

The paper has been written by the Common Weal Energy Policy Working Group which consists of professionals across many disciplines.

We are happy that this response is published in full.

Introduction

Common Weal Energy Group is disturbed that the proposal to extend the Interconnector Cap and Floor approach, which is being consulted upon in all 4 Workstreams, has effectively been predetermined by the UK Government's BEIS White Paper which commits to expand capacity to 18GW by 2030. Moreover we feel that the independent publicly funded research by AFRY which effectively says that the cost benefit analysis case has not been made has in effect been ignored. This research says that consumer prices in the UK for electricity will be higher post 2030 than otherwise, as a significant portion of UK electricity will be exported to the EU provided interconnectors are built according to the model.

We are equally concerned that the long promised review of the transmission charging regime has been significantly delayed and that as a result the auction of Scottish Offshore wind which will provide a major portion of the 40GW to be built by 2030 has been also delayed. When combined with the possible conflict for access to limited cable laying vessels this puts the target for offshore renewables in jeopardy should further interconnectors be built.

Finally we are concerned that the proposal to build more interconnectors effectively underplays the alternative technologies such as battery, hydrogen and other storage devices which could more effectively balance supply and demand across the grid. Whilst existing interconnectors have helped secure supply over the past years and helped keep electricity prices low, the analysis across the EU is that the main emphasis must be to decarbonise each country as fast as possible. Given the exit of the UK from the EU and the likely divergence of regulatory regimes, the viability of further interconnectors must be questioned.

We will respond to Workstreams 3 and 4 over the next week.

Workstream 1

Question 1: Do you agree with the approach we have taken to workstream 1?

Given the decision in the BEIS White Paper to expand interconnector capacity to 18GW by 2030 we are happy that the review was conducted so that all considerations can be taken account of.

Question 2: Do you think we have missed any important strengths, weaknesses, opportunities or threats when critically assessing the cap and floor regime?

The threats do seem formidable particularly the changing regulatory conditions brought about by Brexit and the increased risk of floor payments to consumers bills. As AFRY state "All of these connections have a negative impact on GB consumers (except for the connections to the Irish Single Energy Market in the High scenario) due to the high share of exports from GB on all links" and "None of the connections have a significantly positive impact on GB overall. The Irish projects are particularly negative, while the continental links show either marginal negative or positive effects." moreover "interconnectors commissioned later in the period perform best in this analysis". We do not believe these factors have been significantly taken into account and that delaying any new interconnector commissioning process until at least the regulatory framework is clear will benefit the UK consumer.

Question 3: Do you agree with our conclusion that the cap and floor regime has met its objectives to date? Is there any other information you think we should take into consideration in our analysis?

Given the main objective was to keep the lights on and potentially reduce bills to consumers and help decarbonisation, the limited amount of interconnector capacity actually deployed has met these tasks. We are concerned about the future role that interconnectors may play in disincentivising

investment in storage capacity and hydrogen and indeed in diverting resources such as cable laying vessels from meeting the 2030 target for offshore wind of 40GW.

Question 4: Do you agree that the principles of the cap and floor regime remain fit for purpose and suitable to potentially incentivise further GB interconnection?

Given the AFRY cost benefit figures show a negative cost to consumers from the yet to be built interconnectors, we fail to understand how OFGEM can say with any certainty that the regime is fit for purpose. The “cannibalisation on other interconnectors’ revenues and reduced generator profit as a result of new interconnectors marginalising wholesale price differentials” will only intensify as other countries seek to decarbonise.

Question 5: Do you agree with our initial proposals with respect to potential changes to the assessment framework of the cap and floor regime?

Specifically:

a) To consider a more coordinated and system-wide approach to application windows, potentially informed by a more proactive role for NGESO. Do you have any views on the options presented for our approach to potential future application windows?

A more prominent or proactive role for NGESO is essential to identify where and if interconnectors are required. We would hope that such conversations between Ofgem and NGESO are ongoing. Indeed it would be strange if OFGEM would seek to continue to regulate the location and capacity of interconnectors without central involvement of NGESO and the other system operators. This would most closely match Option 3.

b) To review our eligibility criteria for any potential future regime, and to explore the potential to raise the maturity threshold for applicants.

No opinion.

c) To consider changes to the current incentives mechanisms to help ensure timely delivery of projects. Do you have any suggestions for modifications or alternatives?

No opinion.

Question 6: Do you agree with our initial proposals with respect to potential improvement to parts of the technical design of the cap and floor regime?

No opinion

Question 7: Do you have any suggestions for ways in which any potential future regime could work better for a broad range of developers?

No opinion

Question 8: Are there any other potential regime improvements that we should we should explore that are not considered in this section?

No opinion

Question 9: Do you agree with our conclusions?

Not sure what conclusions can be drawn given the small number of interconnectors built under cap and floor to date. All that can be said is that the lights have been kept on, decarbonisation has moved forward and costs are relatively low. No damage done. Whether this continues is uncertain and has not been demonstrated particularly given the regulatory uncertainty following Brexit.

Question 10: Do you agree with our conclusions? If not, please concisely explain why and provide supporting information if available.

Given the Government's commitment to extend interconnectors to 18GW it would be surprising if Ofgem found the cap and floor regime to be unfit for purpose even although there are significant potential costs to UK consumers and potential conflicts with other decarbonisation projects. We reiterate that delaying the process of new auctions until more of the existing approved interconnectors are built and the intergovernment regulatory framework is clearer as outlined by AFRY is essential.

Question 11: Do you agree with our initial proposals? If not, please concisely explain why and provide supporting information if available.

Given the above foregone conclusions the proposals seem sensible. We would hope that the role of capacity markets and backup storage and also clarity on the regulatory framework will be included in the decision as to when to invite tenders for any future interconnectors.