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Dear Matthew

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

SSE[1] is the second largest generator in the UK, as well as being the largest renewable generator in Ireland. Accordingly, SSE has interests which span both jurisdictions.

SSE welcomes Ofgem's consultation and the opportunity to contribute to the debate on non-GB-located generators connecting to the GB market. SSE also notes related work being carried out in CMP222 and the Integrated Transmission Planning & Regulation (ITPR) project. SSE's response to the individual consultation questions can be found in the Annex. Our key position can be summarised as follows:

- The present regulatory framework in GB exempts interconnectors from GB TNUoS and BSUoS costs. SSE is concerned that, where a non-GB generator connects to the NETS on the legal basis proposed by Ofgem (i.e. via a transmission line that is classified as an interconnector) that this may create inequality between generators located in GB and those based outside of the GB. SSE considers that, particularly where a generator is a recipient

[1] The SSE Group incorporates SSE Generation Limited which owns and operates the majority of SSE's generation capacity and SSE Renewables Holdings Limited, which is responsible for the development and construction of SSE Group's portfolio of renewable energy projects in GB and the island of Ireland. SSE is a leading generator of renewable energy in the UK and Ireland, with over 2,200MW of renewable electricity generation capacity and a portfolio of over 15,000MW of renewable energy projects in construction, with consent or in development.

of renewable funding, it would be discriminatory for a GB generator to pay network and BSUoS charges, while generators located outside of GB were not required to do so (and also were not liable to similar charges in their own country). This could potentially lead to perverse outcomes as generators seek to locate their plant in Ireland (or, for that matter, Holland or Belgium) to avoid GB network and BSUoS charges whilst accessing the GB CfD market. This could also be detrimental to cross-border trade and the achievement of the Internal Market in electricity.

- SSE supports the principle of non-GB offshore generators accessing the GB market through connection to the GB on the basic asset configuration (i.e. Figure 4.1 in the consultation paper) on the basis that such generators do not receive discriminatory treatment and will be entitled to participate in the GB market in the same way as GB-located generators (subject to our first point above).

- SSE agrees with Ofgem that if GB consumers were to provide any underwriting of non-GB connections that mechanisms should be put in place to ensure that appropriate costs, benefits and risks are allocated to the relevant non-GB-located generators.

- Greater legal certainty is needed to establish whether the basic asset configuration would, in practice, fall within the definition of interconnector in the Electricity Regulation considering that the definition requires the transmission line to "**connect to the national transmission systems of the Member States** [of whose borders the line spans]".

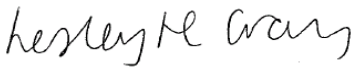
- While SSE recognises that the current legal framework does not enable non-GB-located generators to connect to the GB market on the basis of an OFTO, SSE does not agree that this approach should be dismissed without further consideration. SSE views the OFTO regime as offering the best option for the basic asset configuration. The OFTO framework is now well established in the GB regulatory framework, the industry is familiar with how it works and banks have sufficient confidence to enable projects to be funded. The OFTO regime has taken years to get to this stage – however, Ofgem's proposals for a generator-specific interconnector suggests "going back to the drawing board", which would entail unavoidable uncertainty and risk for potential projects, which in turn, could lead to higher costs to GB consumers.

- SSE would also like to highlight that a guiding principle of the export project for the Irish Government[2] is that such projects do not impose a net cost burden on the Irish State/consumer, The extent of the burden will be examined in a forthcoming cost benefit analysis (CBA) which will form the basis of the government's decision to proceed with projects of this type.

[2] See DCENR consultation on Renewable Energy Export Policy and Development Framework http://www.dcenr.gov.ie/NR/rdonlyres/BE477998-F176-4749-A18B-BCFC7597B707/0/PublicConsultationStage1InformationDocumentFINAL.pdf

Ofgem's position that a connection option integrating markets would entail the spread of costs between both markets could have a significant impact on the result of this CBA. An unfavourable CBA would undoubtedly complicate implementation and the Irish government's decision to proceed with the export project. Therefore, SSE's present view is that the "basic asset configuration" option is currently the most viable option to develop for further policy proposals. On that basis, this response has been made mainly with the basic asset configuration in mind.

