

Matthew Grant

European Electricity Transmission

9 Millbank,

London

0207 901 7000

ITPRMailbox@ofgem.gov.uk

Dear Matthew,

## REGULATION OF TRANSMISSION CONNECTING NON-GB GENERATION TO THE GB TRANSMISSION SYSTEM

Fred. Olsen Renewables Ltd and Hazel Shore Limited as joint venture partners in the development of Codling Wind Park (CWP) welcome the opportunity to respond to this important consultation. Codling Wind Park is a consented offshore wind farm in Irish waters with a 1GW signed connection offer to the GB network in Wales. As such, we are a key stakeholder in this area.

We fully understand the wide-ranging considerations you have been asked to balance in determining an appropriate approach to regulating the connection of non-GB generation assets. In particular, we recognise there will be trade offs between facilitation of near term investments by developers and the long term strategic goals of greater cross border trading, cost efficiency and security of supply. We believe that, in order for such benefits to be realised in the medium to long term, it is vital that the the supporting regulatory frameworks put in place today support the near term investment decisions that allow such projects to be built for 2020 but also enable adaptation of the rules in the future. Longer term goals will not be realised unless the immediate requirements of the catalysing agents such as CWP are given due consideration in the design and timing of introduction of any framework.

Accordingly, our response sets out the following key points:

1. Immediate priority needs to be given to ensuring dovetailing between the OFGEM process, including the timing and substance of decisions, with the development of the Inter-governmental agreement;
2. To ensure delivery of projects by 2020, the regulatory approach needs to be based on tested working practices and it must be evolutionary. It needs to take full account of, and underpin,

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- those factors that make such projects financeable and economically viable. These dual imperatives point to adoption of a staged approach. This should be based on utilising existing instruments at the outset but with clear commitments made by regulatory authorities to a set of guiding principles determining how these instruments will be adapted over time to achieve the best outcome;
3. Emphasis also needs to be placed on creating a level playing field in the commercial treatment between GB offshore and non-GB offshore generation projects, but recognising the scope for differences in the form of rules and regulation that will exist between the two;
  4. Hence, in our view the only really viable framework would be focussed on:
    - a. a 'Direct and Exclusive' asset configuration, underpinned by an interconnector licence with exemptions;
    - b. It should be supported by a commitment to create a viable cap and floor revenue and cost recovery model (with consumer underpinning) for the eventual owners of interconnection assets, including an element of a fair infrastructure charging for the non GB generator, reflecting similar TNUoS charges levied on GB offshore generators subject to OFTO connections;<sup>1</sup>
    - c. It should be accompanied by a commitment to standards that will build confidence that the commercial interests of the owners of generation will not be compromised by future, strategic, regulatory development; and
    - d. The implementation of the model should then follow rapidly, with detailed draft rules and regulations available before the end of 2014.

We believe this model has significant distinct advantages. Most immediately it would assist the timing of project delivery for achievement of 2020 targets; and it would also form a stepping stone to the creation of an enduring and cost effective framework to allow for the delivery of further non-GB generation projects and greater market interconnectivity in the future.

An inherent feature of this approach is that it necessitates setting in place an initial regulatory framework in advance of completing detailed work on a comprehensive coordinated approach to GB and Irish market interconnection. It therefore cannot claim to be a comprehensive or complete solution for any eventual strategy developed between the two governments and the two regulatory authorities. It is a meaningful staging post that may need further regulatory interventions in the future to refine and adapt the framework if and when more strategic decisions are made. Under our proposal the flexibility to make future adaptations to regulations will be fettered as we expressly set out a prevailing need to grandfather the commercial expectations of stakeholders who came forward under the original framework. However, in our view these are necessary and reasonable compromises, taking into account the catalysing role developments like CWP are playing in facilitating the achievement of wider objectives and noting that without taking this approach it is likely that projects like CWP would be unlikely to be delivered by 2020.

To support this model the following needs to be delivered in the short term and certainly during the course of 2014:

<sup>1</sup> Further consideration may need to be given to how the costs of underpinning this scheme might be shared between GB and Irish markets which is a determination that falls within the remit of the relevant governments and regulatory authorities when they consider the terms of the Inter governmental agreement and associated regulatory arrangements. It also may depend on the prospectus for interconnector use.

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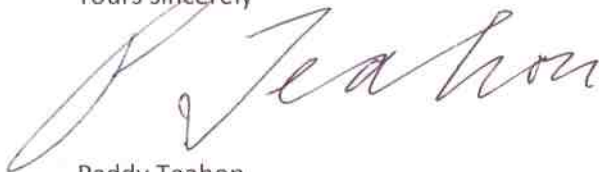


1. Publication and finalisation of the Inter Governmental Agreement (IGA) in early 2014;
2. A defined delivery plan for the implementation of the IGA, taking into account the processes and views of the regulators in both jurisdictions in early 2014;
3. In early 2014, synchronous agreement on the regulatory treatment of transmission assets by regulators in both jurisdictions in early 2014 and a decision on the choice of legislative framework route capable of supporting pre-2020 investments. This would be accompanied by a delivery plan and statement of principles that will guide further development of the regulatory framework, and build confidence amongst developers and investors;
4. Publication of draft regulations and ancillary documents (synchronising with any proposed code modifications) before the end of 2014;
5. Final determination by the Department of Energy and Climate Change (DECC) confirming the Eligibility of non GB(?) generation for low carbon support, in early 2014; and
6. Detailed drafting development for the CfD as applied to non GB generation by Autumn 2014 summer/early 2014 (before CfD allocation rounds begin).

We further explain our rationale behind our suggested approach through our answers to your questions in the attachment to this letter being forwarded separately by email.

We look forward to discussing these further with you in due course.

Yours sincerely



Paddy Teahon

Director

## Hazel Shore Limited

Registered Office  
C/O - Cooney Carey Consulting Ltd  
Unit 15/16,  
The Courtyard, Carmanhall Road,  
Sandyford, Dublin 18, Ireland

Directors: Patrick Teahon, Conor Ronan,  
Richard Barrett and Gillian Kelly

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Ireland No. 435266 VAT No 96974271