

Industry Colleagues

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24th February 2014

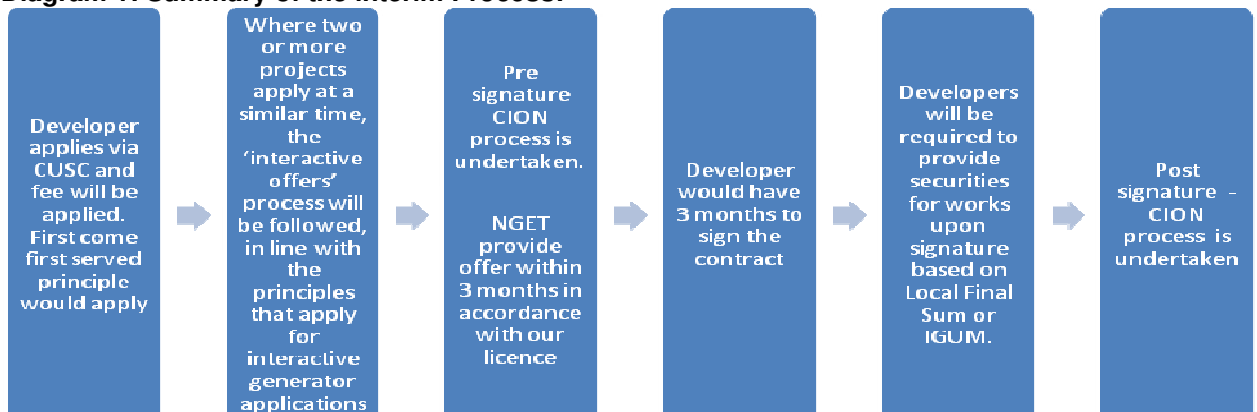
Dear Colleague

Open Letter Update: Interim NETSO process for the treatment of requests for interconnection to the National Electricity Transmission System.

This letter provides an update on the interim process for the treatment of requests for connection of interconnectors to the National Electricity Transmission System (NETS), following our open letter in December 2013 where we sought views and comments on our proposals. Our open letter is included as an appendix to this letter for information.

No responses to the open letter were received, and as such the proposed interim process will now be implemented for all new applications. Subject to the agreement of relevant the developers, some live connection applications/agreements, depending upon the stage of the project and the benefits for both parties, will fall into the new process. Diagram 1 depicts the interim process from developer application to signature and the beginning of the CION process.

Diagram 1: Summary of the interim Process:



If you would like to discuss this interim process in relation to a new or existing project, please contact your account manager Sarah Milmore (sarah.milmore@uk.ngrid.com or 01926 655386) or alternatively Ross McGhin (ross.mcghin@uk.ngrid.com or 01926 656107)

Yours Sincerely,

MATT GOLDING
Head of Commercial Frameworks - Electricity

FOR AND ON BEHALF OF
NATIONAL GRID ELECTRICITY TRANSMISSION PLC

APPENDIX 1

Industry Colleagues

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Date: 28th November 2013

Dear Colleague,

Open Letter Consultation: Interim NETSO process for the treatment of requests for interconnection to the National Electricity Transmission System.

1. This document sets out the principles and proposed interim process for the treatment of requests for connection of interconnectors to the National Electricity Transmission System (NETS) that we intend to follow. It should be noted that this process may be updated in the future given the current amount of regulatory developments associated with the connection of interconnectors.
2. We are seeking your views on the proposals and welcome any comments, feedback or suggestions. Following the conclusion of this consultation we intend to address any issues raised by respondents and update the process, as appropriate. The final interim process for the treatment of applications for interconnections to connect to the NETS will be published on the National Grid website.

Background

3. Currently, interconnectors apply for a connection to the NETS via the Connection Use of System Code (CUSC)¹. The application process does not treat interconnectors any differently to other Users. The “Third Package Directive² and Regulation³” and the standard terms of an interconnector licence now provides that interconnectors will be treated as transmission networks, and that the holder of the licence will need to be certified as a Transmission System Operator (TSO).
4. In March 2013, Ofgem published a consultation document on the “Cap and Floor Regime for Regulated Electricity Interconnector Investment for application to Project NEMO” which closed on 3rd May 2013⁴. Within chapter 5 of the document (Interconnector investment regime wider issues and next steps), Ofgem detailed their preliminary thinking on the high level principles of how the connection process will feed into the regulatory decisions for electricity interconnector investment. It should be noted that these principles were not finalised and may be subject to change in the future. The principles are summarised below:
 - National Grid Electricity Transmission (NGET) and developers should cooperate and coordinate to deliver an economic and efficient connection for GB as a whole,

¹ An Offer is made within a period of 3 months (unless Ofgem approve an extension) and the connection location is specified with the Offer documentation.

² Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC.

³ Regulation (EC) No 714/2009 European Parliament and of the Council of 13 July 2009 on conditions for access to the network for cross border exchanges in electricity and repealing Regulation (EC) No 1228/2003

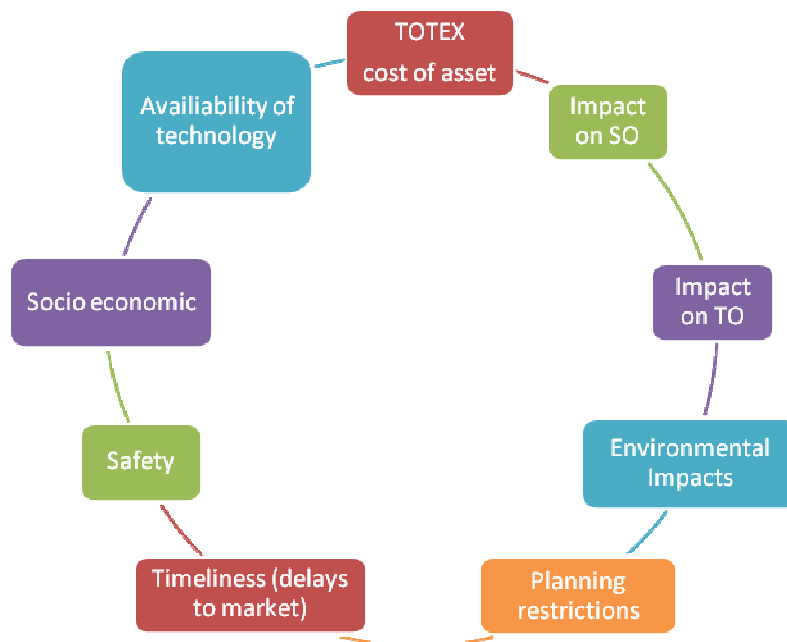
⁴ <https://www.ofgem.gov.uk/publications-and-updates/cap-and-floor-regime-regulated-electricity-interconnector-investment-application-project-nemo>

- NGET and developers will provide Ofgem with the necessary information to support the regulatory decision,
- Only economic and efficient costs will be remunerated by Ofgem,
- Connection offers must be signed prior to Ofgem taking a decision on the regulatory framework,
- Interconnector investment proposals will continue to be treated on a first come first served basis as per the current CUSC arrangement.

Principles

5. Our aim is to ensure that we set out clearly the interim process we are proposing to follow for interconnection to the NETS prior to the conclusion of Ofgem's Integrated Transmission Planning and Regulation (ITPR) project, other regulatory developments, and the establishment of final formal arrangements.
6. We propose that the interim process for interconnectors should aim to avoid any code changes and work within the current framework, but to improve transparency, communication and set expectations of coordination with developers and the industry. This letter documents the interim process from the point of application. However, experience has shown us that pre-application discussions that do not form part of the formal CUSC application process are essential for such complex projects and aids understanding for both parties. Therefore, we propose to continue pre-application discussions with developers, even though this does not form a formal part of the proposed interim process.
7. NGET and the interconnector developer would be required to act in a cooperative and coordinated manner, as envisaged by the Third Package and our respective licences (or future licence), to deliver an economic and efficient system/connection for the project.
8. In line with the current framework arrangements, the "first come first served" principle will apply and "connect and manage" and the security requirements introduced by CMP192 will not apply. CUSC modification CMP222 – User Commitment for non generation users has been raised to address user commitment for interconnector developers.
9. We consider that the criteria shown in Diagram 1 should be considered when determining the economic and efficient point of connection. It should be noted that the list of criteria represents the ultimate position of all the factors that should be taken into account when considering interconnector applications. To date, elements of all criteria are considered but the depth of the analysis of some criteria is beyond the scope of NGET's current role, which is being considered further under the ITPR project or is limited at this time as there is no single European capacity model or tool that meets the connection process detailed requirements. In addition, NGET will require information from developers to support the assessment process and where information is not provided we will use information based on our judgement and experience.