Yours sincerely



Lesley Gray
Regulation Manager

ANNEX
Response to Consultation Questions

Chapter 2: The Enduring Regulatory Regime for Offshore Electricity Transmission

#	Question	Our Response
Chapter 1: Introduction		
1	What are the key milestones for the delivery of non-GB generation and connections pre-2020? How does the decision on regulation and licensing of non- GB connection fit into this timeline?	A non-GB-located offshore generation project will have largely similar milestones and timescales as a GB-located generator, with similar issues relating to supply chain, consenting and funding. It is vital that a clear regulatory framework is in place in advance of any major funding decisions and that the Inter-governmental agreement itself has been finalised. Funding for projects will require certainty on how the connection will be built and funded and development will not proceed in the absence of this clarity. Therefore, a decision on regulation and licensing must be made in early course if non-GB projects are to connect to the GB market in time to make a contribution to the 2020 targets. In particular, the treatment of grid, access to the market and the eligibility for a CFD (and other relevant support schemes) will need to be determined before a project can progress in earnest. There may also be additional issues to be considered in the other country (e.g. Ireland) that require legislative consideration, for example, in relation to planning, which must be resolved early in the process if any relevant non-GB-located projects are to be delivered by 2020.
2	From the perspective of a non-GB 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)?	Projects will only be viable if developers have a clear picture of how they will receive income through renewable support. As with the regulatory arrangements, this certainty needs to be in place in advance of any funding decisions. We consider it vital that renewable supports together with grid arrangements and the required inter-governmental agreements are progressed in tandem, to ensure that developers are provided with the certainty they require to make decisions in relation to particular projects.

3	Are there other factors that Ofgem should be aware of relating to the timing and development of non-GB connections?	A major factor that Ofgem should be taking into account is the ongoing developments of the European Network Codes which are currently in the process of being drafted and approved through the defined legal process and are expected to become applicable law well before 2020. In particular we would anticipate that the proposed HVDC Network Code will have a material effect on non-GB located connections as, indeed, could the other Network Codes such as Capacity Allocation & Congestion Management (CACM), the Forward Capacity Allocation (FCA) and the Requirement for Generators (RfG).
Chapter 2: Principles of transmission regulation		
4	Do you agree these are appropriate principles to take account in relation to non-GB connections?	Yes
5	Are there any other principles that we should also consider?	SSE considers that it is important to promote the principle of non-discrimination as between a GB generator and a non-GB generator. To this end, we consider that non-GB-located generators should pay their fair share of costs (particularly as regards network and BSUoS costs, as applicable, plus user commitment) and be entitled to their fair share of benefits (i.e. equal access to renewable funding, grid connection and the Balancing Mechanism). We suggest that in identifying and designing infrastructure, the possibility of sharing and consolidating connections should be considered.
Chapter 3: Legal classification and licensing		
6	We invite views on our interpretation of 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 are unclear how the “basic asset configuration” definition outlined by Ofgem meets the definition of interconnector considering that the EU legal definition refers to a transmission line which connects national transmission systems. In the case of the “basic asset configuration” there is no connection to the Irish transmission system and therefore it is not, in our view, a truly cross-border connection of systems as we think might be envisaged by the Electricity Regulation. SSE has not done any legal research on this point itself but we would highlight that legal clarity will be needed on this point in advance of further policy development.

7	We are interested in views from stakeholders on what impact alternative interpretations would have on potential projects. Please provide detail where possible.	SSE has not researched any potential alternative legal interpretations. However, if the basic asset configuration is not an interconnector, then we presently see only two possible alternative approaches - either, (1) it could be considered in the context of the existing OFTO regime, or (2) onshore TOs could be empowered to extend their networks to an offshore connection point that the non-GB generator can connect to. Both of these alternative solutions would require amendment to the present domestic legislation. Classification as an interconnector without the exemptions discussed in the Consultation Paper may create issues with respect to funding of the infrastructure and access for the non-GB generator, both of which will take time to resolve and may create uncertainty for developments.
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?	SSE's position is that non-GB-located generators should be subject to the same obligations as GB-located generators if they wish to participate in the GB market. For example, we would expect that the other regulator (i.e. CER in the case of Irish generators) could issue a generation licence that mirrors relevant provisions of the GB generation licence, along with any other requirements that relate to the generators own territory (e.g. Irish environmental standards). Ofgem would need to closely cooperate with the CER in that regard. There are clearly practical issues that would have to be further considered – e.g. how would Ofgem ensure that the non-GB generator was acting consistently with its interpretation of the licence requirements? This may include, if necessary, that appropriate enforcement action is taken. Finally, for simplicity and legal certainty, overlapping or inconsistent licensing arrangements must be avoided.
Chapter 4: Existing and potential regulatory options		
9	Are non-GB connections deliverable by 2020 via direct and exclusive connections?	SSE considers that the major barrier to achieving 2020 connections is ensuring that the regulatory framework is fit for purpose and that an adequate level of certainty is achieved to allow funding decisions to take place. In the right environment, a 2020 connection would be feasible.

