



Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

Emmanouela Angelidaki
Ofgem

Telephone: 01738 456488

Email: samantha.ridsdale@sse.com

Date : 2nd Sept 2011

Cap and floor regime for regulation of project NEMO and future subsea interconnectors

Dear Emmanouela,

Thank you for the opportunity to respond to this consultation. We believe that there are a number of issues which need to be resolved in order to provide regulatory certainty for cross border transmission projects (interconnectors). Most notably, both the regulatory funding framework and the licensing framework require changes to facilitate cross border transmission projects.

The proposal to introduce a partially regulated framework for future cross border transmission projects is a welcome development and brings the GB regime closer to alignment with the rest of Europe. We agree with the five principles of the regulated regime and, in particular, we welcome Ofgem's view that this regime should allow both new and existing TSOs (and non-TSOs) to develop cross border transmission projects. We consider that the implementation of this regime would usefully widen the pool of potential interconnector developers and encourage investment.

Whilst a fully regulated regime would bring GB into complete alignment with our European counterparts, the cap and floor proposal goes some way towards this. We believe that the emphasis of the new regime should be in allowing market conditions to determine the return to the investors and the cap and floor should account for unusual circumstances. This would allow the interconnector to function based on "normal" market demand but equally ensure both that excessive or insufficient returns to the investors were prevented, thereby providing greater certainty for both investors and consumers.

We believe that the partially regulated framework is best achieved via the cap and floor proposal rather than the alternative profit sharing proposal. However, we agree that each project should be assessed on its own merits so that Ofgem are able to understand the particular risks and business model specific to each project and set the detail of the framework appropriately.

We are continuing to consider the questions posed in Chapter 5 but, at this stage, we consider that the cap and floor should persist for the lifetime of the asset, thereby providing greater investment certainty. Additionally, we consider that a performance assessment should take place on a periodic basis with an opportunity for an early assessment following a defined trigger event. At any rate, it is important that, once set, the framework rules are stable and free from the possibility of change.

We support the move to a cap and floor regime for upcoming projects but believe that further assessment may be required in the near future as ambitions for a coordinated North Seas Grid gathers momentum. In order to deliver best outcome grid connection between and within member states and, at the same time, incorporate offshore generation across the North Sea, it is imperative that the GB regulatory regime facilitates efficient coordination between all transmission types, whether onshore, offshore or cross border.

To this end, we believe that a change to the GB licensing regime is required as follows -

1. A change to the Electricity Act is required, to remove interconnector licensing so that there is only a single transmission licensing regime.
2. A change to the Transmission Licence is required, to remove the geographical constraints on activities.

These changes would deliver the following outcomes -

All transmission is treated equally – including interconnectors, offshore and onshore transmission.

Rather than make what are already complex arrangements more complicated, all transmission activities should sit under the same licence with specific conditions turned on or off as appropriate. This would enable TOs to add new developments to an existing licence without having to seek a whole new licence and could also allow offshore wind projects to connect to interconnectors. This, in particular, increases the efficiency of transmission activities by recognising that all transmission activity is inherently the same, whether it be onshore, offshore or interconnector, and allowing the sharing of knowledge, expertise and experience between projects.

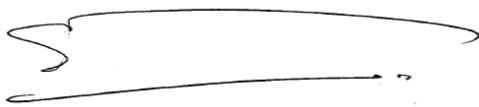
The licence should not be geographically limited.

Similar to the Distribution licence, this would allow all licensees to operate within a generally specified area which includes GB land area, internal waters, offshore waters and REZ areas (as defined in the OFTO licence). For regulated revenue purposes, this would be determined on an asset-specific basis and the total assets would form the RAV. This would also confer the powers of Schedule 3 and 4 of the Electricity Act on all licensees which provides access and wayleave rights for any of their assets, regardless of geographical area.

Although the current proposals may go some way towards encouraging cross border transmission investment in GB, the bigger picture (which incorporates offshore generation, subsea within-network links and achieving a North Seas Grid) should not be ignored and a framework should be developed now which enables the significant investment required in the future.

If you would like to discuss our response or require further information, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Samantha Ridsdale', written over a horizontal line.

Samantha Ridsdale
Networks Regulation