Diagram 1: Criteria for the assessment of an economic and efficient point of connection:



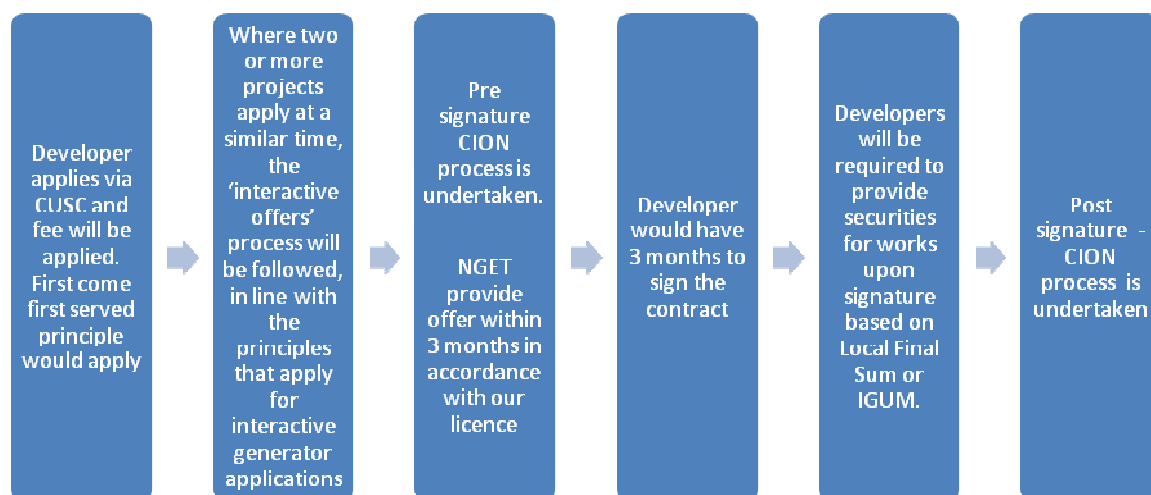
<p>TOTEX cost of the asset Total expenditure including both capital and operational costs. Developer costs will be included if provided.</p>	<p>Impact on SO e.g. Assessment of constraint costs, balancing services if information is available</p>	<p>Impact on TO or TO's e.g. level of reinforcement needed, impact on strategic wider works, cost recovery of economic & efficient design on all relevant TO's</p>	<p>Environmental impacts e.g. geographical nature of the area, proximity to wildlife reserve areas etc</p>
<p>Socio economic e.g. welfare impacts for consumers associated with greater interconnection based on information provided by the developer and industry (GB & EU)</p>	<p>Technology e.g. taking into account developments in technology, innovation and the associated technology risks</p>	<p>Planning restrictions e.g. the likelihood of being able to obtain consent</p>	<p>Timeliness e.g. ability to deliver a connection as close to the developers preferred date</p>

10. In addition, all parties are requested to be as open and transparent as possible (subject to confidentiality). In certain circumstances it may not be possible to share all information, for example, "in flight" connection requests from generation projects or other interconnector developers. In these cases, we will continue to work with the developer, but may be unable to explain some of our network design choices until other connection agreement information is in the public domain. This is in line with our current connections process.
11. The overall cost information regarding options for connection would be provided to Ofgem (to support any future regulatory process for interconnectors), who will consider the asset value as well as the welfare impacts to consumers of greater cross-border capacity.
12. Finally, the proposed interim process will be the same regardless of the point of connection and the host TO. The host TO's role in the process will be to ensure that the connection point or any associated reinforcement works within its geographical area is economic and efficient. The host TO will also work with NGET (acting as NETSO) and the developer to undertake the necessary optioneering and assessment of other costs, i.e. alternative connection points and balancing service costs to achieve each option.

