SCOTTISHPOWER

Rupert Steele OBE
Director of Regulation

Matthew Grant
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Dear Matthew,

Regulation of transmission connecting non-GB generation to the GB electricity transmission system

Thank you for the opportunity to respond to the above consultation.

We are broadly supportive of the concept of trading renewable energy between EU Member States in the long term; free trade has long been established as a powerful driver of economic development for all parties involved and it should help deliver cost-effective decarbonisation across Europe. For example, as the UK has extensive renewable resource potential, particularly in respect of offshore wind as well as wave and tidal resource, it could be well placed beyond 2020 to offer renewable energy for export.

However, the arrangements introduced for non-GB generators should ensure that they are not offered an unfair competitive advantage over other generators in the GB market. This should apply to:

- the connection application process, including any user commitment requirements;
- the generator requirements, which should be no less onerous than those applied under the GB Codes (BSC, CUSC and Grid Code); and
- the transmission charging arrangements, which should apply similarly cost-reflective charges to all users including TNUoS and BSUoS.

Ensuring that there is comparability of charging for all users may require changes to the existing GB charging regime including removal of BSUoS charges (as proposed under CMP201) and harmonisation of transmission charges with EU Member States.

Should a direct connection for non-GB generation be utilised at a future date to provide reinforcement for the GB transmission system, it is essential that there is no increase in transmission charges for GB users from the use of relatively expensive HVDC circuits originally designed for specific generator use.

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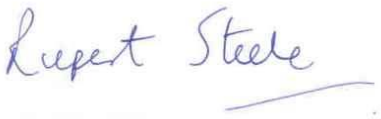
Our responses to the detailed questions contained in the consultation are in Annex 1 attached.

Please do not hesitate to contact me if you would like further information on any of the matters raised in our response.

Yours sincerely,



Rupert Steele
Director of Regulation

Annex 1

CONSULTATION ON THE REGULATION OF TRANSMISSION CONNECTING NON-GB GENERATION TO THE GB ELECTRICITY TRANSMISSION SYSTEM.

SCOTTISHPOWER RESPONSE

Chapter 1: Introduction

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 generation fit into this timeline?

We are not currently developing any non-GB generation projects as described in this consultation and have no comment to make.

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 award of a Contract for Difference (CfD)?

We are not currently developing any non-GB generation projects as described in this consultation. However, we are concerned that the arrangements proposed by Ofgem could have a distortionary effect on the GB market through the creation of an uneven playing field for GB and non-GB generators.

Further, we would be extremely concerned, given the scale of potential connections and the policy position communicated to date, if these connections were exempted in any way from the eligibility/application requirements/milestones required of CFD applicants (including any requirement for a Supply Chain Plan).

Given the EMR timetable and the need for timely implementation of the CFD arrangements, with implications for LCF/budget management, the incorporation of non-GB generation should not be allowed to hold up or delay this process.

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

We would like to raise the issue of user commitment and financial securities during development of a non-GB generation connection. Under CMP192, the developer of a GB generation project would be liable for user commitment liabilities and required to provide security. If non-GB connections were to be treated as an interconnector, this would not result in similar liabilities and security requirements being placed upon the developer, providing a further commercial advantage to the non-GB developer.

Chapter 2: Principles of transmission regulation

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

Ofgem identifies four principles which it considers useful in assessing options for regulatory treatment of non-GB connections:

- protecting consumers from exposure to undue costs or risks;
- promoting efficient capital and operational network costs;
- promoting efficient and coordinated development of the network;
- supporting investment in low carbon electricity generation.

We agree that these four principles should be taken into account in relation to network regulation for non-GB connections.

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

We believe that in considering the connection of additional (non-GB) generation, an important additional objective should be the facilitating efficient competition in the generation of electricity both in GB and across EU Member States, including ensuring a level playing field.

Chapter 3: Legal classification and licensing

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 that a dedicated connection between a non-GB generator and the GB transmission network (as depicted in Figure 3.1) meets the definition of an interconnector under the Electricity Act 1989. However, we do not agree with Ofgem's preliminary view (3.10) that a dedicated connection (as depicted in Figure 3.1) meets the definition of interconnection under EU law as although it "spans a border between Member States" it does not "connect the national transmission systems of the Member States" as it is not connected to the non-GB Member State's transmission system.

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 do not currently have any projects which would be impacted by alternative interpretations.

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?

Non-GB generation exporting renewables to the GB transmission system should be subject to a similar level of regulation and other compliance requirements (such as those under CUSC and the Grid Code) as generation connected within GB. Failure to impose these requirements would place non-GB generators at an unfair competitive advantage when compared to GB generators and would risk adverse implications for the security of the GB transmission system. In addition, any lower level of compliance with plant performance and information requirements on non-GB generators would result in additional costs of securing the GB transmission system which would be bone in part by GB generators and ultimately by GB consumers.

Chapter 4: Asset configuration

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

Theoretically, a non-GB generator could be directly and exclusively connected to GB by 2020. However, this assumes that National Grid are able to provide the relevant transmission capacity and upgrades at an existing or new MITS substation in these timescales and a third party can design, consent and deliver the offshore works.

