

NorthConnect KS  
Serviceboks 603, Lundsiden  
4606 Kristiansand  
Norway

Ian Marlee  
Senior Partner  
Smarter Grids & Governance Transmission  
The Office of Gas and Electricity Markets  
9 Millbank London SW1P 3GE

E-mail: [Ian.Marlee@ofgem.gov.uk](mailto:Ian.Marlee@ofgem.gov.uk)

CC: [David.Henderson@ofgem.gov.uk](mailto:David.Henderson@ofgem.gov.uk); [Matthew.Grant@ofgem.gov.uk](mailto:Matthew.Grant@ofgem.gov.uk);  
[Siobhan.Carty@ofgem.gov.uk](mailto:Siobhan.Carty@ofgem.gov.uk); [Hazel.Gulliver@ofgem.gov.uk](mailto:Hazel.Gulliver@ofgem.gov.uk)

14<sup>th</sup> December, 2012

Dear Mr Marlee

**Open Letter: Update on the Integrated Transmission Planning and Regulation Project – request for further views and evidence**

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 (NCKS) 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 Produksjon). The aim is to have the project commissioned by 2020.

The project has reached some important milestones, 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.

NorthConnect is now at the end of its second work package and soon to be submitting the Norwegian Concession (Dec-12) and UK Outline Planning (Jan-13) applications, followed by Marine Consents later in 2013.

The NorthConnect interconnector will offer flexibility and storage capacity for the 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 NorthConnect will help promote the achievement the UK's renewable targets. A further key benefit offered by the NorthConnect interconnector is that it will improve the security of supply in both countries.

## **General Comments on Scope & Context of the Open Letter**

It is estimated that €140bn of European network investment will be needed over the next decade to facilitate renewables integration and changing power markets. This level is far greater than the European NETSO's aggregate balance sheets can tolerate and there is already evidence that investment is not happening fast enough.

*Example:* From the TYNDP 2012, which was defined only 12 months ago and containing exclusively NETSO projects, one in three schemes have already been scrapped or are seriously behind schedule (**Source: ENTSO-E**).

In this context, it is imperative that any planning regime should encourage the development of non-NETSO 3<sup>rd</sup> party projects (the so-called "Merchant Projects") in addition to TSO schemes in order to deliver the required investment. NorthConnect would welcome less barriers, certainly no additional barriers, and a regime which minimises uncertainty for project promoters and financiers.

Our main observation of the current arrangements would be that the NETSO's hold most of the cards. Both at UK and European level, incumbent TSO's have been made the gatekeepers for merchant projects, even when they have directly competing projects of their own. Business Separation is addressed in Issue No.3, however, NCKS believe that any business separation measures cannot be adequately controlled and enforced. Instead, we would welcome a mechanism which has an independent system planning organisation, separate from the NETSO, as gatekeeper to the process of planning and consenting grid investment projects.

Two issues which do not appear to be detailed in the Open Letter, but we feel also provide very important context for the ITPR objectives, are:

- Project deliverability is not covered. Ownership of the end product (assets) is the key to attracting investment. We believe Ofgem cannot address the transmission planning regime adequately without clearly setting out how the incentives (or disincentives) may link to delivery, and ultimately ownership of transmission assets; and secondly
- A point always neglected in these considerations is that 3<sup>rd</sup> party projects also bear the downside risk of the investments, thereby alleviating the consumers from underwriting the assets. We feel this needs recognition in any planning regime.

Finally, Cap & Floor for interconnectors is referred to in the Open Letter. We recognise it is a separate initiative, but would like to re-iterate the following points here:

- If the cap and the floor are too tight, the investment project effectively becomes another regulated asset, in which case the UK would lose all the benefits of being able to attract more private investment to the interconnector market as discussed above;
- Ofgem should be aware that what might work for the trial project (NEMO), may not work for other interconnectors. One size may not fit all. NEMO is a short subsea connection between two high load areas, whereas NorthConnect, for example, is much longer and aimed at the interoperability opportunities between wind and hydro. A cap and floor which works for one

interconnector, could destroy the business case for another; and finally in light of this

- We would encourage Ofgem to also keep the fully merchant option open to developers.

