

## BRITNED - Electricity Interconnector Policy:

BritNed welcomes this opportunity to respond to Ofgem's consultation on Electricity interconnector policy. We are all aware of the lack of alignment between the GB and continental regimes and this consultation raises the questions that need to be answered collectively to develop a European internal electricity market. We are under no illusion of the work entailed to bridge this gap as BritNed faces such disparity on a daily basis but we are passionate about working together with all parties to provide a shared and effective electricity transport infrastructure.

Q1.1 Have we accurately captured the benefits of and demand for new interconnection? Are the projects under consideration all viable? Would they be sufficient? Are there other projects being developed?

We have barely started to tap into the real benefits of interconnection between GB and continental Europe. There is much more than substituting cheaper electricity from one side of an Interconnector to the other. Benefits such as greater competition and enhancements in the security and quality of supply between European countries have yet to be truly reached.

To answer the viability and sufficiency of projects one must look at the current regime and the regime for the lifetime of the asset. As we have established, the current regime is not aligned with continental Europe and for any project to become viable there must be more joined up thinking. By developing a regime which facilitates competition and delivery of further low carbon energy sources at the same time as achieving security of supply goals in a cost beneficial way then a workable and united regime must be and can be achieved. We will address our preferred option in our answers to Q3.

We feel you have accurately listed the existing, planned and future interconnection within Table 1 of page 5. This is not to say that further interconnections will not be considered in the future if a workable and united regime can be achieved in the future.

Q1.2 Are there other key aspects of the legal or regulatory framework that we should consider, or should some features be given different emphasis?

We see a real barrier to develop interconnectors and that can be summed up in one question, does the revenue from the Interconnector through capacity sales and congestion rents meet the initial investment? It is all well and good to say we need further interconnection, a concept we fully support, but why should this happen when the investment risk is all with the interconnector developer.

A further barrier is the differing legislation between GB and continental Europe where in GB a system operator can not own and operate an interconnector where in continental Europe a system operator must own and operate an interconnector. This is a hurdle BritNed has constantly had to grapple with in order for BritNed to operate successfully.

Another example regarding the difference in regulatory regimes is the charging regime that is applied on interconnectors whereas in GB interconnectors are treated as both load and demand and on the continent as part of the transmission grid. We are aware that Ofgem are currently considering these issues outside this consultation process and we welcome such a review, however we would like to raise it here as it is one of the key

issues for new interconnection development and existing interconnectors and is regarded by some of our potential customers as a possible barrier to trade. The issue requires an integral view on interconnector charging and thus extends beyond the practical issue with Triad charges (transmission network charges to demand customers). Bearing in mind BritNed goes into commercial operation early 2011 we would very much support a review of the charging regime sooner rather than later.

All these hurdles come with a price both in time and money. It takes months if not years to overcome these hurdles, which can be done and BritNed is an example of this, all of which hamper if not, over time, prevent Interconnectors being built to continental Europe.

BritNed has the full support of its shareholders National Grid and TenneT in accordance with its exemption condition of working in separation between its respective Transmission System Operator roles but it is clear that a change in the regulatory framework towards interconnectors needs to be reviewed in the light of maintaining a level playing field between existing and new interconnectors.

Q1.3 How can the Regional Initiative best contribute to development or implementation of policy? Do you agree with the priorities and approach outlined?

Electricity Transmission companies are free to develop interconnectors as an extension of their transmission networks, BritNed is an example as it is deemed part of the Dutch HV grid. There is no need for the granting of an exemption and this in turn causes a real barrier when discussing possible interconnections with other European countries. It is very clear that a co-ordinated approach is imminently required which we note has been captured in your paper which we strongly support.

We also strongly support the extension of the regional initiative which could soon include GB coupled with the CWE and Nordic regions. If GB does not become an integral part of the CWE and Nordic regions and remains as at best a radial spur then our goal of a further interconnected Europe will fail. We fully support a co-ordinated and harmonised approach.

Q2.1 Are the target models explained in this chapter appropriate for GB? What are the issues that need to be considered? Are there alternative approaches that would be better? Will the target models effectively accommodate increased intermittency?

BritNed will be offering a hybrid of explicit auctions for the medium-term and intraday timeframes and implicit auctions at the day-ahead stage. The target model at the day-ahead stage is an implicit auction and BritNed is fully committed to implement a solution in time. As the market design in the GB market is different compared to the continent, we have received some initial feedback from GB market participants that they need to get a better understanding of implicit auctions in order to fully embrace the concept.

What is very apparent is the need for low carbon fuel sources such as wind which is mostly predictable within day so when trading market participants will appreciate the ability to adjust their energy positions within day when the implicit auctions will become more favourable. A concern for harmonisation of the intraday markets is that BritNed is not convinced that the interconnector capacity could be valued using a continuous implicit intraday allocation on a first come first served basis. This is the reason for BritNed currently favouring explicit intraday auctions.

