

## Regulation and Policy

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17<sup>th</sup> January 2014

## European Electricity Transmission: Consultation on the regulation of transmission connecting non-GB generation to the GB electricity transmission system

Dear Matthew,

Thank you for the opportunity to comment on your consultation on the regulation of transmission connecting non-GB generation to the GB electricity transmission system. This response is provided on behalf of RWE Npower plc, RWE Npower Group, RWE Generation SE, RWE Supply and Trading GmbH and the UK subsidiary of RWE Innogy GmbH, RWE npower renewables Limited.

We have many concerns over the proposals presented within this consultation. Whilst a range of options are presented, these do not address some key issues to protect the GB consumer from exposure to undue costs or risks. We advise that greater consideration of mechanisms to protect the GB consumer is required.

### Missing Costs and Risk

Both EU and GB Law are clear that connection of non-GB assets to the GB transmission system is defined as an interconnector. However, the proposals in this consultation are for operation as a generator-only connection to the GB and not as a true market to market interconnector. Being defined as an interconnector exempts these connections from paying TNUoS and fair share of the required GB transmission reinforcement costs and liabilities prior to commercial operation. This leaves the GB consumer and other GB generators unjustifiably liable for all GB network reinforcement costs, whilst offering non-GB generation a competitive advantage over GB generation. Further, implementation of either a cap and floor or fixed revenue model for generation-export only operation would leave the GB consumer unjustifiably liable for costs and risks associated with the 'interconnection' assets too, with no obligation for non-GB generation to export to GB. We strongly support Ofgem's assertion in 6.16 that a specific form of network charging for non-GB connections should be introduced.

### Dual Purpose Connection

The proposals highlight the difficulty of utilising the interconnection assets for export of power exclusively for non-GB generators and as interconnectors between different EU markets. The main purpose of the proposal outlined in the consultation document is to facilitate connection of non-GB generation to the GB transmission system, so this should take precedence. It should be expected that 100% of the capacity of the interconnector is needed for transmission of the

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generator's capacity to the GB. If this is the case then these interconnection assets should resemble offshore transmission assets and be treated on a similar basis (i.e. as equivalent to OFTO assets). Furthermore, the non-GB generator should bear the costs and risks associated with the reliability of the connection to the GB transmission system.

If there is additional capacity for other purposes on 'interconnection assets' then this should be managed and funded separately and in its own right – i.e. as transmission interconnection through the interconnector arrangements or as grid reinforcement (pseudo GB bootstrap) under existing Transmission Ownership arrangements. The non GB generator should determine the commercial impacts of operating via an interconnector.

#### UK Consumers Funding EU Projects

In circumstances where non-GB generation requires GB subsidy, we are concerned that allocation of the GB subsidy budget to non-GB projects will be at the compromise of GB projects and could be detrimental to the GB's ability to meet renewable targets and/or UK customers funding international capital development. In addition, we believe that the subsidies awarded to non-GB generation should be no greater than those available to the equivalent GB technology.

Yours sincerely,

Jeremy Gummow  
Grid Regulation Manager  
RWE npower renewables

## **RWE responses to individual questions**

### **Questions**

#### **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?

No comment.

**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))?

In cases where non-GB generation is dependent on GB subsidies to become economically viable, it is important that these subsidies are not priced to over-subsidise non-GB generation (i.e. subsidies should be capped at the same technology rate as equivalent GB generation and should also be liable for all costs incurred by the system to facilitate those connections). In addition should it result in a reduction in subsidy availability for GB generators it may compromise the GB's ability to develop domestic renewable generation and associated supply chain industries, as the change in market scale will serve to increase investor uncertainty.

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

In cases where non-GB generation is dependent on GB subsidies to become economically viable, it is important that these subsidies are not priced to over-subsidise non-GB generation. Any reduction in subsidy availability for GB generators will compromise the GB's ability to meet its renewable obligation targets.

#### **Chapter 2**

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

We support the principles stated within this chapter of the consultation. Clearly, the most important principle for this consultation is to protect GB consumers from exposure to undue costs or risks. With limited regulatory oversight of the entire project scope, unless the developer is responsible for the all of the GB and non-GB investment costs and risks, then it is entirely possible that the GB consumer may become liable for excessive and undue costs of associated works. As a minimum, non-GB generators connecting to the GB transmission system should have no less onerous liability and security obligations than GB generators.

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

No. We support the principles stated within this chapter of the consultation.

#### **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?

Both GB and EU law are clear that transmission assets connecting non-GB generation to the GB transmission system are defined as an interconnector.

Directive 2009/72/EC (the Electricity Directive), part of the Third Package legislation includes the following definitions:

- ‘interconnector’ means equipment used to link electricity systems;
- ‘interconnected system’ means a number of transmission and distribution systems linked together by means of one or more interconnectors;
- ‘direct line’ means either an electricity line linking an isolated generation site with an isolated customer or an electricity line linking an electricity producer and an electricity supply undertaking to supply directly their own premises, subsidiaries and eligible customers;

and regulation (EC) No. 714/2009 (the Electricity Regulation) includes the following definition:

- ‘cross-border flow’ means a physical flow of electricity on a transmission network of a Member State that results from the impact of the activity of producers and/or consumers outside that Member State on its transmission network;

Therefore, a non-GB generator creates a “cross border flow”, the interconnector will link the generation and GB transmission electricity systems and the GB and non-GB markets form part of an interconnected system. In addition, the non-GB connection is not a ‘direct line’.

