



ORGANIC POWER

THE text we have selected from the open letter as relevant for Organic Power to answer is shown below, and our answers given to questions 8 and 9.

Issue 4: The regime interfaces for transmission related multiple purpose projects are potentially unclear, giving rise to a lack of clarity around regulatory treatment for these assets.

Hypothetical examples of multiple purpose projects were discussed in our March open letter. Stakeholders, particularly multiple purpose project developers, have suggested certain areas where there may be a lack of clarity, including around:

- The type of licence the asset operator should be awarded. Under the current arrangements, operators of onshore and offshore transmission assets must hold a transmission licence which differs for the NETSO, TOs and OFTOs¹³; interconnector operators must hold an interconnector licence. However, as multiple purpose projects could serve the combined function of connecting offshore generation, providing reinforcement of the onshore network and/or linking our market with that of other Member States, it is unclear in some cases which licensing regime may apply to certain assets. This gives rise to a general lack of clarity around which licensing regime(s) a multiple purpose project sits under.
- The regulatory treatment of multiple purpose projects. For example, the costs associated with constructing and operating transmission infrastructure are recovered in different ways for onshore transmission, offshore transmission and interconnection¹⁴. Furthermore, the duration of the revenue stream and the various incentives that impact the revenue stream (with respect to, for example, availability) differs according to the regime under which a project is regulated. Stakeholders have suggested that these issues give rise to uncertainty around the regulatory treatment of multiple purpose projects.
- The charging arrangements for use of the assets. The Transmission Network Use of System (TNUoS) charges for onshore and offshore are designed to provide an annual, fixed *ex ante* charge for use of the network. Charges for use of an interconnector are established through the use of auctions and are therefore variable according to the market's valuation of the capacity. Stakeholders have suggested that this difference in approach could give rise to uncertainty around how charges for use of multiple purpose assets are determined.

¹¹ SHETL and SPTL have been granted derogations to allow them to operate their transmission and distribution businesses as single network businesses, subject to certain conditions.

¹² The Annual Compliance reports can be found on the Scottish Companies' websites.

¹³ NGET is subject to sections A (Interpretation, Application and Payments), B (General), C (System Operator Standard Conditions of the electricity transmission licence). The Scottish TOs are subject to sections A1-A4, B1-B14 and D1-D15 (Transmission Owner Standard Conditions). OFTOs are subject to sections A and E (Offshore Transmission Owner Standard Conditions).

¹⁴ For onshore transmission assets, NGET and the Scottish TOs recover their costs through an eight-year price control under the RIIO framework. There are also a number of flexibility mechanisms, such as the strategic wider works mechanism, to enable TOs to recover costs and manage uncertainty for projects required in the near-term. For offshore transmission assets, parties who have successfully won an offshore transmission licence receive a twenty year regulated revenue stream to own and operate the asset under the Generator Build model or construct, own and operate the asset under the OFTO build model. Interconnector operators, recover costs through auctioning capacity to the market.



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- The access arrangements. Connection to the onshore electricity transmission system is offered based on the “connect and manage” approach¹⁵. Users then access the system under the terms of their connection agreement with the NETSO. For interconnection, third party access (to the interconnector) is guaranteed, but as highlighted above, capacity is offered to potential users through auctions. For multiple-purpose projects involving a cross-border element, stakeholders have suggested that it is unclear how access arrangements would work.

In addition, it has been argued that all of these issues could be further complicated by the fact that assets may develop sequentially and, therefore, take on the characteristics of multiple-purpose projects during the course of their lifetime.

Questions

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?

Yes we do agree that these issues need to be addressed and a number of issues are of concern.

The MAREX project is a cross border multiple purpose project designed to deliver 6Terawatt-hours of dispatchable renewable energy form ONSHORE WIND in Ireland via a single 1500MW VSC infeed to the UK, probably at Capenhurst.

It will require a transmission licence from OFGEM for the entire infeed to UKNG, an appropriate mechanism for this appears not to exist in regulation.

MAREX also contains 6Gwrs per cycle energy storage, which allows for dispatchability of power, and as a consequence reinforcement of the onshore network.

While there is technical potential to link UK market with that of Ireland the MAREX system into the Irish Grid at 500MW in the future, current regulatory frameworks in Ireland do not allow this. Therefore this is not proposed as part of the MAREX plan.

We agree that uncertainty surrounds the regulatory treatment of multiple purpose projects.



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

Other issues that we feel should be considered.

The wind and storage elements in Ireland will require Irish generation licences, even though they are to be connected only to the UKNG system.

The level at which the storage can be utilised is a function of whether the renewable status and value of power passing through storage can be maintained. If this is the case, an efficient market led dispatch of the wind generated electricity can be delivered. If not, the storage element will have to concentrate on the arbitrage trading of power available on the MAREX and UKNG networks.

11 SHETL and SPTL have been granted derogations to allow them to operate their transmission and distribution businesses as single network businesses, subject to certain conditions.

12 The Annual Compliance reports can be found on the Scottish Companies' websites.

13 NGET is subject to sections A (Interpretation, Application and Payments), B (General), C (System Operator Standard Conditions of the electricity transmission licence. The Scottish TOs are subject to sections A1-A4, B1-B14 and D1-D15 (Transmission Owner Standard Conditions). OFTOs are subject to sections A and E (Offshore Transmission Owner Standard Conditions).

14 For onshore transmission assets, NGET and the Scottish TOs recover their costs through an eight-year price control under the RIIO framework. There are also a number of flexibility mechanisms, such as the strategic wider works mechanism, to enable TOs to recover costs and manage uncertainty for projects required in the near-term. For offshore transmission assets, parties who have successfully won an offshore transmission licence receive a twenty year regulated revenue stream to own and operate the asset under the Generator Build model or construct, own and operate the asset under the OFTO build model. Interconnector operators, recover costs through auctioning capacity to the market.