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## **National Grid ESO response to Interconnector Policy Review: Workstream 1 and Workstream 2**

Dear Andrew,

We welcome the opportunity to respond to the Interconnector Policy Review Working Paper for Workstream 1 – review of the cap and floor regime and the Working Paper for Workstream 2 – socio-economic modelling. We note that, more recently, Ofgem have published related consultations on Workstream 3 – wider impacts of interconnection and Workstream 4 – multiple purpose interconnectors to which we will respond separately in due course.

National Grid ESO (ESO) is the electricity system operator for Great Britain. We move electricity around the country second by second to ensure that the right amount of electricity is available where it's needed, when it's needed, always keeping supply and demand in perfect balance. Interconnector enabled cross border flows play an important role in the GB energy mix, and it is therefore key that the regulatory regime for interconnectors is fit for purpose.

These consultations raise some specific issues relating to interconnector regulation, and we have responded to these within Appendices 1 and 2 of this letter focusing on the areas of greatest relevance to ESO. However, there are also some broader points raised by Ofgem across the consultations concerning the role of the ESO, which are addressed in this covering letter

A potentially expanded role for ESO relating to cap and floor application windows is considered in Workstream 1. We agree that a more coordinated and system wide approach to cap and floor application windows could be preferable in the future (which may include a wider role for ESO to help identify the location and/or capacity requirements of new projects). This would be a change in the role and responsibilities of the ESO with respect to GB interconnection. Whilst there are potential benefits to this option, there are also some potential risks, uncertainties and challenges which would need to be explored further. In relation to Workstream 2, we also note and support discussions with Ofgem around the development of ways in which ESO analysis on system operability can be enhanced to support any potential future regulatory regime for interconnectors.

We note that the roles performed by the ESO are also currently being explored across multiple reviews by Ofgem and / or BEIS including the Offshore Transmission Network Review, Electricity Transmission Network Planning Review, System Operator Review and Early Competition Review. We encourage Ofgem and BEIS to think holistically across these reviews to ensure consistent and strategic outcomes are delivered.

We hope that our response is of use to Ofgem and we would welcome further discussion. Should you require further information or clarity on any of the points outlined in this paper then please contact Adelle Wainwright in the first instance at [adelle.wainwright@nationalgrideso.com](mailto:adelle.wainwright@nationalgrideso.com).

Yours sincerely,

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**Matthew Wright**

Head of Strategy and Regulation

## **Appendix 1. Interconnector policy review – Working Paper 1 – review of the cap and floor regime**

### **Approach to Workstream 1**

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

We agree with the broad approach Ofgem have taken to workstream 1, whereby Ofgem have undertaken stakeholder engagement alongside conducting qualitative and quantitative analysis.

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

We do not believe Ofgem have missed any high level important strengths, weaknesses, opportunities, or threats when assessing the cap and floor regime.

### **Impact of the cap and floor regime**

**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?**

We agree with Ofgem's conclusion that the cap and floor regime has met its objectives to date, insofar as it has provided a stable framework for investment, attracting a significant amount of new interconnection to GB.

**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?**

We agree that, at a high level, the principles of the cap and floor regime remain fit for purpose and suitable to potentially incentivise further GB interconnection.

### **Potential regime improvements and alternatives**

**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 NGENSO. Do you have any views on the options presented for our approach to potential future application windows?
- b) To review our eligibility criteria for any potential future regime, and to explore the potential to raise the maturity threshold for applicants.
- 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?

Our response to this question relates to a) and we do not have any specific comments on b) and c).

We agree that a more coordinated and system wide approach to cap and floor application windows could be preferable in the future (which may include a wider role for ESO to help identify the location and/or capacity requirements of new projects). This would be a change in the role and responsibilities of the ESO with respect to GB interconnection. Whilst there are potential benefits to this option, there are also some potential risks, uncertainties and challenges which would need to be explored further.

In relation to Workstream 2, we also note and support discussions with Ofgem around the development of ways in which ESO analysis on system operability can be enhanced to support any potential future regulatory regime for interconnectors.

We note that the roles performed by the ESO are also currently being explored across multiple reviews by Ofgem and / or BEIS including the Offshore Transmission Network Review, Electricity Transmission Network Planning Review, System Operator Review and Early Competition Review. We encourage Ofgem and BEIS to think holistically across these reviews to ensure consistent and strategic outcomes are delivered.

**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?**

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

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

We do not have any comments on questions 6-8.

## **Conclusions and recommendations**

**Question 9: Do you agree with our conclusions? If not, please concisely explain why and provide supporting information if available.**

We agree with Ofgem's conclusions as set out in this consultation.

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

We agree with the proposal that the principles of the cap and floor are fit for purpose and suitable to incentivise further GB interconnection. We also support the principle that future regime design works for all market participants equally.

