

# FAB Link Limited

Correspondence Address: No. 1 The Crusher, Braye Harbour,  
Alderney, Channel Islands, GY9 3XX

Telephone: 01481 825555

Matthew Grant  
European Electricity Transmission  
Ofgem  
9 Millbank  
London  
SW1P 3GE

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Dear Matthew,

## **Consultation – Connecting Non-GB Generation**

FAB Link Ltd is a special purpose company that is working with the French grid company RTE on a cable (the France-Alderney-Britain, or “FAB” cable) that will run between Britain and France via the Channel island of Alderney.

This project will strengthen the highly congested electrical connection between France and Britain. It will also allow marine renewable energy from the island of Alderney to be brought to the British electricity market. This is a very significant renewable resource which can further support the key considerations of UK energy policy.

We are therefore pleased to have the opportunity to respond to your paper *Regulation of the transmission connecting non-GB generation to the GB electricity transmission system* of 18 November 2013.

Our answers to your specific questions are attached as an annex. Our key point is that the development of all connections for non-GB generation (including FAB), require regulatory certainty to be provided as rapidly as possible.

For FAB this regulatory certainty is required in two stages:

- i) In the near term a suitable regime for regulated (ie non-merchant) interconnectors is required to ensure that the physical development of the cable is not delayed. We note that DECC, in their report “More Interconnection: Improving Energy Security and Lowering Bills”

acknowledges that interconnector developers need certainty on how their projects will be regulated, and we would seek to re-emphasise this.

- ii) At the same time work should start on a regime that can accommodate non-GB generation connecting to an interconnector between two markets. With such arrangements a single piece of infrastructure can perform dual roles (interconnecting the two markets and providing a route to the GB market for non-GB renewable generation) with consequent economic benefits. The establishment of these arrangements will be of benefit not only to FAB but also to other non-GB generation projects that are currently envisaging direct and exclusive radial cables to GB.

Yours sincerely



Declan Gaudion  
Director

## **Chapter 1**

**Question 1:** *What are the key milestones for the delivery of non-GB generation and connections pre-2020? How does the decision on the regulation and licensing of non-GB connection fit into this timeline?*

Major international power cables using HVDC technology might take three years for development and consenting in GB (it can be longer abroad) with a further three years for construction; exact times will depend on cable length and on how busy factories are.

From this we conclude that completion of projects by 2020 is feasible, but that time cannot be lost if the 2020 target date is to be met. In particular we note that more regulatory certainty is urgently required if developers are to push forwards with their projects to meet the target date.

**Question 2:** *From the perspective of a non-GB project developer, how does the decision on the regulatory arrangements interact with Government decisions on renewable support (such as the award of a Contract for Difference (CfD))?*

Both these elements need to be concluded to enable new projects to proceed. The sooner a clear position is given on these, the sooner projects will be developed. We are now very close to the point that this lack of clarity will start to negatively impact on planned projects.

**Question 3:** *Are there other factors that Ofgem should be aware of relating to the timing and development of non-GB connections?*

For FAB the development of a suitable regulatory regime for interconnectors is necessary if the physical development of the cable (e.g. more detailed seabed surveys and environmental impact assessments) is not to be delayed.

It is therefore essential that Ofgem announces policies as quickly as possible, and works on the approval of individual projects such as FAB in parallel with finalising the details of the interconnector regulatory regime. If these activities are undertaken sequentially this will lead to major delays in interconnector development, along with a

regime that is likely to be inferior as it would have been developed separately from Ofgem's analysis and consideration of real projects.