		SSE is of the view that an asset configuration with market integration would be more complex and for that reason would take longer.
10	What are the technology challenges of delivering direct and exclusive connections? What are the technology challenges of delivering multi-purpose assets?	SSE considers that the technology challenges would be similar to those experienced in relation to the East-West Interconnector and those currently being faced by OFTO projects located further offshore. However, we have not considered the technology challenges in any detail and therefore cannot comment further.
11	What are the potential benefits and challenges of enabling flexibility for a non-GB connection to be also used for a) market-to-market trading; and b) GB network reinforcement? What are the implications for investment certainty?	SSE considers that a market-to-market interconnector is likely to present additional challenges and that further review would be needed to establish the challenges and benefits of this. We understand that the DCENR in Ireland will be carrying out a Cost Benefit Analysis on this issue[3] and SSE awaits that analysis to inform its view. SSE has recommended that this CBA would include all potential connection options. SSE would anticipate that a configuration which may have adverse impacts for the Irish system, market or customer are likely to proceed more slowly or not at all. This will include impacts on, for example; constraints and curtailment, losses, delivery of connection and system upgrades on the Irish system. In terms of GB network reinforcement, SSE takes a similar view as it has taken in the context of the OFTO regime - i.e. that the costs and risks of investing in transmission assets for the wider benefit of the network, rather than for the benefit of the generator, should not be borne by the generator. Ofgem would need to consider who would be responsible for this investment, how the costs of this type of network investment would be recovered from GB market participants (ultimately the GB consumer), and who would ultimately own and operate the assets. SSE sees this as being much more complicated scenario than the basic asset configuration which, though itself requires significant further policy development, is more straight forward (i.e. it is a single-user asset and therefore it is clear that the basic user pays principle should apply).

[3] See DCENR consultation on Renewable Energy Export Policy and Development Framework

		From the non-GB generator's point of view, there is a concern that a market-to-market interconnector would not guarantee capacity to export renewable generation to GB, which would increase uncertainty of revenue for the project and would also compromise the objective of assisting GB to achieve its renewable target. The remuneration for this type of asset may also be more complex to design. A further factor that Ofgem will need to take account of is the user commitment that the non-GB located generator and associated interconnector will make both pre and post commissioning in order to ensure that no undue competitive advantage is provided to these parties compared to GB located generators. In this regard we would refer you to our response to the ongoing CMP222 Workgroup Consultation[4].
Chapter 5 and 6		
12-21	Various	SSE notes that the remainder of the consultation is based on the assumption that (1) the basic asset configuration is an interconnector; (2) that it is exemptible under the Electricity Regulation; and (3) and that the exemption would include exemption from Art 9 of the Electricity Directive (i.e. allowing for possibility that the generator would develop the interconnector). SSE considers that further work is required to clarify whether these assumptions are legally correct before undertaking detailed analysis of how the interconnector could be regulated as a merchant interconnector and whether revenue arrangements similar to those adopted for NEMO could work in practice. Ofgem needs to develop the basic principles before exploring the technicalities. At present there is insufficient clarity on what Ofgem thinks the proposed arrangements would look like as a basic concept, so it is very difficult to comment on aspects such as the revenue model. SSE has two concerns it would flag at this stage: (i) the basic asset configuration is not at all

[4] http://www.nationalgrid.com/uk/Electricity/Codes/systemcode/workingstandinggroups/wg/CMP222/

			comparable to a normal interconnector, therefore we would question whether it is appropriate to evaluate the options against existing interconnector arrangements, which relate to interconnectors that are not single-user assets.
		(ii)	Ofgem considers it appropriate that the generator, which would be in captive to a monopoly by any interconnector operator, might be subject to a largely unregulated arrangement. Ofgem notes that it would *"anticipate that a private commercial arrangement between the interconnector operator and the generator for access to the interconnector for the export of renewable energy".* However, there is a serious risk (for the generator) that the generator could be "held to ransom" by the interconnector – this clearly cannot be permitted to occur. SSE considers that a high level of regulatory protection is required to ensure that the generator has the same fair access to the NETS as GB-located generators if both are operating in the GB arrangements