innovative new technologies such as T-Pylons.
- Two respondents, in response to our comments regarding NGET's Willingness to Pay (WTP) analysis, argued that assessing consumer WTP at a national level is not an appropriate approach for a project that will have a localised visual impact.
- Several respondents identified that the costs of T-Pylons could be reduced further given the industry's significant experience using monopole structures.
- One respondent flagged that it supported the use of T-Pylons because it felt that they would be safer for engineers to work on than traditional lattice towers.

⁶ <https://www.ofgem.gov.uk/publications-and-updates/hinkley-seabank-consultation-final-needs-case-and-potential-delivery-models>

Unrelated to T-Pylons, one respondent indicated that a 20% threshold for an extreme weather uncertainty mechanism seemed an appropriate treatment for a high-impact low probability risk on a large project such as HSB.

Question 5: Are there any additional factors that we should consider as part of our SWW Final Needs Case assessment?

NGET stated here that we'd given insufficient consideration to the importance of the connection project being completed in time to meet HPC's contracted connection date. EDF raised a similar concern.

Scottish Power Transmission Ltd suggested that alternative visual mitigation factors in place of undergrounding should be considered.

Scottish Hydro Electric Transmission Ltd questioned our process for updating our SWW Guidance.⁷

⁷ We have discussed these concerns separately with SHET and have since published an updated version of the SWW Guidance: <https://www.ofgem.gov.uk/publications-and-updates/guidance-strategic-wider-works-arrangements-electricity-transmission-price-control-riio-t1-0>