### **Issue No.1 – Integrated Transmission Planning**

The first point we would make in relation to an integrated planning regime, is that when considering interconnectors, the term “integrated” automatically means considerations from outside the UK borders or territorial waters should be accounted for. There must be a recognition that interconnectors are fundamentally different - they are about coupling markets and interoperability / flexibility between transmission systems. They do not fit into the prevailing supply-demand-price considerations of an islanded market, which are inherent in the current transmission planning regimes. This will require a whole new way of thinking about how the UK regime can fairly take account of that wider perspective.

For example, interconnectors should not necessarily have to tie-in to an offshore grid or windfarm per-se, if market forces do not indicate that is cost-effective use of investment.

Neither are interconnectors generators. The prevailing regime seems to treat them as such in certain circumstances, and vice versa in others. We can give an illustrative example of this from NCKS’s current grid connection offer:

Example: NCKS were informed in writing by the NETSO that interconnectors cannot access Connect & Manage due to the third package rules on unrestricted access (i.e. not like a generator)  
The NETSO also then cited the CUSC and NETS SQSS rules which say they must assume the full 1400MW load on the GB system from the interconnector (i.e. like a generator)

As a result of the above, NCKS are faced with £1.5bn of onshore reinforcement underwriting (£42m pre-financial investment decision) to cater for the remote possibility that:

- a) All the current contracted generation in the north of Scotland will be realised in the next 10 years; and
- b) The thaw in Norway when hydro generation is fully utilised will coincide with periods of maximum wind generation in the north of Scotland.

We estimate the latter situation has somewhere between a 1:500 to 1:1000 probability of occurrence in any one day. For that remote possibility, the current rules mean that NCKS have been given punitive underwriting that will probably prevent the owners from taking on that level of risk prior to a financial investment decision. This could very well kill a perfectly viable and important project. NCKS would prefer to be given a non-firm offer to cater for this circumstance, thereby also saving the NETSO from £1.5bn of UK reinforcement work. However, the current regime does not recognise interoperability with another country and so does not allow for this possibility.

**Question 1. Do you think that the key issues, as described in the Open Letter, should be considered? What is the materiality of the issues identified?**

Yes the issues in the Open Letter should certainly be considered, they summarise the main areas that ought to be covered and are highly material in their concept.

However, NCKS would note that some of the detail, particularly the quoted Stakeholder comments in the letter, appear to be constrained by current thinking, frameworks and codes. As we have stated above, the new world of a huge ramp-up in investment and European integration will, by necessity, require thinking outside these constraints. E.g. we believe the ITPR should take the opportunity to examine the viability of either:

- a) Setting up a market framework (with a regulatory checks and balances) and let the market decide what is required without putting any one organisation in a king-pin position; or
- b) Establish an independent, intelligent strategy body (central network planner) which determines overall programme planning and licences organisation to operate under that framework in line with overall strategy.

**Question 2. Are there any other issues to be considered in this area?**

Yes. The issues cited above in our response which are specific to interconnectors.

**Issue No.2 – EU Representation**

NCKS broadly agree with the content of the Open Letter on this issue and would support the call for better representation of 3<sup>rd</sup> party projects. We also support the need for a common understanding of GB system development between parties, however, in Issue No.3, we discuss how Business Separation often seems to prevent this, or may even be currently used to prevent 3<sup>rd</sup> Party projects from aspiring to shared knowledge and a common understanding.

We would also add to the issue of EU representation that merchant projects are unique in being able to take a truly country neutral view of the best value (most cost-effective and efficient) solutions to interconnection between countries. The NETSO's, which by definition are national, but in some countries are also wholly or partly state owned enterprises, are often swayed by purely national self-interest rather than Europe wide considerations.

**Question 3. How effective are the current arrangements in representing all GB transmission entities' interests within ENTSO-E?**

We do not believe that the current arrangements are very effective. ENTSO-E is quite clearly the incumbent NETSO's club in its current configuration. Their monopoly position has been further compounded by DGE / ACER, by being made judge, jury and executioner over the TYNDP and PCI process for 3<sup>rd</sup> party projects.

