

NorthConnect KS  
Serviceboks 603, Lundsiden  
4606 Kristiansand  
Norway

Jon Parker  
Future Networks  
The Office of Gas and Electricity Markets  
9 Millbank London SW1P 3GE

E-mail: [ITPRMailbox@ofgem.gov.uk](mailto:ITPRMailbox@ofgem.gov.uk)

16<sup>th</sup> November, 2014

Dear Mr Parker

**Integrated Transmission Planning and Regulation (ITPR) project: draft conclusions**

NorthConnect (NCKS) welcome the opportunity from Ofgem to respond to the ITPR draft conclusions and to contribute our views towards its further development.

NorthConnect is a joint venture project to realise an HVDC electricity interconnector between Norway and the UK. It is owned by four European energy utilities (Vattenfall, ECO, Agder Energi and Lyse Produksjon). The aim is to have the project commissioned by 2021. The NorthConnect interconnector will offer flexibility and storage capacity for the UK and enable a cost efficient integration of UK wind power. Furthermore, by providing the UK with access to renewable hydro power from Norway, we expect that NorthConnect will help promote the achievement the UK's renewable targets. A further key benefit offered by the NorthConnect interconnector is that it will improve the security of supply in both countries.

Our response to the individual consultation questions is given in detail overleaf, but firstly, we have few summary points and general observations as follows. NCKS welcomes within the consultation:

- The continuing developer-led approach to interconnection;
- Clear separation of the SO role and measures to prevent conflicts of interest; and also
- Proposals for the use of Future Energy Scenarios (FES) to assess transmission planning options.

We feel the areas where the proposals may require further clarification are that:

- They do not seem to address the mismatch between FES (the reality of current investment planning thinking) and the Generation Background (the contracted risk position for connecting parties). The impact of this is that, whilst options may be assessed against FES and developers take some comfort things will turn out positive in the long-run, in the meantime the

contracted risk for the project in terms of underwriting obligations is acting as a real-time deterrent to interconnector investment;

- We wonder whether there may be a slight contradiction in terms between the developer-led ambition for interconnection, incentivised through user decisions and price signals, versus the relatively prescriptive Network Options Assessment (NOA) process, within which it is currently unclear whether the developer will have any choice other than to accept the connection option outcome dictated by the new SO role; and finally
- An important point which we feel is not addressed in the proposals for interconnection planning with respect to an integrated regulatory environment, is the linkage with the European 3<sup>rd</sup> Infrastructure Package of legislation. This enshrines the free flow of interconnected power in response to price signals without market or grid access restrictions, to allow the cheapest sources of power to flow from low-priced to high-priced regions. The ITPR proposals make several references to the “economic efficiency” of investments, but this appears to refer to a UK context only and further assumes that all sources of connecting power have an equal cost to the consumer. If the NOA process is intended to examine the UK grid options with respect to the competing interests for the use of capacity in any geographic location, then we believe any economic analysis should also reflect the varying cost of power sources to UK consumers.

## **CHAPTER: Two**

Question 1: What are your views on our proposed enhancements to the SO role in system planning, including the specific roles we have proposed the SO would undertake for onshore, offshore and interconnection planning?

In relation to the proposed enhancements to the SO role for interconnection planning, whilst NorthConnect welcomes the coordination element, we firmly believe that the SO should not be allowed to determine which interconnector projects survive and which ones fail, and that the outcomes should be driven by a market-led approach, with the appropriate oversight provided by Ofgem.

We support the SO role to undertake analysis to assess the key costs and benefits of additional interconnection to specific markets to indicate where new interconnectors could have value, and particularly that this analysis should be based on the Future Energy Scenarios (FES) for GB. As stated above, we also agree that developers should continue to come to their own view on the commercial merits of different projects, with the SO’s analysis serving only to support this process, and not to dictate project scope to developers.

We feel that this analysis in relation to FES, informing the assessment of possible reinforcement needs for the GB network, should also be carried through a stage further and reflected in connection contract underwriting obligations (which currently reflect the contracted generation background and not the FES based investment planning).

Question 2: Are there other roles that you think an enhanced SO could or should undertake in order to better support the development of an efficient transmission and interconnector network?

No.

Question 3: What are your views on the specific obligations for TOs that might be needed to support our proposed enhanced SO role?

NCKS have no firm views on the precise mechanisms of the required obligations for TO's. Our only point would be that, as a developer, the arrangements between SO and TO should be back-to-back and seamless so as to present only one face, with a single point of contact and fully aligned views, externally from the SO/TO to the contracted connecting party.

Question 4: What are your views on our proposal that, as part of its enhanced role, the SO should lead gateway assessments for offshore projects that include investment to provide wider network benefit?

NCKS has no comment on this matter.

### **CHAPTER: Three**

Question 5: What are your views on our proposal to extend competitive tendering to new, high value, separable onshore assets?

NCKS has no comment on this matter.

Question 6: What are your views on our proposals to maintain a developer-led approach to interconnection and to extend the cap and floor regime?

