

Martin Crouch
Partner, European Wholesale
Ofgem
9 Millbank, London, SW1P 3GE

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ITPRMailbox@ofgem.gov.uk

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Dear Martin

Ofgem – Open Letter - ITPR¹
Planning for an integrated electricity transmission system
RenewableUK response

Introduction

We welcome the opportunity to respond to Ofgem's ITPR letter. With the coming of a single European market in electricity and the growing need for UK and Europe to seek safe and secure indigenous energy supplies, the matters raised in the letter are highly pertinent. UK and Europe plan to decarbonise their electricity supplies as a vital step in decarbonising the overall economy. Renewable resources expect to play a key role in that decarbonisation both up to the 2020 EU renewables targets and in the decades beyond.

The UK can enjoy the long-term benefits of its large renewables resources particularly offshore wind, wave and tidal power by exporting the power and/or green credits to mainland Europe. Increased interconnection in the form of the projects you have outlined will be crucial to the UK enjoying the economic, supply chain and job creation benefits of such renewable energy construction and exports. Given project timescales some vital groundbreaking and pioneering projects of the type you outline in the letter, would be expected in this decade, with replication and rollout on a larger scale in the 2020s.

Our response to the issues raised in your letter follows below.

¹ <http://www.ofgem.gov.uk/Europe/Documents1/ITPR%20Open%20Letter%20-%20Final%20version%20-%2023%20March%202012.pdf>

About Renewable UK

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with over 660 corporate members, RenewableUK is the leading renewable energy trade association in the UK, representing the large majority of the UK's wind, wave, and tidal energy companies. Our members include supply chain companies both manufacturing and services; renewables developers & generators; and energy companies with renewables' portfolios. The association's response aims to represent wind, wave and tidal industries, aided by the expertise and knowledge of our members.

Response

We have approached our response on the basis of key topics and issues following the titles below we hope that in the process we have answered the questions in your letter.

Principles

The process and outcome of ITPR must be beneficial overall and not have adverse impacts compared to current processes. Therefore, it is vital that the result should:

- a. Not result in higher costs or charges to any generator for development, user commitment, construction and/or ongoing use, operation or maintenance (TNUoS or O&M);
- b. Not lead to any increased risk of delay or later connection and guarantee the date given;
- c. Deliver an improved level of network security, and reliability.

Potential impacts on GB and UK renewables.

We recognise that these proposals could have two opposite impacts on GB industry:

- a. Potentially create greater competition in the medium term due to renewables in Ireland – north and south coming to GB.
- b. Provide long term growth for GB, and UK renewables to export power and potentially green credits to Europe.

We welcome ITPR as it has been long recognised that interconnectors to mainland Europe from offshore wind farm connections are a very cost efficient way of providing interconnection. The diagrams on the back page of the letter could be enhanced with an option showing a GB generator connected only to a network in Country B.

Roles

We see the following roles which are required and can be delivered by different parties.

- a. System Planning,
- b. System operation,
- c. Network /Asset ownership,
- d. Development and construction of new assets.

None of the above activities should be affected by the businesses or entities involved. I.e. system planning should be about designing and specifying useful network reinforcements and upgrades and should produce the same outcome regardless of who owns or who operates the assets.

GB, UK, All Islands and EU

With the coming of the EU single market in electricity and increased cross border trade and market coupling, thinking in terms of national boundaries and the limits of (largely national) markets is unhelpful and a new mindset is required. Ofgem has started this process with ITPR. In our view ITPR could only benefit from more experience, views and interactions from outside GB and UK.

Interconnector, OFTO, ONTO, TO.

In the context of a European market the concepts of Interconnector, Offshore Transmission, and Supergrid etc will be superseded. All will form part of the Europe's transmission network regardless of ownership (e.g. an onshore TO, an OFTO, a consortium of TOs, or other parties) or whether they cross national boundaries or not. Indeed the ownership of assets would be expected to change over time so that lower cost finance can be applied as assets progress through development, construction, commissioning and operation. Some assets will cross national borders, some several borders. The regulatory regime might accommodate all these models, possibly in one generic and flexible form.

SYS, ODIS, TYDNP & ENSG

RenewableUK responded to NGET's consultation on the SYS and ODIS and recommended that more consideration of the benefits on interconnection to GB was required. We suggested that ENSG could play a role.

Interconnectors have been merchant led in GB & UK to date. In future we expect a continental European regulated model to prevail. Regulated assets will need to be planned if there are insufficient entrepreneurial developments of new interconnectors to deliver the potential benefits.

Use of system charges and FTRs

The issues of charging for the assets needs to be addressed. We have previously raised concerns about charging parity of generation and interconnectors and the charging of coordinated offshore networks. The projects considered under ITPR will add further complexity. Charging and Financial Transmission Rights (FTRs) should be part of Ofgem's ITPR project.

