

Planning for an integrated electricity transmission system – request for views: North Connect’s response

North Connect welcomes the opportunity to contribute to this debate and hope that our views will help inform the policy going forward.

North Connect

NorthConnect (NC) is a joint venture project to realise an HVDC electricity interconnector between Norway and the UK. It is owned by five European energy utilities (SSE, Vattenfall, ECO, Agder Energi and Lyse Energi). The aim is to have the project commissioned by 2020. The project has recently reached some important milestone, including:

- Submission of the grid connection application and receipt of an offer in the UK (Peterhead, North East Scotland);
- Notification for a landing point to the Norwegian authorities; and
- Recognition as a Project of Common Interest under the TEN-E programme;

The NC interconnector will offer flexibility and storage capacity for UK and enable a cost efficient integration of UK wind power. Furthermore, by providing the UK with access to renewable hydro power from Norway, we expect that NC will help promote the achievement the UK’s renewable targets. A further key benefit offered by the NC interconnector is that it will improve the security of supply in both countries.

The role of Interconnectors

Increased interconnection between the UK and mainland Europe is desirable in order to secure the future electricity supply and facilitate the integration of the internal energy market. This also promotes improved integration of UK renewable power. Increasing interconnection is also a key priority on the EU policy agenda. The recent proposal on guidelines for trans-European energy infrastructure noted that: *“the challenge of interconnecting and adapting our energy infrastructure to the new needs is significant, urgent, and concerns all energy sectors.”*¹

The European Commission has estimated that €140 billion will be needed the coming decade to develop and upgrade EU’s electricity transmission infrastructure, including interconnectors. To meet this challenge, private investment will be needed alongside development by the existing TSOs.

We are pleased that Ofgem has acknowledged (p3) that interconnection can bring wider benefits to the GB system and to consumers. We note that Ofgem has identified (p3) that there is a need to set out a clear view of GB transmission network development that includes the cross border dimension. Further, we note that this view is intended to include a proper evaluation of the benefits and costs to GB consumers of increasing interconnection. Such a cost benefit analysis should also take into account the wider system benefits offered by

¹ Proposal on guidelines for trans-European energy infrastructure (COM/2011/658) pg. 3

interconnectors and recognise that increased interconnection with mainland Europe is important for the development of an internal market in electricity – a key EU policy objective.

NC believes that one of the key objectives for the ITPR must be to foster a positive investment environment for interconnection going forward. For this, it will be important that the ITPR project does not create additional challenges or barriers to the development of interconnection between the UK and mainland Europe. Additionally, the ITPR project must minimise regulatory uncertainty. We welcome Ofgem’s commitment to ensuring a stable investment regime in order to deliver the necessary investment (pg. 4). We urge Ofgem to keep this objective at the heart of the ITPR project going forward.

Questions

1. Is Ofgem’s objectives and scope of work for the ITPR project appropriate?

NC agrees that there is a need for a clearer view of where interconnection fits into transmission network development. NC therefore welcomes Ofgem’s objective to consider the interfaces between onshore, offshore and interconnection investment regimes. Equally, we agree that it is important to take account of the developments in other Member States and EU. This is particularly important in the context of interconnectors.

However, it is important not to lose sight of the fact that interconnectors are fundamentally different in nature to the onshore network and OFTOs. An interconnector, as cross- border transmission, crosses two separate systems involving different regulatory regimes, tariff systems and markets. This would present particular challenges to a central planner that would not exist for the onshore network or OFTOs.

Due to the present uncertainties related to the application of the EU regulatory framework for merchant interconnectors, the development of offshore grids preferably should be implemented in stages. A phased approach will ensure that interconnectors can be developed with the primary goal of supporting the onshore transmission system, i.e. through provision of additional cross-border capacity. Interconnectors may also play a part in the future “offshore grid”, however we do not think that this should become a requirement. In order to encourage private investment in interconnectors, interconnection with OFTOs must remain a commercial decision for investors until there are appropriate incentives and clear framework to support a more mandatory approach.