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

We consider non-GB generator connections to GB as technically similar to connections made under the OFTO regime or appropriate circuits constructed within the RIIO framework. Furthermore we understand that in principle there should not be any technical barrier to upgrading direct connections into interconnectors at a later date. We therefore believe that technology challenges should not be affecting choices related to the regulatory regime.

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

At the point when a non-GB connection is used for market-to-market trading and is connected to the non-GB Member State's transmission system, the connection should be treated under the same regulatory regime as existing interconnectors between member states such as IFA and Britned.

At this point joint arrangements should be entered into between Ofgem and the NRA in the non-GB Member State to facilitate the use of the interconnector capacity for market-to-market trading. Increased interconnection should help facilitate increased electricity flows across Member States and deliver increased economic welfare for Member States as envisaged under the Third Package.

We consider that there are limited benefits to be achieved in terms of using a non-GB connection to reinforce the GB network due to the technical complexities of networking HVDC circuits and the additional costs involved. In addition, it would be necessary to ensure that the existing GB charging arrangements and in particular the DCLF charging model did

not result in deemed “loop flows” through non-GB connection assets which greatly increased the TNUoS charges to GB generators.

Chapter 5: Existing and potential regulatory options for application to non-GB connections

Question 12: Is the interconnector licence with exemption(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?

We believe that the interconnector licence with exemptions is a feasible option for non-GB connections. This option would ensure that the risk was shared between the developers of the non-GB connection assets and the non-GB generation assets and not by GB consumers (other than indirectly via the security provided through the UK Government renewable support schemes).

As we have some doubt over whether such a non-GB connection would qualify as “interconnection” (see our answer to Question 6) it is not clear whether it would either require or qualify for exemption under Article 17 of the Electricity Regulation. This would change should the non-GB connection be connected to the non-GB Member State’s transmission system at a future date.

In this instance it may be more appropriate to treat the non-GB connection in a similar way to the existing OFTO arrangements where the connection assets may be provided for more than one generation user and where a regulated return is provided to the OFTO and a related transmission charge is made to the generation user(s).

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

If this route is pursued, we believe that exemptions would be required from the Third Party Access and Use of Revenues provisions. We do not believe that it would be appropriate to grant an exemption from the Unbundling provisions, particularly where there was the possibility of later connection to the on-GB transmission system and the possibility of market-to-market trading.

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?

Given the development timescales for non-GB connected generation there is probably time for a Cap and Floor model to be developed. However, as this is primarily of application to a market-to-market interconnection we do not see any value in pursuing this option at present.

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 stated in our response to Question 14 we do not believe that a regulated Cap and Floor model would be appropriate. In particular, any underwriting of the connection by GB consumers for a dedicated link for non-GB generators would be inappropriate.

Chapter 6: Other regulatory issues

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

As we do not believe that the non-GB connection meets the European definition of "interconnection", we do not believe that there would be an issue with a non-GB generator securing access for a long period of time. Again, this would be similar to offshore generators securing access through OFTO assets under the existing arrangements.

Question 17: What are the implications for 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.

If the non-GB connection is to be treated as an interconnector then the connection application process for inteconnectors outlined in the CUSC should be applied. If non-GB generators wish to operate in the GB electricity market in a similar manner to GB generators then they should accede to the GB Codes (BSC, CUSC and Grid Code) and apply for connection through the existing CUSC application process for 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?

If the role of the non-GB connection owner changed from a dedicated connection to providing market-to-market trading, then their role would need to change from one similar to that of an OFTO to that of an existing interconnector operator with appropriate access arrangements for third parties. Such arrangements would need to include appropriate arrangements for the procurement of capacity by the GBSO should it decide to make use of the interconnector assets to reinforce the GB 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?

We consider that existing charging/cost allocation approaches should be used for non-GB connections to ensure that a level playing field is maintained with GB onshore and offshore generation. In particular, under the current GB charging arrangements, interconnector users do not pay either TNUoS or BSUoS charges, thus providing them with an unfair competitive advantage compared to GB generators.

It is therefore essential that, should Ofgem decide to treat non-GB generation as interconnector users, BSUoS charges are removed from GB generators (as proposed in CMP201). Further, Ofgem should move rapidly to harmonise transmission charges with the rest of the EU as envisaged by European Commission Regulation No 838/210 (10) "Variations in charges faced by producers of electricity for access to the transmission system should not undermine the internal market." The best way to achieve this would be to reduce generation TNUoS charges to zero.

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?

Capacity allocation for direct and exclusive connections should be consistent with European legislation and Network Codes, provided they are treated in a similar manner to the existing OFTO regime. Treatment of such connections as interconnectors would potentially encourage capacity requests from third parties. As stated above, on the introduction of market-to-market trading on such a non-GB connection, full interconnector access arrangements should be introduced and any exclusivity, if previously granted, should be removed.

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

As stated in our response to Question 20, the access and charging arrangements should ensure a level playing field for all generators entering the GB market (onshore, offshore, interconnector users and non-GB generators) and should not introduce any competitive advantages for non-GB generators.

ScottishPower
January 2014