Investor and Commercial Interests

We are pleased that Ofgem is inviting bilateral discussions with parties who have an interest in ITPR projects. We suggest that the commercial and investor perspective is a vital ingredient to achieving a successful outcome and recommend that these aspects and stakeholders should be a part of the ongoing ITPR project

Interconnection

We support greater interconnection in Europe as this has reduced costs to customers in the past and would be expected to do so in the future. In our view regulated rather than merchant interconnectors are likely to be the best option in the future. This is because merchant interconnectors rely on enduring market price differentials for their income. In the EU Target Model the price zone at each end of any interconnector may be joined removing any return for the merchant asset owners. Developers of interconnector projects should be welcomed and supported as they are taking risks, and if successful will help reduce costs to consumers through increased interconnection. The regulatory regime should recognise this development risk in setting a rate of return on the investment.

NETSO planning role

The NETSO role in planning and ENTSO-E in its TYNDP would probably benefit some sort of peer/ industry review and checks and balances – e.g. such as ENSG.

There should be a process for parties in receipt of connection offers from the NETSO to review these if they are not happy with the NETSO proposals - in addition to the option to seek determination with Ofgem.

Participation in ENTSO-E

We do not see a necessity for OFTOs and Interconnector Owners to participate in ENTSO-E. It is more important to ensure that users (generators, customers, suppliers) can interface with ENTSO-E, TOs, & SOs in developing plans.

Reinforcements and potential market coupling/ splitting.

The CACM (Capacity Allocation and Congestion Management) Network Code is setting up a process for market splitting and coupling. Reinforcements (be they within GB or through Interconnection) will be important in avoiding market splitting and promoting coupling. As splitting or coupling would have significant market impacts on market participants, these participants need to know the processes and monitor the role of the system planner in managing and reducing the risks of change.

Customer investment in Interconnectors

The system planner should determine whether it would be better to reinforce the GB network internally or via interconnections. For example an HVDC link to northern Scotland to Norway may be more cost effective than an east coast bootstrap. An interconnector could export from

GB during Cheviot boundary transmission constraints – reducing constraint costs – and import during low wind generation periods in GB lowering market prices. Just as offshore interconnection can reduce onshore GB reinforcements; it is possible that networks in adjacent countries could do so do. In this sense GB has already seen power imported from BritNed and exported to France so that GB is providing reinforcement for the Dutch, Belgium & French networks.

Ofgem's role in European context

Ofgem must recognise that it could be conflicted by increased interconnection. For example it may be that GB prices are lower than in mainland Europe and that more interconnection may raise GB prices. This “cost” to the GB consumer must be weighted against the benefits to EU consumers and benefits to the GB/UK economy of more generation, supply chain, job creation, and export revenues from both power and green/ carbon credits.

Separation of NETSO activities.

As has been noted by Ofgem and DECC the designation of National Grid as the delivery body for the proposed Capacity Market and Contracts for Difference in Electricity Market Reform (EMR) will undoubtedly lead to conflicts of interest. RenewableUK has called for legal unbundling and ring-fencing of the System Operator to be enacted in addition to requiring complete and total transparency throughout the system, as long as it can be demonstrated that this option delivers a similar outcome to full ownership unbundling in terms of disinterested exercise of the SO's EMR decision-making discretion. In this instance as it relates to ITPR, we welcome clarity from National Grid in the roles of its staff, departments and process of administration. Separate identities for the NETSO roles in EMR, planning and operation would be welcome.

Incentives on NETSO

The incentives must have a purpose or output - such as facilitating “our longer – term environmental targets” (see Page 4/6 Project Scope). RenewableUK has been a strong advocate in incentivising the TOs, DNOs and SO in their contributions to delivering the “output” of the low carbon economy, not by discriminating in favour of low carbon energy generation, but through being proactive in addressing the issues and barriers to these new sources of energy and adopting innovations to speed delivery and lower costs. Under RIIO-T1, RenewableUK's proposal is being incorporated under the EDR (Environmental Discretionary Reward). We recommend the objective of decarbonisation of GB electricity is foremost in the formulation of any incentive on the NETSO.

Urgency and Regulatory Framework

There are clearly projects being conceived and developed that will stress the current regulatory framework. It is important these projects are not delayed by unnecessary

regulatory hurdles or by waiting for a new framework to be developed and tested and agreed at a European level. A pragmatic approach to regulating projects that do not fit the current model is needed. RenewableUK has been concerned with the long timescales of the OTCP. ITPR is far more involved than OTCP but must not be allowed to delay progress.

European approach to coordinated system planning and development

Ofgem rightly sets out the need for a European approach to coordinated system planning and development. Coordination is not just about grid expansion projects; it is also about the longer-term renewables agenda. The setting of renewables targets beyond 2020, and a view of the potential deployment of onshore and offshore renewables in various Member States as a result, would provide additional strategic input to the ITPR process. We would encourage Ofgem, through CEER and/or ACER, to support setting of EU renewables targets to 2030.

Support Mechanisms

We will comment elsewhere on low carbon taxes and renewable support mechanisms and our comments above are independent of any views on renewable energy trading in Europe.

Please note our previous relevant responses

- RenewableUK position paper on offshore coordination² ;
- To NGET re the SYS and ODIS consultation;
- Response to Ofgem 26/12 offshore coordination and anticipatory investment consultation;
- Responses on RIIO –T1 and proposals for Low Carbon Economy Incentive.

We look forward to engaging with you and your team to progress these matters.

Yours sincerely,



Guy Nicholson; Head of Grid for RenewableUK,

² http://www.bwea.com/pdf/120112PP_OffshoreNetworkCoordination.pdf