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Re : Response to Consultation – Regulation of transmission connecting non-GB generation to the GB electricity transmission system

Dear Matthew,

Thank you for the opportunity to respond to your consultation.

We, Diamond Transmission Corporation (DTC), a wholly owned subsidiary of Mitsubishi Corporation (MC), would like to respond to the captioned consultation based upon our experience gained through investing and running offshore power transmission business in Europe.

At this moment, we owns four OFTOs in UK (Walney 1, Walney 2, Sheringham Shoal and London Array) via Blue Transmission Investment Limited and similar type of assets (BorWin 1, BorWin 2, DolWin 2 and HelWin 2) in Germany.

We are still seeking further investment opportunities in this sector (including Interconnector) under the appropriate regulatory framework.

If you have any follow up queries please do not hesitate to contact us.

Yours sincerely,



**Masanori Kohama**  
CEO and Managing Director  
Diamond Transmission Corporation Limited

## **Response to Consultation – Regulation of transmission connecting non-GB generation to the GB electricity transmission system**

There is no existing regulatory framework in place for the connection of non-GB generation to the onshore GB network. In attempting to develop such a framework we are sympathetic to the various legal (both UK and EU), technical and regulatory challenges faced by Ofgem. The statutory requirement to grant an interconnector licence to an asset that will likely look and feel like an OFTO has the potential to confuse matters further in regard to the appropriate regulatory model to apply.

Ofgem has set out three broad approaches for the regulatory treatment of the transmission asset:

- an interconnector licence with exceptions;
- a NEMO style cap and floor; and
- a regulated revenue model with fixed revenues.

Existing examples of these approaches would require significant further development before they would be suitable for the non-GB connection assets but, with careful, consideration could likely be made to work.

The UK government's position on interconnectors was made clear in the DECC report from December 2013 with and upside benefit to GB consumers of £9bn from greater interconnection identified and unambiguous evidence that interconnection enhances GB's security of supply. On the back of this a number of interconnector projects were identified as Projects of Common Interest. Furthermore, the need for regulatory certainty through a clear regulatory regime to facilitate investment was highlighted.

DTC agrees with this and strongly encourages Ofgem to seek to develop frameworks that allow for a level playing field across investments. Risk levels borne by investors and mitigations between onshore, offshore and interconnector regulatory regimes should be appropriately reflected in returns to prevent investment being skewed to different asset classes.

With regard to Cap and Floor, Ofgem has committed to this approach for the NEMO interconnector and, notwithstanding Ofgem's parallel work currently being undertaken on the Integrated Transmission Planning and Regulation (ITPR) project, elements of this may feature in the regulation of subsequent interconnection assets. As such, any precedent regarding cap and floor may have implications for future regulation.

We note the high crossover between likely investors in OFTO assets and those considering investing in interconnector assets. This is hardly surprising given OFTOs and interconnectors share a number of similarities. Despite this there is the very real prospect of these assets having significantly different risk profiles for no other reason than the regulatory regimes developed.

In particular, the criteria and definitions for both 'income adjusting events' and 'non-controllable costs' should, as far as possible, be aligned with the OFTO framework. For example, it is not

clear to us why the NRAs believe the threshold for income adjusting events “should be set reasonably high”<sup>1</sup> when these are, by definition, either force majeure or unforeseen events.

Artificial and arbitrary differential treatment contributing to regulatory risk has the potential to act as an unnecessary and undesirable impediment to investment in the next round of interconnector projects.

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<sup>1</sup> Ofgem NEMO Consultation (March 2013)