Process – Connection Applications

13. The current CUSC connection application process would still apply with one key difference, the introduction of a Connection & Infrastructure Options Note (CION) process pre and post signature.
14. The CION process will be used to coordinate the connection point and to set out the development options both onshore and offshore for the developer. It should be noted that this may result in the optimum connection point or other works contained within the contract being revised as more information becomes available. This process is in place for offshore connections pre and post connection offer signature, and the documentation is currently being reviewed by NGET to extend its use for interconnector and other project developments.
15. The objectives of the CION process and documentation are:
 - to provide a framework for collaboration and cooperation,
 - to act as a live document which evolves with the project pre and post offer signature (for the avoidance of doubt, any updates / review of the agreement will be driven by the Modification Application⁵ process within the CUSC),
 - to record historical decisions to support regulatory & consenting processes.
16. Diagram 2 depicts the interim process from developer application to signature and the beginning of the CION process.

Diagram 2: Summary of the proposed interim Process⁶:



⁵ In accordance with the CUSC process, CUSC 6.9 and 6.10

⁶ Interactive process is detailed on National Grids website, see link - Policy Document for Managing Interactive Offers - <http://www.nationalgrid.com/uk/Electricity/GettingConnected/PoliciesAndGuidance/> . Ofgem's consultation on interim user commitment arrangements for non-generation network users - https://www.ofgem.gov.uk/publications-and-updates/consultation-interim-user-commitment-arrangements-non-generation-network-users?docid=2&refer=Networks/Trans/ElecTransPolicy&utm_source=Ofgem%20Website%20Mailing%20List&utm_campaign=9f6bdec841-Ofgem_Email_Alert_10_25_2012&utm_medium=email
IGUM = Interim Generic User Commitment Methodology

17. It should be noted that greater coordination may require more time for the development of the Connection Offer. As a consequence, Ofgem may need to be approached for consent to extend the offer development period. Such an extension would be sought by NGET with the agreement of the developer.
18. At the end of the initial connection application process, the developer will receive a contract covering their connection to the GB network including the relevant technical and commercial aspects of the process based on the information available at the time. Developers typically have three months to sign the contract offered. If it does not disadvantage any other party, this deadline could be extended.
19. NGET will work with developers to agree the point of connection in line with the developer's preferred connection/landing point as outlined in the connection application. NGET may also consider other options based on an economic and efficient assessment working with the relevant TO's. Where NGET and the developer cannot agree on a connection point, then NGET will make an Offer based on the NGET's preferred connection point. The developer then has three options available within CUSC in respect of this offer; to accept, to refer or to lapse. Where agreement cannot be reached through post offer discussions, the developer would be able to refer the Offer to Ofgem for determination. Ofgem would consider the merits of both sides and need cases would be presented. Ofgem would then make a determination upon the terms of the Offer.
20. In some circumstances NGET may be unable to provide developers with their requested connection date. In such cases it is proposed that we will provide the earliest practicable connection date that does not place unduly burdensome costs on the management of the network, and discuss these issues and options with developers and Ofgem.
21. The CION process would be followed post offer signature to further develop the connection design with the developer as more information becomes available. This may drive the need for Modification Notices and contract changes⁷ as the design is optimised.
22. Finally, it is proposed that this interim process would be implemented 4 weeks after the close of this open letter consultation for all new applications and, subject to the agreement of relevant developers, some live connection applications/agreements depending upon the stage of the project and the benefits for both parties. Following consideration of the views of respondents, the final version will be published on National Grid's website.

⁷ i.e. changes to works within Appendix H of the Construction Agreement.

Next steps

23. We would appreciate any comments you may have on the proposed interim process described in this letter. In particular, we would welcome your views on the following questions:
- a. Are the proposed principles for the interim process for interconnection to the NETS appropriate and complete?
 - b. Are the criteria listed for determining economic and efficient appropriate and complete (Diagram 1)?
 - c. Is the CION approach to optioneering the connection point appropriate?
24. Please could you provide any responses to Jackie Mesnard at Jackie.mesnard@nationalgrid.com by 5pm on 9th January 2014.
25. If you wish to discuss any aspect of this document, please do not hesitate to contact Jackie Mesnard on Jackie.mesnard@nationalgrid.com.

Yours sincerely,

Matt Golding
Head of Commercial Frameworks – Electricity