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

Alternative interpretations of connecting non-GB assets to the GB transmission system would not comply with EU or GB law. However, this clear interpretation results in the non-GB connection being exempt from TNUoS or a mechanism to contribute to the GB onshore reinforcement works that are required for the connection. Given that this connection would not be acting as a true market to market interconnector and would not provide the associated benefits to the consumer, then this leaves the consumer and other GB generators unreasonably liable for these costs. i.e. if a non-GB generation-only connection does not contribute to these onshore GB reinforcement costs or provide market to market interconnection benefits, then it will penalise existing and potential GB generators.

**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?

The consultation proposes a system to facilitate connection of non-GB generators to the GB transmission system. Whilst for exclusive generator-only connections, export of that generator's power to the GB is guaranteed, once interconnection to the non-GB market is secured, then it does not appear feasible to guarantee export of that generation to the GB as that generator is out of the jurisdiction of the GB authority. This is a key reason why the GB consumer should not be at all liable for any works to facilitate connection of non-GB generation to the GB transmission system, but that these costs should be borne entirely by the non-GB generator unless the interconnector is used as a true market to market interconnector.

## Chapter 4

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

The regulations proposed within this consultation do not yet propose a suitable mechanism to protect the interests of the GB system securing reinforcement costs from the non-GB developer. Resolution of this issue may limit the ability to deliver non-GB connections by 2020.

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

These issues have been extensively consulted on over the past few years and should not present any additional technical challenges that don't already exist for 'point-point connections' or 'coordinated connections' for offshore wind or for existing/future interconnectors. The only new complication is that 'bootstrap' type connections would involve flow in parallel circuits in non-GB states. This adds another layer of complexity as compared to assets solely in control of the GB TSO. However, this is more a regulatory/co-ordination challenge than a technical one.

**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?

Cost-efficient development of connection of non-GB generation to the GB transmission system should involve 100% of connection capacity being required for that associated generation asset/assets. Any additional connection capacity to be used for other purposes should be considered separately and be viable in its own right. For example, additional interconnection capacity (above that needed by the generator) could be installed for use as an interconnector under commercial arrangements similar to other interconnectors such as NEMO – noting that these would need to be connected to the non-GB transmission system/market and not just the non-GB generator network (i.e. a true market to market interconnector). Similarly, GB network reinforcement should be considered on its own merit, either being constructed separately to the generator connection, or where mutual benefits can be gained by joint development, that these gains are shared appropriately so as to maximise cost-effectiveness to the GB consumer.

To enable market to market trading the connection needs to enable bi directional energy flow i.e. connection to the other EU country network. Trading of renewable obligations does not provide assurance of achieving national targets in 2020.

## 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?

Yes. As EU and GB Law are clear that the connections are defined as interconnectors, then the interconnector licence as currently available is fit for purpose.

**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?

The interconnector licence is fit for purpose so we would not envisage that exemptions are required.

**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?

It is entirely inappropriate for Cap and Floor or fixed revenue models to be applied for connecting isolated non-GB generation directly to the GB transmission system. As the interconnector is not acting as an interconnection between markets (with an associated benefit to the consumers in both markets), but rather as a generation-only connection which has no consumer benefit, GB consumers should not have any liability for underwriting these costs. However, note that the Cap and Floor model may be appropriate for true market to market interconnection operation.

**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?

It is entirely inappropriate for Cap and Floor or fixed revenue models to be applied for connecting isolated non-GB generation directly to the GB transmission system. As the interconnector is not acting as an interconnection between markets (with an associated benefit to the consumers in both markets), but rather as a generation-only connection which has no consumer benefit, GB consumers should not have any liability for underwriting these costs.

## Chapter 6

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

The interconnector should allow all users non-discriminatory access to the interconnector capacity and GB/non-GB entry capacity as required by EU legislation and Network Codes.

**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.

The current process for connection of non-GB generators is to connect to the non-GB transmission network. This transmission network may provide access to an interconnector, which could then provide access to the GB transmission system subject to current interconnector arrangements. If proposals are pursued for isolated generation-only interconnection of non-GB generators to the GB transmission system that do not provide market to market benefits, then a mechanism is also required to enable contribution to the GB reinforcement works. This is to ensure that GB generators do not suffer a competitive disadvantage to non-GB generators.

**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?

Cost-efficient development of connection of isolated non-GB generation to the GB transmission system should involve 100% of connection capacity being required for that associated generation asset/assets. Any additional connection capacity to be used for other purposes should be considered separately and be viable in its own right. For example, additional interconnection capacity (above that needed by the generator) could be installed for use as an interconnector under commercial arrangements similar to other interconnectors such as NEMO – noting that these would need to be connected to the non-GB transmission system/market and not just the non-GB generator network.

**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?

Charging/cost allocation for non-GB connections should be no more or less onerous than GB-connected generators are subject to. The consultation's proposal to define connection assets as an interconnector does not fulfil this requirement, as without transmission charges, then connection does not have a mechanism to pay for these costs, which is a matter that needs to be addressed.

**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?

It can't. EU legislation and Network Codes require interconnectors to allow all users non-discriminatory access to capacity.

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

No comment.