The Renewable Energy Association (REA) would like to make the following comments in response to Ofgem's Interconnector consultation closing today.

We understand the proposals seek to encourage more GB interconnector capacity, based on recent experience of the potential UK - Belgium interconnector (the 'Nemo' project), using a 'Cap and Floor' mechanism to guarantee minimum and maximum rates of return for such projects.

We would like to make the following comments:

Importance of interconnector capacity

- More interconnector capacity is vital to facilitating greater renewable energy production in the UK to ensure we meet our legally binding 2020 renewable energy targets.

- Interconnectors will be especially valuable in facilitating intermittent renewable electricity generation as fluctuations in supply can be compensated for via imports. This is particularly important in the case of supplies from Scandinavian sources of rapidly dispatchable hydro power.

- The electrification of heat and transport as part of the UK's de-carbonisation drive will also increase demand for electricity, which can be partly met by interconnector capacity.

- It is essential that interconnectors are available at any time to respond to unexpected changes in electrical output, therefore we welcome the requirement for a minimum interconnector 'availability' threshold in order to qualify for payments.

- The 'hybrid' cost calculation approach whereby costs will be calculated based on an initial assessment of project spend, EPC and construction scope, which would then be updated should there be a change in the scope of works during construction for reasons outside of the developer's control, appears to be the most reasonable of the approaches outlined.

Potential impact on transmission-connected generators

- As understood, transmission connected generators will either benefit from a reduction in fees (if the cap restriction has been activated and interconnectors make payments to the TSO), or experience an increase in fees (when payments are being made to the interconnector to increase their returns to the floor). However it is not set out exactly how this will translate for transmission generators (will it be pursued through the TCMF and related Fora?), which could potentially create uncertainty for these generators. Any changes to charges should be transparent and proportionate.

- The impact on interconnectors is not clear, but theoretically the regime could encourage greater interconnector capacity if a guaranteed level of income is possible as at present such projects operate purely on the basis of developers taking full risk. There may be a need to ensure there is not over procurement of interconnector capacity in the long term.

Interactions across policies

- The consultation also includes a small section on interconnectors connecting directly to generating assets abroad, which will be administered on a case by case basis. With EMR policy due to be firmed up for non-GB generators in future months, expecting to confirm such projects will be eligible for CfDs, this opens up the possibility of much more generation being imported, funded by UK energy bill payers (for CfD and possibly Capacity Market projects) and GB transmission-connected generators (in the case of the interconnectors).
Further analysis of this should be undertaken to asses the impact on UK consumers and energy producers.

- As the 'application window' for such projects is projected to open in September, with decisions on individual projects by spring 2015, discussions with Ofgem's counterparty regulators in the relevant countries will be vital and should start as soon as possible.

- Transmission system arrangements are currently under review as part of Ofgem's 'ITPR' project, and the final policy will need to interact positively with the interconnector proposals.