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Dear Emmanouela,

Ofgem consultation on Electricity Interconnector Policy

Thank you for the opportunity to respond to this consultation.

SSE believes that whether future interconnector policy allows for either fully regulated interconnectors or exempted merchant lines, it is critical to the success of the UK energy market, and for ensuring security of supply, that the policy supports and encourages the following -

- Ongoing and sufficient investment in interconnector projects
- A liquid cross-border market
- A fair, transparent and non-discriminatory transmission charging regime

In order to encourage ongoing and sufficient investment in interconnector projects, it is important that the regulatory regime does not discourage merchant investment. Additionally, the current restriction in the Interconnector Licence, which prohibits licensees from carrying on transmission activities, may not be compatible with taking a more regulated approach to interconnectors. However, for either regulated or merchant interconnectors, it is important that the “big picture” is considered, particularly in regard to interconnection with a potential North Seas Supergrid. Regulation which is aimed at and encourages only point-to-point connections will hamper the progress of a truly interconnected European system and may ultimately result in the UK being “left behind”.

Certainly a regional solution for cross-border access rules is compatible with the ongoing work of ERGEG and harmonisation with other Member States in both the FIU and CWE region is desirable. However, it is not only harmonisation of cross-border access rules which should be considered, as there are currently significant domestic barriers to cross-border trade. “Triad” charges hamper the export of electricity to both Ireland and France during peak periods throughout the winter months and distort the “normal” direction of trade for those periods.

Furthermore, the excessive range of locational transmission charges within GB do not consider interconnection with other systems and thereby distort cross-border trade. For example, a wind farm

located in the North West of Scotland pays the highest transmission charge in the country at approximately £22/kW. If the generator was to contract its output to a supplier in Ireland, as is envisaged within the interconnected European market, the pricing must take into account the high transmission charge, even though they might only be located 50 miles away from the interconnector entry point at Auchencroshan. However, a generator in the South of England who is subsidised £7/kW for transmission charges would be able to contract its output at a much lower rate even although they are located approximately 500 miles away from the interconnector entry point. The locational transmission charging signals within GB are skewed when the output from a generator is contracted outwith the GB system and “outlying” generators are disadvantaged. This method of transmission charging does not occur within the Irish or French markets and therefore the cross-border playing-field is certainly not level.

Once the barriers to cross-border trade are addressed and the market can become more liquid, it will be important to ensure that interconnector access, whether merchant or regulated, is fair and transparent. We support the idea of price coupling between markets and as near to real-time trading as possible. Gate closure times across adjoining Member States will have to be reduced in order to encourage intra-day trading and a range of capacity products will be required. It is also important that the interconnector capacity on offer is financially firm. This will incentivise the TSOs to maximise transfer capacity and market participants will place a higher value on firm capacity.

We believe that a range of approaches will be required to encourage interconnector investment in GB and that flexibility is key, given that all interconnectors with the GB market are likely to be HVDC subsea cables rather than the European AC norm. Our geography automatically takes us out of step with continental Europe and imposes more complex technological solutions for interconnection. It is for this reason that it is all the more important that maximum harmonisation of markets and transmission charging regimes is sought and that GB market players are not disadvantaged in the wider European market.

If you would like to discuss our response or require further information, please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Samantha Ridsdale', with a long horizontal stroke extending to the right.

Samantha Ridsdale
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