We have already discussed the fact that no merchant schemes succeeded in being included the TYNDP 2012. Although the PCI 2012 and TYNDP 2014 process is now trying to ensure "equal treatment" for 3<sup>rd</sup> party projects, and the meetings in those processes to date have been posted as Working Groups with 3<sup>rd</sup> party invitees, the TSO's are still carrying out the individual project assessments behind closed doors. The Working Groups so far have simply announced the results and taken on board third party views, but the process has not changed in response to those views.

**Question 4. How material is the impact of these arrangements on representation of the GB transmission system developments in the TYNDP and other related European activities?**

Very material. It is simply the case that the UK and the rest of Europe will not realise the investment needed if this situation persists. The Regulators principal raison d'être is to prevent positions of abuse by monopolies, but one of the unintended consequences of the current framework, could be to create the very circumstances which will result in less value for money for consumers across Europe.

**Issue No.3 – Business Separation**

We would wish to pose an open question in respect of this issue. NCKS and other non-NETSO merchant schemes complain about not being able to access transmission planning network information, load models, socio-economic models, etc. as discussed above – i.e. “a common understanding of GB system development”. *Do the NETSO 3<sup>rd</sup> party projects also have the same problem? If business separation is working then they should also face the same barriers as non-NETSO merchant schemes.*

In the TYNDP and PCI assessment process, ENTSO-E have been put in the place of “referee” on all 3<sup>rd</sup> party projects, and the indigenous NETSO's of the affected countries will be responsible for carrying out the details of the assessment of 3<sup>rd</sup> party projects, which are often rival projects to their own. The NETSO will get to see all 3<sup>rd</sup> party project details, including cost and commercially sensitive information, but the 3<sup>rd</sup> party projects will not get to see any of their rival schemes' information. We believe the process is structurally, if not explicitly, biased and that business separation does not adequately protect against this.

Finally, NCKS have tried to ask questions and cooperate with the NETSO and with regulated projects taking place near to our GB connection point. We have done this for both transmission planning and also sound safety, environmental or technical reasons, and are aware that the TSO regularly do this with for example wind farm developer connections. We have always been given the answer that regulated processes and business separation rules do not allow this kind of cooperation. We are not sure this is truly the case, or whether business separation is a convenient foil to put 3<sup>rd</sup> party projects and rival schemes at a disadvantage.

**Question 5. How effective are the current business separation arrangements the transmission entities are subject to?**

The current business separation arrangements that transmission entities are subject to are, in our opinion not adequate to ensure equal access and treatment of 3<sup>rd</sup> party versus TSO led interconnector projects. One of the opportunities to easily manipulate the system is illustrated in our answer to Question 6 below.

The only way to effectively ensure business separation is to not give any single organisation this dual role in the first place.

**Question 6. How material is the impact of the current arrangements on efficient network development?**

It is crucial. A good example of how the system can be “gamed” is with cost estimates. There are large uncertainties and variations in the way that particularly early stage cost estimates for interconnectors and the onshore reinforcements they might trigger can be built up. If the NETSO is put in position of assessor for both their own and 3<sup>rd</sup> party projects, it would be very easy to suppress the cost estimates associated with their own projects and inflate those of the 3<sup>rd</sup> party schemes. The same discrepancies could be applied to assessment of revenues, benefits, power flows, environmental impacts to make their own projects look more attractive and other projects less so.

**Question 7. Where networks are increasingly integrated, are there other areas where the question of conflicts should be considered?**

No comment.

**Issue No.4 – Multi-Purpose Projects**

This issue is not applicable for NCKS currently, however, we are keen that the outcomes and implementation of the ITPR process, should not have knock-on effects for interconnectors, for example, forcing interconnectors to become multi-purpose projects by combining with Offshore Wind Farms or OFTO's.

**Question 8. Do you agree that these issues associated with multiple purpose projects should be considered? What is the impact of the issues you identify as relevant? In particular how do they affect multiple purpose projects?**

No comment.

**Question 9. Do the issues capture all the potential regulatory barriers? Are there any other issues to be considered in this area?**

No comment.

We look forward to your response and hopefully to our further participation in the process.

Yours sincerely,



*P.P.* **Jo Viljam Drivdal, CEO**  
NorthConnect KS