

Andrew Bullimore
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Tuesday, 27th July 2021

Dear Andrew,

RE: Ofgem’s consultation on the conclusions and proposals arising from workstream 3 of its interconnector policy review.

ElecLink welcomes the opportunity to respond to this public consultation regarding Working Paper 3 “wider impacts of interconnection” of Ofgem’s ongoing interconnector policy review.

This response is provided on behalf of ElecLink Limited (“ElecLink”). ElecLink is constructing a 1000MW HVDC electricity interconnector between Great Britain and France. The interconnector is expected to start commercial operations by August 2022.

This letter constitutes a response to consultation questions 7 and 8 only, namely:

Question 7: Do you agree with our initial conclusions? If not, please concisely explain why and provide supporting information if available; and

Question 8: Do you agree with our initial proposals? If not, please concisely explain why and provide supporting information if available.

1. Summary

In summary, ElecLink agrees with the wider impact categories identified by Ofgem and considers that they effectively capture the key wider benefits brought by interconnectors in Great Britain (“GB”). ElecLink also supports in principle Ofgem’s intention to incorporate these impacts into future needs case assessments. However, ElecLink urges Ofgem to ensure that any assessment methodology designed to capture these wider benefits ensures an objective, fair and consistent assessment of the relative costs and benefits offered by the range of interconnector projects under consideration. Similarly, ElecLink invites Ofgem to commit to providing more detail on two key aspects of its minded-to proposals, namely:

- (1) how, specifically, these future wider impacts will be taken into account and integrated into future needs case assessments, and

- (2) the nature and extent of the enhanced role for ESO and interconnector developers in future assessments.

Moreover, ElecLink asks Ofgem to commit to ensuring that these detailed positions are also subject to further detailed industry consultation ahead of their introduction. Each of these positions is set out in further detail below.

2. Methodology: objectivity, fairness and consistency

The nature of interconnection is such that all proposed new interconnectors will likely be able to point to some form of beneficial wider impact, whether that be decarbonisation, security of supply, flexibility or system operability. In contrast, as noted in Working Paper 2,¹ it appears that the net socio-economic welfare impact of additional GB interconnectors will be more nuanced, with new GB interconnectors seeking regulatory approval likely to have a negative socio-economic impact on GB consumers over their operational lifecycle. As such, in considering these additional interconnectors ElecLink considers that it will be necessary for Ofgem to weigh up their competing costs and benefits for GB consumers, to an extent that has not been required in the past. In this context, it is vital that the analytical framework developed for performing this assessment – including the assessment of those wider impacts considered in Working Paper 3 - is objective, consistent and transparent, enabling an assessment of the relative impacts of new interconnectors that is impartial and easily comparable. Without a clear, transparent and objective methodology that can be applied consistently across multiple interconnectors, it is difficult to see how it would be possible for Ofgem to compare the relative costs and benefits of different interconnectors to a standard of confidence that reflects the significance of new interconnectors for GB consumers and for the GB energy system more widely.

Similarly, we note a number of commitments by Ofgem in Working Paper 3 to consider further the most appropriate way of incorporating an analysis of the identified wider benefit categories into future cap and floor needs case assessments.² We support this in principle, but note that there remains significant uncertainty over the specific methodology that this will entail. If Ofgem's intention is to quantify the wider impacts identified, the precise method of quantification will have a significant bearing on how beneficial (or detrimental) each wider impact category is deemed to be for each interconnector assessed. This includes the choice of model, scenarios to be relied on, and the assumptions and other input data selected. If one or more of these wider impact categories is expected to be subject to a more detailed qualitative assessment, detail is similarly required on what the likely criteria for this will be and how they will be applied. More generally, detail is needed on the relative weight that will be given to each wider impact category in considering whether to grant regulatory approval to a prospective interconnector – i.e. how significant a project's costs and benefits in each category will be treated, both in relation to the other wider impact categories and in relation to the project's socio-economic welfare. It will only be possible for ElecLink and other stakeholders to fully understand the likely consequences of these minded-to proposals once Ofgem has provided this