We agree that a more coordinated and system-wide approach to application windows could be preferable in the future and would welcome further discussion and clarity on any potential change(s) to the role of the ESO in this context. We also note and support discussions with Ofgem around the development of ways in which ESO analysis on system operability can be enhanced and better support any potential future regulatory regime for interconnectors.

We have no specific comments on the eligibility criteria or the timing of key regime deadlines. Nor do we have any comment on the methodologies to calculate cap and floor rates.

We have no specific comments on Ofgem enhancing engagement with connecting NRAs, although at a principle level, robust engagement with connecting NRAs appears to be pragmatic. We also note that interconnector connections are developed in close cooperation with the remote end TSOs and therefore any engagement on potential changes to the role of ESO should recognise this key interaction.

**Question 11: Do you have any further feedback on our analysis, conclusions or proposals presented in this consultation document?**

We have no further feedback on the analysis, conclusions or proposals presented in this consultation document. We are, however, happy to discuss any of the comments made in this response with Ofgem should that be helpful.

## **Appendix 2. Interconnector policy review: Working paper for Workstream 2 – socio-economic modelling**

### **Workstream 2 Analysis**

#### **Question 1: Do you agree with the approach we have taken to workstream 2?**

We agree with the approach Ofgem have taken to workstream 2.

#### **Question 2: What are your views on the scenarios, assumptions and methodology that AFRY has used to model notional future interconnectors and the impact of cross-border interconnector flows?**

We agree with the approach AFRY has taken. The step-wise, or iterative approach, focusing on socio-economic welfare benefits of generic interconnector options to a wide range of potential connecting countries provides a valuable indicator of where and how much additional interconnection may connect. We believe the scenarios used provide a useful indication of the plausible range of interconnection that might be constructed given the considerable uncertainty regarding the energy landscape for GB and mainland Europe in the future.

#### **Question 3: Do you agree with our view on the results of AFRY's modelling? Do you agree that this modelling supports the needs case for further interconnection?**

We agree that the modelling shows that additional interconnection is beneficial from a socio-economic perspective, particularly as GB and other European countries follow a net zero pathway for emissions. We note that the results are generally in line with our NOA for Interconnectors analysis, which uses a similar, but different iterative approach to assessing the optimal level of GB interconnection.

#### **Question 4: Is there any further information or additional studies that you think should be factored into our analysis?**

We agree that balancing or ancillary services provided by interconnectors is an area that may provide additional socio-economic value. On the other hand, in certain circumstances, interconnectors may increase system operability costs (or introduce additional system operability issues). In some instances, the most efficient way to manage such operational issues is to procure ancillary services from the interconnector and it is important that the complete economics of this scenario is factored into the overall benefit analysis. We also agree this is a technically complex and challenging area for modelling, where the quantification of ancillary services provided over the lifetime of an interconnector is difficult, due to the considerable uncertainty of a range of factors, including but not limited to ensuring all relevant costs are factored into the assessment.

As noted in Working Paper 1 – Review of the cap and floor regime, we agree that a more coordinated and system wide approach to cap and floor application windows could be preferable in the future (which may include a wider role for ESO to help identify the location and/or capacity requirements of new projects). This would be a change in the role and responsibilities of the ESO with respect to GB interconnection. Whilst there are potential benefits to this option, there are also some potential risks, uncertainties and challenges which would need to be explored further.

As noted in Working Paper 3 - Wider Impacts, we also agree that there are a range of other potential benefits that interconnectors can bring, including increased flexibility, enhanced security of supply and the ability to impact levels of decarbonisation. We agree that any future socio-economic modelling should continue to be developed and expanded to include the quantification of wider impacts to ensure it remains robust and effective.

Also, as noted in Working Paper 4 – Multiple Purpose Interconnectors, the interconnector landscape is evolving rapidly, with multi-purpose interconnectors (MPIs) now being considered alongside point to point interconnection. We agree that a more coordinated approach to identifying new interconnector projects may be beneficial, but to achieve this will require a significant increase in robust and comprehensive socio-economic modelling that covers all relevant potential costs and benefits.

## **Conclusions and initial proposals**

**Question 5: Do you agree with our conclusions? If not please explain why and provide supporting information if available.**

We agree with the conclusions and initial proposals of workstream 2, in particular:

- There is a need for further GB interconnection
- Socio-economic modelling should continue to form an integral part of any needs case assessment
- Future modelling must consider a realistic and robust set of credible scenarios
- Future socio-economic modelling should consider as wide a range of potential impacts as possible
- MPIs should be considered alongside point to point interconnection

## **Other**

**Question 6: Do you have any further feedback on the work presented in this consultation document?**

We look forward to working with Ofgem and other interested stakeholders to ensure that future socio-economic modelling of interconnection is of the very highest quality and is fit for purpose. We are happy to discuss any of the comments made here if that would be of benefit.