## **Chapter 2**

**Question 4:** *Do you agree these are appropriate principles to take into account in relation to non-GB connections?*

Our view in respect of each of the principles is as follows:

- Protecting consumers from undue costs and risks. We agree with this principle, but note that – while there are certain costs and risks - importing renewables may also bring reduced risks and costs (e.g. access to cheaper renewables or lower wholesale prices through increased interconnection)<sup>1</sup>. We would suggest that “maximisation of risk-adjusted benefits for consumers” might be a better target than “protecting consumers from undue costs and risks”.
- Promoting efficient costs reduction. We agree with this principle and note that the success of the OFTO regime in Britain shows how savings can be made by a well designed regulatory regime.
- Promoting efficient and co-ordinated development. We agree with this principle, but note that it must be set against the importance of developing valuable interconnector and renewable energy projects in a timely manner.
- Supporting investment in low-carbon generation. We agree with this principle.

**Question 5:** *Are there other principles that we should also consider?*

In addition to the principles listed above, we believe that Ofgem should refer to the British Government's objectives for further interconnection, as set out in the DECC document “More Interconnection: Improving Energy Security and Lowering Bills”. We

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<sup>1</sup> We note for instance that National Grid has reported studies that showed that the construction of 3GW of interconnection would reduce consumer costs by £1bn a year. (Source: transcript of National Grid half-yearly results presentation, 21 Nov 2013).

note that in this document DECC makes reference to the British Government's support for ten Projects of Common Interest; many of these – including FAB – involve the connection of non-GB generation.

### **Chapter 3**

**Question 6:** *We invite views on our interpretation of the different asset definitions/boundaries and interpretation of the legislation provided in this chapter. What implications does this have for the regulatory options presented in the next chapter?*

We agree with Ofgem's interpretation of the Electricity Act, ie. that any cable linking Britain to non-GB generation falls within the Act's definition of an interconnector. FAB has already applied for an Interconnector Licence.

**Question 7:** *We are interested in views from stakeholders on what impact alternative interpretations would have on potential projects? Please provide detail where possible.*

We are not examining alternatives to classifying FAB as an interconnector.

**Question 8:** *We seek input from stakeholders on how generation licensing for non-GB generation could ensure appropriate safeguards for the export of renewables to the GB transmission system?*

Requiring non-GB generation that connects to Britain to be licensed by Ofgem as well as by its host country appears to be an unnecessarily complex way of ensuring compliance with the same standards as GB generators.

A simpler and preferable arrangement would be for any technical requirements of the non-GB generation to be applied through a contract between NETSO and the non-GB generation. This is a view that is supported by the developer of the Alderney resource.

## **Chapter 4**

**Question 9:** *Are non-GB connections deliverable by 2020 via direct and exclusive connections?*

See our response to question 1.

**Question 10:** *What are the technology challenges of delivering direct and exclusive connections? What are the technology challenges of delivering multi-purpose assets?*

A multi-purpose project that involves connecting generation to a HVDC cable will require a three-ended HVDC system. Manufacturers indicate that these are not particularly challenging to implement using modern technology.

In general we do not see the proposed infrastructure for non-GB generation as being inherently different in risk level to the HVDC projects that are proposed or under construction within the RIIO framework. As a result we do not believe that technology risk should be a factor driving the regulatory model selected.

**Question 11:** *What are the potential benefits and challenges of enabling flexibility for a non-GB connection to also be used for a) market-to-market trading; and b) GB network reinforcement? What are the implications for investment certainty?*

The benefits of using a single piece of infrastructure for both transporting non-GB renewables to GB and for interconnecting two markets are potentially very great. We have already described to Ofgem our analysis showing how FAB's economic case is improved further by providing a highly efficient export route for renewable energy

As noted previously, the main challenge faced by the developer of a flexible, potentially multi-purpose project such as FAB is that there is no regulatory regime in place for non-exempt interconnectors of any type (even plain single-purpose interconnectors). It is important that Ofgem puts this in place as a matter of urgency. NSCOGI-based arrangements for multi-purpose projects will clearly also be needed, but they are not required as urgently.

## **Chapter 5**

**Question 12:** *Is the interconnector licence with exemptions(s), as currently available, a feasible option for non-GB connections? If not, what are the key challenges of applying this route to non-GB connections? How could these challenges be addressed?*

FAB is intending to develop a non-exempt project, so this is not relevant for us.