NCKS wholeheartedly support the proposal to maintain a developer-led approach to interconnection, and to open more cap and floor application windows in the future.

We still maintain that in a truly market-led approach, the option for “no consumer underwriting” should be kept open. In an open and emerging market, this should provide incentives for developers to make the optimum commercial and risk based decisions on their own merits. We continue to regret the imposition of EU caps on applications for revenue exemptions and believe this creates perverse and unnecessary incentives on both the commercial and regulatory environments for interconnectors. We find the statement that, *“the revenue exemption route [sic].....has resulted in only a limited amount of new interconnection”*, somewhat inaccurate, believing that it is instead the imposition of caps on revenues which have deterred investors, and not the seeking of exemptions per se. Nevertheless, this is where GB finds itself and NCKS will consider at the appropriate time whether a cap and floor application will be submitted by the project.

It is stated in several places in Chapter 3, that the above proposals for interconnectors are contingent on “*efficient investments being enabled by this approach*” and the principles behind the proposed Network Options Assessment (NOA) process were outlined in Chapter 2 in relation to the SO role.

NCKS believe that the NOA process requires further definition of the rules around how economic efficiency will be calculated, and also a recognition of its timing within the project lifecycle so that developers and investors do not carry an ongoing risk of trying to hit a moving target as the grid investment planning picture changes over time.

For example, we have already stated that we support ITPR’s proposal that the FES are to be used for assessing investment planning needs. In contradiction, however, National Grid’s recent CION open letter puts forward a connection agreement post-signature process in which the assessment of a connection location can be re-opened for material triggers such as:

- *Changes in SO assumptions – such as significant changes in the Construction Planning Assumptions (CPA) or generation background;*
- *Changes in TO assumptions – such as changes in generation background that impact on TO investments; and*
- *Changes in Regulatory frameworks.*

This opens up questions of both accuracy and timing in relation to the NOA process. Most parties involved recognise that the generation background is a very inaccurate measure against which to predict future needs, a point which we made in our pre-amble and an issue which seems to be magnified the further north in GB it is examined. In addition, the CION proposals currently have a post-signature element, meaning that the developer can never rely on the point of connection remaining fixed at any point during the project lifecycle, even after a connection agreement has been signed and significant investment and consenting may have taken place. With the long duration, and high DevEx cost, of interconnector development, this provides a disincentive to investment and also to sound energy infrastructure planning in general.

We believe under ITPR and NOA that, in order to lower risk for developers and encourage interconnection investment, Ofgem should consider giving greater protection that once a connection agreement has been signed, the developer can rely on the point of connection as being fixed. The risk is one of sunk development costs but, more importantly, of the impact on consenting risk and the investors continued appetite for further development funding when the goalposts may be moved at any point in the project development cycle.

Hence, in addition, we believe Ofgem should consider the “Grandfathering” of pre-existing contracted connection locations when the new processes come into force, so as not to deter existing investment and projects which are already committed beyond a certain stage of development and consenting.

Question 7: What are your views on our proposal that non-GB generators pay for their connections, without consumer underwriting?

NCKS has no comment on this matter.

Question 8: What are your views on our proposal to provide regulatory continuity when the purpose of a transmission asset changes?

NCKS are generally supportive of these proposals.

#### **CHAPTER: Four**

Question 9: What are your views on our assessment of conflicts of interest?

NCKS believe Ofgem have assessed the potential for conflicts accurately, and particularly support the view that these could arise in relation to, *“Opportunities for.....manipulating the scope and configuration of new reinforcements”*, and also, *“In its role in supporting our interconnector cap and floor assessments, it could bias its advice to us to advantage its associated businesses and discriminate against its competitors”*.

Question 10: What are your views on our proposals for mitigating conflicts of interest?

NCKS support Ofgem's proposal for greater business separation between the new SO role and NG's commercial Interconnector Business, and support that any decision or action by the SO can be referred to Ofgem for appeal at any stage.

Whilst we welcome all the measures proposed for mitigating conflicts of interest, we believe that three of the four proposed measures (obligations for over-arching principles, ring-fencing of information / decision making, and enhanced Ofgem scrutiny of modelling) can only go so far. We believe that only measures which can penetrate down to scrutinising modelling assumptions, input data and ensuring there is no scope for manipulation or selective interpretation within these, can truly mitigate against conflicts of interest. Therefore, we believe the measure to Maximise Transparency is the most important factor, and NCKS would like to see this strengthened to include transparency down to the lowest level of detail, and back into the historical network planning prior to the connection application in order to verify the consistency of assumptions.


Question 11: Do you think independent scrutiny of the SO's activities (eg through an expert panel or auditors) would provide value for money?

NCKS would support this proposal, both on an ongoing basis by routine and/or spot audit, and also in response to one-off referrals to Ofgem of disagreements or disputes between the SO, TO and developers over matters of probity of assessment or conflicts of interest.

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We look forward to your response and hopefully to our further participation in the process.

Yours sincerely,



*P.P.* **Tommy Løvstad, CEO**  
NorthConnect KS