Q2.2 What should be our approach to firmness of interconnector capacity? Should this vary between new and existing interconnectors, or between regulated and exempt? What are the categories of costs and benefits from changing approach? Where should they fall and can they be quantified?

In cases of prolonged outages there are opportunities for traders to minimise their positions and so minimise their overall exposure while meeting any long term commitments. For the explicit auctions BritNed is using a mechanism where it reimburses the auction price initially paid for the capacity rights in case of curtailment. In implicit auctions the Power exchanges are running an anonymous trading platform so will need the interconnector operators to be firm. This is the approach BritNed has taken with the agreement of Ofgem, Energiekamer and EU Commission.

BritNed welcomes harmonisation and sees the real benefits of a co-ordinated approach but if it is to change from this current position then careful thought and planning would be required to mitigate its financial exposure and protect its future business model.

Q2.3 Should we see regional solutions rather than individual project solutions for access rules, such as through broader North West European solution for market coupling? What are the priority areas for greater regional co-ordination?

A clear steer from both regulators is for BritNed to draft its access rules in a harmonised way, which BritNed fully supports. From speaking to a number of interested parties from all different backgrounds one thing is very clear and that this is an important step in achieving a more integrated European electricity market. This is abundantly clear and therefore a regional solution must be sought rather than entertaining or dabbling in individual project solutions. This will ensure that cross border transmission capacity is allocated on a non-discriminatory basis using market based mechanisms across relevant time differences.

Q3.1 Does this chapter capture the key issues in regulation of new electricity interconnectors? Should we assume that all new interconnectors will seek exemptions?

This is a big area where GB is not aligned with Continental Europe. As an island GB has to physically connect sub-sea to continental Europe and has no other option but to fully comply with the rules and regulations set down by its neighbouring European countries. Electricity transmission operators within Continental Europe are by law the bodies permitted to build and operate interconnectors so there is no need for them to apply for an Exemption. This has resulted from an understandable reluctance for such European countries to connect to GB. This directly opposes the laws of England and Wales which clearly adopts the position of clear separation between the Transmission operator and Interconnector operator, here rests the problem. A compromise needs to be reached for NGET and any Interconnector developer/operator to comply with the laws of England and Wales but at the same time allowing the TSOs within continental Europe the real benefit and desire to connect with GB.

Q3.2 Of the options set out, which are preferable and Why? What are the key considerations in taking forward any of the options?

Throughout the Interconnector policy paper and throughout our response we raise the concept of harmonisation, alignment and compromise. We need all these in abundance to fully understand and appreciate all barriers and benefits so that we can reach our goal of an integrated European electricity market.

At the time BritNed requested regulatory approval for its exemption, there was no mechanism to socialise the costs of an interconnector in GB. A hybrid structure for BritNed with a merchant mechanism on the GB side and a regulated mechanism on the Dutch side was discounted, as this structure is assumed not to be feasible due to competing interests between the shareholders of the joint venture, issues with ring fencing between the merchant and regulated business of the joint venture and non-compliance with the criteria for an exemption within GB.

We therefore agree with the four options that are currently considered and would favour option 3 for the following reasons:

- Complies with the current rules and legislation within GB and continental Europe without the need for exemptions.
- Investment decisions can be made to allow developers to quantify and assess their risks.
- Allows good incentives for Grid operators to maintain capacity, reliability and availability.
- Allows partnerships to be built between European countries to share knowledge and learn from one another.
- Allows for independent developers to build and operate interconnectors.

A difficulty we see with this approach is how the cap and collar will be set. It goes without saying that this must be set at the right level but we are confident that this can be achieved which is aligned yet avoids continual change. Another aspect that should be considered is how a change in the regulatory framework would impact existing interconnectors in order to maintain a level playing field between existing and new interconnectors.

If agreement is reached to adopt an Option 3 model then BritNed will require sufficient time to consider and plan for such a change so that it can assess its financial exposure and protect its future business model. BritNed can confirm that it will assess its position in parallel to ongoing discussions on the possible options.

It goes without saying that the laws and regulations of neighbouring countries will have to be checked thoroughly to ensure that such an Option 3 is compatible and indeed possible.

Q3.3 Is it feasible to have a mixture of different approaches for different interconnectors - such as some exempt and other regulated? If not, why and how should this be resolved?

For the time being the answer has to be yes but this is by no means a long term solution. We have seen that IFA will be operated along side BritNed one as non-exempt and the other as a joint venture company. In order for future interconnectors to be built and operated, clarity is now sought by developing and implementing an aligned structure which is workable for all.