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Dear Andrew,

Interconnector policy review: Working Paper 2 – Socio-economic modelling

National Grid Ventures (NGV) welcomes the opportunity to respond to this Working Paper. NGV is a 50% shareholder in Nemo Link Limited, the first interconnector to operate under the cap and floor arrangements; as well as 50% owner in IFA2, which has been operational since early 2021 and also benefits from the cap and floor arrangements. NGV is also 50% owner of two further cap and floor interconnectors; NSL which is due to go live later this year, and Viking Link which is due to go live at the end of 2023.

NGV has responded to each of the questions asked by Ofgem in the Working Paper.

Section 2

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

NGV generally agrees with the approach taken by Ofgem, subject to the more detailed comments in the following responses.

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?

NGV provided detailed comments to Ofgem on the AFRY report in May 2021, and consider that these comments are still valid (attached as an Annex to this response). In addition, NGV would like to make the following comments:

- The SEW for GB consumers being net-negative indicates that GB is mostly exporting energy to NWE and ISEM. From the average power prices shown in Figure 2, we can conclude that the links to NWE exclude France and Norway as prices are lower than GB on average. Increased interconnection to Norway is likely to have net-positive impact on GB consumers as NO2 and NO5 prices are consistently lower than GB's. Since no SEW analysis was done to interconnection with the Nordic markets, the SEW results are being skewed by the IRR approach to select notional interconnectors. It seems that the IRR approach is quite sensitive to the interconnector construction costs, since longer interconnectors seem to be excluded.
- The methodology to select notional interconnectors seems heavily reliant on construction cost assumptions and the 7% IRR figure. It also excludes additional sources of revenue (capacity market and ancillary services revenue), which can be a significant part of total interconnector revenues. Moreover, interconnector de-rating factors vary by country connected. Interconnectors to Norway and France tend to have higher de-rating factors than interconnectors to Belgium or Netherlands. The impact of excluding capacity market revenue is not the same for all borders. Our recommendation is to include these sources of revenue in the selection of notional interconnectors or to lower the IRR threshold to account for the missing revenue.
- AFRY developed a step-wise methodology to determine the saturation point by setting an IRR value equal to 7% as the key benchmark for new projects to materialise. Instead of IRRs, the step-wise approach should focus on maximising the SEW by identifying through the same methodology new projects which have the potential to reduce the cost to customer

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?

NGV agrees that the modelling supports the needs case for future interconnection. NGV also agrees with Ofgem's view on the results of AFRY's modelling, and that the assumptions used, and the limitations of the modelling, underplay the need for future interconnection.

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

NGV thinks that Ofgem has considered the appropriate information in the working paper.

Section 3

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

NGV generally agrees with the conclusions and initial proposals made by Ofgem, with the following comments:

- We recommend that the traditional socio-economic modelling of the benefits of interconnectors be complemented with additional assessments to take into account the wider impact of interconnector as set out in workstream 3.
- We agree with Ofgem that there are shortcomings in the modelling caused by the assumptions used, and the sensitivity of the modelling to small changes. Therefore, the results underplay the benefits of interconnectors, and caution should be exercised when concluding that (for example) floor payments may be required to support additional interconnectors.

Other

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

NGV has no further feedback at this time.

NGV is happy to discuss any aspect of this response in more detail with Ofgem. Please do not hesitate to contact me if you wish to do so.

Yours sincerely

John Greasley

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