While we agree with the general scope, we note that it is extremely high level for such a potentially far-reaching project. It would be preferable if, as a starting point, Ofgem worked to clearly identify the shortcomings of the current framework and specify the problems that the ITPR project will work to address. We assume that there will be further more detailed consultations to follow and, in particular, would suggest Ofgem conduct a call for evidence based on the outcome of this open letter.

2. Are there any additional drivers for the project that should be considered?

The current development of the European infrastructure regulation including priority corridors and funding can prove to be an important driver of projects. This is

especially the case if private parties are enabled to develop interconnectors in addition to, but separate from TSOs. We note that the ITPR project intends to take account of EU policy development – for interconnectors this is a key aspect for consideration.

3. Is there is additional evidence Ofgem could consider in understanding the current and future challenges?

The work currently being carried out by the European Commission in relation to the draft infrastructure Regulation (referred to above) may provide some useful background material, which we think should be taken into consideration. The draft Regulation focuses on permitting procedures, regulatory issues and financing. All three areas have proven to slow down the necessary investments. The draft Regulation seeks to facilitate investment and overcome such delays. It also foresees that permitting for priority projects will be limited to three years, including regulatory agreements. In relation to finance, priority projects are deemed to be eligible for a share of €9.1 billion of EU funding, which will be available for electricity infrastructure.

A “merchant” interconnector project with market based capacity allocation and no restrictions on third party access has the potential to support the interconnected transmission system in the same way as any other transmission infrastructure. On top of this, DC lines will provide additional opportunities for ancillary and system services that may be demanded in the future low carbon sustainable supply system. In order to fulfil this, there will be need for complementary arrangements to ensure that:

- the coupling arrangements ensures socioeconomic optimal flow;
- that the owner may recover any costs related to the optimal flow i.e. compensated;
- for any transmission losses that is not balanced by congestion revenues; and
- Ofgem continues to promote the need for merchant interconnectors in the EU

We expect that Ofgem will need to take account of the work currently on the EU Network Codes being developed under the Third Energy package, e.g. in relation to Capacity Allocation and Congestion Management.

4. Are the current interactions between the NETSO’s role and the role of other TSOs in system planning consistent and efficient?

At present, interconnectors do not play a role in system planning. As mentioned in our answer to question 5 below, the relationship between NETSO and interconnectors could be usefully re-examined.

In relation to ENTSO-E and the development of the TYNDP, if the ITPR project considers that it is not desirable and/or appropriate for interconnectors to participate in this forum, there should be provision for NETSO to consult with interconnectors in relation to issues that may affect interconnectors, particularly on cross-border issues. This could operate in a similar way to the present arrangements between Ofgem and the Northern Irish Authority for Utility Regulation (the Utility Regulator) in relation to membership of ACER.

5. Are the arrangements for and relationship between NETSO and other TSOs (for example, interconnector owners) appropriately incentivise system planning?

The current system planning documents (SYS and ODIS) do not presently adequately address interconnectors. Interconnectors, while acknowledged as TSOs in principle, are considered only in the context of demand on the NETS. There needs to be a recognition going forward that interconnectors have an important part to play in the interconnected electricity system. We are aware that National Grid is currently reviewing the format of its planning documents, as well as introducing a new Electricity Ten-Year Statement (ETYS). We think that the current project should support this review by re-examining the role of interconnectors in the UK and how they are covered in the system planning documents.

There is no framework governing the relationship between NETSO and interconnector operators as TSOs. At present the relationship between NETSO and interconnectors could be closer characterised as a TSO- generator relationship. Interconnectors have the ability to play an important role in the interconnected electricity system and it is therefore appropriate that interconnectors are looked at differently from generation. The ITPR project could usefully examine how the relationship between NETSO and interconnectors should evolve going forward. Similarly, there may also be tri-partite relationships between NETSO, the Scottish TOs and interconnectors that should be considered as part of this.