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Jon Parker
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Ofgem
9 Millbank
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Dear Jon,

I would like this letter to be considered alongside your request for consultation on “The regulation of future electricity interconnection: Proposal to roll out a cap and floor regime to near-term projects”.

Offshore Group Newcastle (OGN Group) is currently working on a new private high capacity interconnector project that would link strong nuclear generating facilities on the north coast of France to the UK market. This interconnector will improve security of supply, lower cost of generation and provide cheaper electricity for the consumer.

OGN Group appreciates Ofgem’s intentions to simplify the regulatory framework and supports the regulator’s statement that the United Kingdom needs more interconnector capacity. However we strongly disagree with the approach Ofgem decided to take with Floor and Cap regime.

The Proposal divides future interconnector projects into two groups:

Option 1: Developer-led route without consumer underwriting

Those projects that are privately developed under exemption from Article 17. These projects receive no consumer underwriting but are historically subjected to a cap on revenues (an example project would be ElecLink). Ofgem has stated in this consultation document that it would continue to consider exemptions on a case-by-case basis (Ref: Para 2.18).

Option 2: Developer-led route, cap and floor

Those projects that participate in this new Cap and Floor Regime and in theory benefit from greater financial certainty. Under the Proposal these projects will be assessed in detail and could be more easily coordinated as part of the long term network planning (an example project would be National Grid Project NEMO).



OGN Group believes that Option 1 projects offer a greater interest to the GB consumer than Option 2 projects. This is self-evident as Option 1 projects require no underwriting yet provide the same socio-economic benefit.

The Proposal raises two questions which we would like Ofgem to respond to prior to implementing the Proposal:

- I. How does Ofgem intend to manage the competitive development of Option 1 and Option 2 projects?
- II. Will Option 1 or Option 2 projects stand to benefit from preferential treatment through the regulatory and planning process?

Further, in order to be considered an eligible near-term project, it is necessary to have an agreed connection date by 31 December 2020.

OGN Group believes this requirement will most likely result in multiple projects hurrying through the application process in order to be eligible for this regime. We believe that this requirement is likely to increase the number of projects in the pipeline (with connection agreements) but would not make it any more likely that projects will be constructed before 2020.

We are concerned that this requirement may result in a queue of Option 2 projects, which are restricting the progress of near-term Option 1 projects seeking a connection agreement with National Grid.

Additionally, we fear that the proposed time limits may unintentionally suit developers already familiar with this process (i.e. non-regulated EU Transmission System Operators) to the detriment of other developers.

Therefore, we suggest Ofgem do not proceed with the application window for this regime but instead allow developers to apply on a case-by-case basis (described as Alternative 1 in your documentation) to the Floor and Cap regime.

I am more than happy to go into further detail during our meeting with Kersti Berge in August.

Yours sincerely



Alexander Temerko
Director/Deputy Chairman