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By Post and Email

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Dear Ms Angelidaki

Electricity Interconnector Policy Consultation dated 26 January 2010

Thank you for the opportunity to comment on your consultation document regarding electricity interconnection policy.

As the operator of a gas interconnector, we believe that there are parallels between the challenges that we faced when planning and constructing our pipeline and the challenges which undoubtedly face any prospective developer of new electricity interconnection. In responding to the consultation we have provided a high level response to the issues under consideration. We believe electricity interconnection is only one element of much wider policy objectives of ensuring affordable, secure energy supplies and a transition to a low carbon economy. We are firmly of the view that electricity interconnection can be developed and operated efficiently through a merchant approach within the context of a market-based framework.

There have been a number of infrastructure related issues raised recently and, as recognised in Project Discovery, it seems unlikely that the market as currently functioning will deliver the authorities' policy objectives in terms of security of supply or environmental objectives. Whilst we welcome the debate on wider energy policy issues, we feel that the existing Great Britain market arrangements have already delivered a very large amount of investment, e.g. gas import infrastructure, on a timely basis, and in so doing have ensured reliable supplies and low prices for consumers.

The consultation concentrates on one key issue: the need for greater electricity interconnection and a perception that the market will not deliver it. If this assertion is accepted, how may Ofgem ensure that the new investment required to deliver additional interconnection will be made?

In dealing with the issue, we feel there is a danger that roles will become confused. It is our view that market players are best placed to manage market risk, developers are best placed to manage development risk and regulators are best placed to provide a stable regime that

incentivises investment in line with the prevailing policy objectives. To adopt a fully (or partially) regulated regime as envisaged in options 3 and 4 (regulated cap and floor and regulated revenues, respectively) would place Ofgem in the position of underwriting projects that by themselves may not be economic. We believe that a fully merchant approach is the preferred route for developing interconnection within a regime that apportions risk and reward equitably between developer and market player.

As there is a clear view that the merchant approach will not deliver investment in the current market environment then, rather than interfere directly in the economics of one element of the supply mix, we believe the preferred option should be to change the market mechanisms and incentives regime such that market players are encouraged to align their commercial arrangements with the policy objectives of the relevant authorities.

We believe there is a direct parallel with gas storage, where authorities favour greater investment. Developers are bringing forward projects but market players have been unable or unwilling to make the kind of commitments necessary to underpin the investment.

As has been seen previously in gas import projects, investors are willing to invest and market participants are ready to make long term commitments to underpin those investments, but only if the regulatory framework is known in advance and stable.

Given the different regimes that apply in neighbouring countries, developing an appropriate policy in regard to this issue is clearly challenging. In meeting this challenge it is our view that Regulators have a major role in providing cross-border co-ordination and, more particularly, providing a stable and consistent regime within which developers and market players can operate with confidence.

We look forward to making further contributions to this debate from time to time. We do not consider this response to be confidential.

Yours sincerely,
for and on behalf of

Interconnector (UK) Limited



Mary Simmons
Legal Manager