

To: (by e-mail)  
Jon Parker  
[cap.floor@ofgem.gov.uk](mailto:cap.floor@ofgem.gov.uk)

18<sup>th</sup> July 2014  
From: (by e-mail)  
[zoltan.zavody@renewableuk.com](mailto:zoltan.zavody@renewableuk.com)

Dear Jon,

### **RenewableUK consultation response**

#### **The Regulation of Future Electricity Interconnection: Proposal to Roll Out a Cap and Floor Regime to Near-Term Projects**

##### **Summary**

RenewableUK congratulates Ofgem on its proposals for a regulatory regime to facilitate the deployment of near-term Interconnection projects. The renewable energy sector has a strong interest in the deployment of Interconnection, and we welcome the opportunity to comment.

- **We welcome the proposal for transparency in the criteria and process for decision making.**
- **We agree with the need for expert input into making decisions, while noting the potential conflict of interest where the NETSO may compare boundary reinforcements against Interconnection options.**
- **We agree that system balancing and energy security considerations are essential, alongside price arbitrage and energy trading.**
- **We believe the widest benefits of Interconnection should be taken into account when assessing proposals; this may be a stretch for Ofgem's current approach to decision making.**
- **We believe there is value in the small additional investment in a control terminal, and potentially in cable length to enable sub-sea connections by offshore windfarms into an Interconnector at a future date.**
- **The five-year window for project application to energisation may cause supply chain bottlenecks, to be avoided through timely decision making.**

## Introduction

RenewableUK is the trade and professional body for the UK wind and marine renewables industries. Formed in 1978, and with some 600 corporate members, RenewableUK is the leading renewable energy trade association in the UK, representing the large majority of the UK's wind, wave, and tidal energy companies. The association's response aims to represent these industries, aided by the expertise and knowledge of our members.

The renewables industry has an interest in Interconnection for the following reasons:

- to facilitate the export of our abundant sources of renewable electricity
- to strengthen the options for security of supply, particularly at times of low wind in GB
- to reduce the cost of offshore wind connections where these might benefit from a pre-existing sub-sea cable

As such, our response focuses on the relevance to these issues and offers limited comment on the more practical aspects of Interconnector delivery. This response follows the order of the questions posed.

### **1. Do you agree that making the developer-led cap and floor regime available to near term projects would be in GB consumers' interests?**

Yes.

### **2. What are your views on the cap and floor regime design?**

Provided the regulatory regime offers the necessary confidence for Interconnector projects to proceed, RenewableUK does not take a position on which design is best.

### **3. What are your views on our proposed approach to the cost assessment process?**

We note differences in approach to the regulation of both OFTOs and onshore grid investment under RIIO-T1, for example: not only cap-and-floor, but also 25 year life,

5-yearly assessment, etc. On balance we see no major issue with this but we note that each of these investments could have an element that solves a similar objective. The difference in approach to cost assessment should be borne in mind when working through investment cases.

#### **4. Where do you think we may need to be flexible to accommodate the specifics of different projects and other national approaches?**

The default proposal for costs to be shared 50:50 between GB and partner developers, and for the Cap-and-Floor to apply to half the project's costs and revenues, sounds fair.

The distribution of benefits will not, however, be equal. We understand the case for the apportionment of consumer underwriting to reflect this. However, this would need consistency in assessing the benefits to each country. RenewableUK believes the case for Interconnection should be based on the wider benefits, i.e: not just price arbitrage, but also security of supply, green growth, etc. As such, there is a danger that projects could be held up through time-consuming haggling over the relative benefits to each partner. Consistency in methodology parameters for assessing benefits should therefore be agreed early.

#### **5. What are your views on the framework and processes set out in this document?**

##### Call for Proposals

We welcome the call for proposals that Ofgem is issuing, as an expedient way of moving on the agenda for Interconnection.

The main concern with the process is around a potential supply chain bottleneck, with projects being approved in 2015 but needing delivery by 2020. There are a number of windfarms that are also planning to deliver within this timescale, involving some five hundred miles of HVDC cable. There is therefore a need for transparency and timely decisions to avoid bottlenecks for this technology.

RenewableUK has previously expressed concern about the protracted process for decision making on major transmission projects in Scotland (the Strategic Wider

Works process). We encourage Ofgem to learn from this process and feed these learnings into the decision making process on Interconnection. We welcome a recent decision at the Electricity Networks Strategy Group to hold a workshop on the practicalities of Strategic Wider Works needs case submissions. This would seem to present an opportunity to consider the relevance to Interconnection proposals also.