¹ Interconnector policy review: Working Paper 2 – Socio-economic modelling: www.ofgem.gov.uk/sites/default/files/2021-06/interconnector_policy_review_-_ws2_working_paper.pdf

² Interconnector policy review: Working Paper 3 – Wider impacts: <https://www.ofgem.gov.uk/sites/default/files/2021-06/WS3%20working%20paper%20-%20for%20publication.pdf>

additional detail and confirmed how its assessment of these wider impacts will be integrated into future needs case assessments in a way that is objective, consistent and fair.

3. A greater role for the ESO and project developers

Similarly, further detail is needed to understand the potential enhanced role of the ESO in future needs case assessments, including in relation to the consideration of new interconnectors' wider impacts. We note Ofgem's minded-to proposal in Working Paper 3 to consider incorporating additional ESO analysis into future needs case assessments, primarily with a view to more effectively capturing the potential system operability impacts of new interconnectors. ElecLink agrees in principle that the minded-to proposal may be beneficial in developing a more sophisticated and complete understanding of the impact of new interconnectors on the operation of the wider energy system, but further detail on the practical application of this principle in Ofgem's assessment process is necessary in order for ElecLink to reach a full view as to the likely impact of this change.

We further note the potential for a greater onus on interconnector developers themselves in demonstrating the wider impacts of their own interconnector projects. It is inevitable and indeed desirable that project developers should have a role in the regulatory assessment of their projects. However, it is important for any analysis underpinning Ofgem's decisions to be impartial and robust. As noted above, and as Ofgem will be aware, the design of a modelling exercise and choice of modelling assumptions will have a significant impact on the output of the analysis. Should Ofgem decide to entrust these decisions to the developers of each project to be assessed, who have a direct commercial interest in its outcome, the associated analysis will almost inevitably present their respective projects in the best possible light, rather than prioritising the objectivity and robustness of the analysis. Moreover, having multiple developers undertake different sets of analysis would likely also make it more difficult to objectively compare the purported benefits and costs of each project, something which is significantly simpler with a single, coherent, consistent set of modelling assumptions and inputs.

In our view, the most reliable way of ensuring that an assessment of an interconnector's wider impacts is robust and impartial is for it to be designed and delivered by an independent, objective third party, with Ofgem seemingly best placed to continue to fulfil this role. Industry input in the design of such modelling exercises is clearly crucial, but ultimate responsibility for devising and undertaking the analysis should not sit with the party which stands to benefit from a positive outcome in the associated decision-making process. If Ofgem decides that interconnector developers themselves should be responsible for demonstrating the benefits of their respective projects, we would urge Ofgem to establish strict and detailed guidance for how developers should approach this modelling in order to minimise the discrepancies between the approach taken by different projects and to enable, insofar as possible, an effective comparative analysis.

4. The need for further consultation

The implementation of these minded-to proposals would constitute a significant shift in the cap and floor assessment process, with significant indirect implications for existing interconnectors, GB consumers and the wider GB energy system. ElecLink is broadly supportive of the general principles emerging from Working Paper 3. However, the extent of the impact of these minded-to proposals will only become known when the detail of the wider assessment methodology envisaged by Ofgem has

been clarified. As such, further industry engagement and consultation over the detailed implementation of these proposals is essential. We are aware that Working Paper 3 primarily represents a set of relatively high-level minded-to proposals and thus some of the detail requested in this response may not yet be available. To the extent that this is the case, we emphasise the need for continued engagement with interested stakeholders, including ElecLink, as Ofgem develops the detail required for us to be able to comment in full, as necessary.

We are happy to engage with Ofgem and other stakeholders in order to clarify or elaborate on any of the points raised as may be required. If you have any queries regarding this response, please contact the ElecLink Regulation team – regulation@eleclink.co.uk.

Yours sincerely,

Steve Coomber

Commercial & Regulation Director