**Question 13:** *Under this route would an exemption (under Article 17 of the Electricity Regulation) be required? If so, which provisions would you seek exemption from? How would your project be affected if exemptions could not be applied for?*

See our response to Question 12.

**Question 14:** *Given that an application of the regulated Cap and Floor or fixed revenue model would take time to implement for non-GB connections, should these still be explored further?*

As set out in our response to Question 11, the critical path for FAB is the creation of a suitable regime for the regulation of conventional (single-purpose) interconnectors.

We accept that the creation of suitable regulatory model for the connection of generation to an interconnector will take to time implement, and we support this as an objective.

**Question 15:** *If so, what are the main challenges and benefits of applying a regulated Cap and Floor or fixed revenue model to non-GB connections? How could these be addressed?*

As noted previously, the main challenge is the rapid creation of a suitable model for conventional (single-purpose) interconnectors. We do not believe that extending this model to encompass the connection of non-GB generation will be difficult given:

- i) The additional time available.

- ii) The ongoing work being undertaken by NSCOGI.
- iii) The work that we have already undertaken with Ofgem and CRE to ensure that the European Commission agrees with FAB's proposed arrangements.

## **Chapter 6**

***Question 16: What is the appropriate mechanism for ensuring access to capacity for non-GB generation?***

For combined generation and interconnection, arrangements will need to be in place to allow non-GB generators whose financing is based on access to the GB market to reserve interconnector capacity for 15 years or more.

As these are contrary to normal EU arrangements for interconnector access, we would expect that special approvals would be required from the European Commission. FAB has already obtained such clearance.

***Question 17: What are the implications of following the current connections process for non-GB connections? Should non-GB generators be treated differently to GB based generation? Should non-GB generators be treated differently to other interconnector users? If so, please provide your reasoning.***

For FAB, where the non-GB generation is in a crown dependency partially administered by the UK rather than in a foreign Member State, a somewhat special situation exists. Alderney has no transmission system, no regulator for transmission assets and hence no existing connection rules. We have proposed – and the Alderney authorities have accepted – that Ofgem's remit be extended to cover Alderney and that GB connection rules be applied on Alderney.

This proposed arrangement would help to ensure non-discriminatory treatment of Alderney generation relative to mainland GB generation.



**Question 18:** *How would the role of the interconnector operator need to adapt if a direct-connect asset was used for additional purposes – such as a) market-to-market interconnection; or b) GB network reinforcement? Should the GB or non-GB NETSO have a role in operating these assets? If yes, what role?*

We believe that in the long term extending the remit of an independent NETSO to include the operation of interconnectors and multi-purpose projects is desirable. This would involve NETSO operating all of the assets regulated by Ofgem within an international infrastructure project. By “operating” we mean allocation of capacity to users, levying of tariffs on those users, and managing the payment of a suitable regulated return to the infrastructure owners.

**Question 19:** *Can the existing charging/cost allocation approaches used onshore or for interconnection be applied to non-GB connections? If not why not and what alternatives are available?*

For projects such as FAB where non-GB generation would connect to an interconnector between two markets, an entirely new tariff mechanism is required. This should reflect both the cost of providing the infrastructure, and the relative proportions of use for exporting non-GB generation to GB and for trading between GB and non-GB markets. We have already done some work on the form that such a tariff might take and would be happy to discuss this with Ofgem.

**Question 20:** *How can capacity allocation for direct and exclusive connections ensure consistency with European legislation and European Network Codes? How could this be achieved with the introduction of market-to-market connections?*

Cables built to carry renewable energy to Britain from non-GB generators do not readily fit into any of the categories of transmission established by European legislation. It is possible, therefore, that case-by-case approvals by the European authorities may be required, at least until such time that suitable standard arrangements are established.

As previously noted, we have already obtained such a case-specific approval for the FAB project.

**Question 21:** *Are there other challenges we should be considering when looking at non-GB connections?*

No – we believe the analysis set out in the consultation paper is comprehensive.