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16<sup>th</sup> January, 2014

Dear Ms Berge

**Open Letter: Update on the Integrated Transmission Planning and Regulation (ITPR) project following the June 2013 consultation**

As background to our response, it is worth noting that NorthConnect unfortunately missed your June 2013 consultation, as our project was dormant at that point and the JV substantially de-manned. Following the Norwegian election in September, we are now progressing again with development work. As NorthConnect is a market coupling interconnector, we do not believe that we are directly affected by the parallel consultation to this letter regarding connecting non-GB generation.

So, although it is probably not relevant for us to respond to the individual questions in the non-GB consultation, we would like to take this opportunity to respond to your open letter with more general comments about its place within the wider context of ITPR and the interconnector regulatory landscape.

NorthConnect welcomes the opportunity to contribute to this debate and hope that our views will help inform the policy going forward.

**NorthConnect**

NorthConnect (NCKS) is a joint venture project to realise an HVDC electricity interconnector between Norway and the UK. It is owned by four European energy utilities (Vattenfall, ECO, Agder Energi and Lyse Produksjon). The aim is to have the project commissioned by 2020.

The NorthConnect interconnector will offer flexibility and storage capacity for the UK and enable a cost efficient integration of UK wind power. Furthermore, by providing

the UK with access to renewable hydro power from Norway, we expect that NorthConnect will help promote the achievement the UK's renewable targets. A further key benefit offered by the NorthConnect interconnector is that it will improve the security of supply in both countries.

### **Consultation Response**

Firstly, NorthConnect certainly welcome the intention in GB that, with renewables trading, imported renewable generation can contribute to the achievement of GB 2020 targets for carbon reduction, etc. Whilst this will not alter market drivers per se, it sets a clear vision and strategic framework within which the development of both generation and transmission projects can proceed with more certainty.

In relation to regulatory regimes for different types of transmission infrastructure, NorthConnect would like to reiterate our previous assertion that a fully merchant model should always be an option in order to let the market influence the optimum projects, to attract private investment, to efficiently deliver transmission infrastructure and to transfer risk away from consumers.

This is borne out by DECC (Dec-13) in their paper, *More interconnection: improving energy security and lowering bills*, in which they emphasise the benefit to consumers of greater interconnection, and that the optimum socio-economic benefit is derived from connecting with the hydro-dominated regions of northern Europe. The accompanying study, *Impacts of further electricity interconnection on Great Britain*, by Redpoint-Baringa (Nov-13) for DECC, also states the conclusion on the Regulation of interconnection investment, that:

*“The analysis shows that there are a range of project types with a wide range of impacts on net welfare and distributional effects. Given this and the potential scale of investment in future interconnection that could be beneficial under some scenarios, the regulatory regime may need to accommodate a range of investor types across a wide spectrum of risk-reward preference”.*

This would indicate the UK government believe that in order to attract the level of investment required for the optimum benefit to GB, then not just one regulatory model should be available, but that a range of options should be open to potential developers of interconnectors.

Whilst in an ideal world a single, level playing field regime for onshore, offshore, interconnectors and (now also) non-GB generation would be preferable, we recognise that regulation has built up piecemeal historically and bringing in a single system presents many difficulties. However, the idea of bringing in a single transmission licence, with conditions that can be switched on or off to suit particular circumstances or cost-risk profiles, is one which we still feel is worth some thought in GB.

Excepting that, even though separate regimes may prevail, NorthConnect believe that the spirit of European free trade, the 3rd Energy Package and the Renewables Trading directives, all point towards trying to create a level playing field between different forms (and locations) of generation, and also for the regulation of the transmission assets which connect that generation to the GB system. The regimes

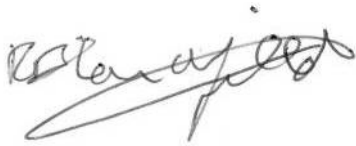
should therefore be established in a consistent manner between different configurations, even if separated into different types of licences with different cost-risk arrangements.

One area of the non-GB generation consultation which has given us some concern, is the possibility outlined in Section 4 Asset Configuration regarding assets with a proportion of market integration. Whilst we recognise that this is both possible and probably desirable in many instances where non-GB generation is involved, we feel that Ofgem should clarify that interconnectors connecting markets are excluded from this discussion so as not to introduce any more uncertainty/regulatory risk into that arena, thereby further distorting the existing developer interest in building much needed interconnection and capacity for trade between regions.

This point becomes even more crucial to clarify in relation to Section 4 Other Regulatory Issues, where the possibility of charging for non-GB generation access is discussed. Whilst the principle of equal treatment of different generator connections is a fair one, any regime which brings in the possibility of charges related to non-reserved market access capacity on an interconnector, would be in contravention of various EU primary legislation relating to free trade.

We look forward to your response and hopefully to our further participation in the process.

Yours sincerely,



P.P. **Tommy Løvstad, CEO**  
NorthConnect KS