### Process of Assessment

Ofgem's proposal to assess projects against each other seems again to be pragmatic. However, there are a number of complications as follows:

- We believe proposals should be assessed on the basis of their wider benefit to GB,<sup>1</sup> including system balancing and energy security considerations, as well as benefit to wider society. Interconnector developers cannot be expected to produce robust analysis on all of these issues. There is a need therefore for Ofgem to put in place a process for assessing and comparing these benefits. This may include seeking DECC endorsement where the decision touches on issues not previously taken into account by Ofgem within its decision making processes.
- Interconnection proposals will be interdependent, i.e: the value of one Interconnector will to some extent depend on which others will be built. There will also be interdependence with Interconnectors built between other countries. The assessment of benefits must therefore include a number of different permutations; and also include sensitivities as to the likelihood of each project proceeding to completion.
- Interconnectors will have system security benefits that might be compared with those from the Capacity Mechanism, demand response, and storage; as well as the provision of ancillary services from GB generators. There will be significant uncertainty as to the evolution of all of these mechanisms, and this will need to be considered in a bounded way when assessing relative benefits.
- In view of the complexity of the benefits case, there is a need for expert input. There is a danger that consultants employed by Ofgem would not have the resource and depth of understanding. National Grid as NETSO is the obvious candidate to provide support, and we acknowledge that National Grid Interconnector Holdings is a separate company. However, we note that there is

---

<sup>1</sup> Wider benefits to the UK, i.e: including Northern Ireland, should not be forgotten

still a conflict of interest, with some Interconnector proposals potentially presenting an alternative to boundary reinforcement (whether via onshore or sub-sea cable) within GB. In the long term, an enhanced SO with greater separation from the transmission function would seem to be the solution. In the short term, however, this is not an option so checks and reviews will need to be put in place.

We very much welcome the public consultation proposed both for Initial Project Assessment and on the final decision.

**6. What are your views on the timing and the information that we would require developers to submit?**

We welcome the timings Ofgem have proposed. We would encourage timely decision making.

**7. What are your views on our proposed eligibility test and the specific provisions that we are minded to include in such a test?**

We believe there is value in the small additional investment in a control terminal and, we understand from some of our members, a loop of additional cable length, to enable sub-sea connections into an Interconnector at a future date. Decisions should not however be held up by uncertainty over the longer-term deployment of offshore wind.

The value of making use of otherwise underutilised transmission assets should be included as a consideration, i.e: if an Interconnector provides power that can flow into GB networks at times of low wind for example.

There should also be consideration of the value of an Interconnector to access a new market, with potential for more to follow if successful. This may be a strategic tool for diversifying Britain's access to energy markets.

**8. What are your views on how we intend to assess projects at the initial and final project assessment stages?**

The process flow diagram seems logical, though we note the potential for a lengthy twelve months to elapse between opening of the application window and final decision. Efforts should be made to make this process as quick and streamlined as possible.

#### **9. What are your views on the need for and timing of future windows?**

We believe this option should be left open. However, we encourage Ofgem to continue with its wider work on ITPR under which an enhanced SO could take on a more pro-active role in identifying opportunities for future Interconnection.

#### **10. What are your views on the options to protect consumers from the risk of a needs case changing between our decision to award a cap and floor and a project's final investment decisions?**

We agree that Interconnector developers should be incentivised to provide as realistic estimate as possible of the costs and benefits of their proposals.

#### **11. What are your views regarding next steps?**

We believe it would be helpful for Ofgem to address the following over the course of the next few months:

- Lessons learnt from the Strategic Wider Works process. We believe this is in hand under the banner of the Electricity Networks Strategy Group (ENSG).
- A workshop specifically on Interconnection and assessment of benefits. The timing of this will need to take into account the competitive pressures on Interconnector developers in the bidding process.
- A timeline not only for process of decision making (September 2014 to spring 2015 and beyond); but also for approval, checks, and sign-off thereafter, through to 2020. And beyond – what if the Interconnector does not come on line for 2020?

We trust the above is helpful in the development of Ofgem's processes. RenewableUK would be happy to participate in further discussions and workshops. Thank you again for the opportunity to input.

Yours sincerely,

**Zoltan Zavody**  
**Head of Grid**