



John Greasley
Regulation and Stakeholder Manager
National Grid Ventures
35 Homer Road
Solihull
B91 3QJ
John.greasley@nationalgrid.com
07836 357137

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

28 July 2021

Dear Andrew,

Interconnector policy review: Working Paper 3 – Wider Impacts

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 is broadly supportive of Ofgem's position set out in this working paper, and welcomes the recognition of the wider impact of interconnectors. We note that in July 2021 Ofgem and BEIS jointly published the Smart Systems and Flexibility Plan 2021 (SSFP2)¹ which considered, amongst other things, the contribution that interconnectors can make to our future energy system. NGV is very encouraged by the content of both the WS3 working paper and SSFP2, and look forward to working with Ofgem, the government and other stakeholders to ensure that the full benefits of an interconnected system can be realised and that any existing barriers can be removed to ensure that economic and environmental benefits flow through to consumers.

We have responded to each of the questions in the Working Paper below.

1

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1003778/smart-systems-and-flexibility-plan-2021.pdf

Section 2

Question 1: Do you agree with the approach we have taken to workstream 3?

Yes, we agree

Section 3

Question 2: Do you agree with the potential wider impact categories we have focussed on? Are there any other areas we should consider?

Yes – we are pleased that Ofgem has included security of supply as a separate category. Closely linked to security of supply, we recommend that Ofgem considers the resilience that is provided by HVDC systems in the wider impact categories.

Question 3: Do you think the discussion presented in this document adequately represents the potential impact of interconnection within each category? If not, please explain and provide supporting evidence if possible.

&

Question 4: Do you agree with our initial views with respect to each potential wider impact category? If not, please explain why.

In response to both questions 4 and 5 we consider each of the categories below:

Decarbonisation

We agree with Ofgem that interconnectors are expected to contribute significantly to the decarbonisation of the EU and UK electricity networks. Analysis has shown how interconnectors reduce the need for unnecessary curtailment of renewables.

We agree that further consideration should be given to how decarbonisation benefits can feed into future needs case assessments. A simple assessment based on the current and future carbon intensity of the connecting country's electricity network may be all that is required.

Flexibility

We agree with Ofgem that interconnectors are likely to have a positive contribution to flexibility. HVDC interconnector assets are extremely flexible, and when combined with the right commercial arrangements can provide very valuable services. We agree with Ofgem that the benefits of flexibility are inter-linked with other benefits (particularly system operability) and any consideration of the benefits should avoid double-counting.

We welcome, and agree with, the content of the SSFP2 in this regard, in particular how interconnectors support the integration of low-carbon generation sources

System Operability

Similar to flexibility above, we consider that interconnectors can play a positive role in relation to system operability. Generally, we consider there is more scope for interconnectors to positively contribute to system operability issues than is currently being exploited. However, we routinely observe the curtailment of interconnectors by NGENSO in order to manage system operability issues.

In our view this is a blunt tool and erodes end consumer benefit. We consider that much of this is driven by legacy arrangements developed for large fossil-fuelled that are no longer fit for purpose, and we welcome the various commitments to remove any barriers that restrict interconnectors' flexibility.

In particular, we consider that, as the volume of interconnectors increases, further work could be done to introduce market-based mechanisms to facilitate the increased use of interconnectors for system operability purposes. We welcome the opportunity to work with ESO via the System Operability Framework to develop services that are in the best interests of consumers.

We note Ofgem's comment that interconnectors are often the largest loss on the system and the interaction with RoCoF, and this is often the reason given for curtailment. We note that new provisions are about to be introduced in this area for compensation when interconnectors are curtailed. Whilst we welcome these developments we consider that the end goal should be that market based mechanisms are in place that allow the ESO to take actions without impacting on the efficient functioning of the market. We also note Ofgem's comments that interconnectors are often the largest loss on the system – clearly once Hinkley Point C is commissioned, this will no longer be the case.

In respect of black start, we are pleased that our new interconnectors have successfully secured contracts from NGEN in recent contracting rounds.

Generally, we welcome the opportunity to work with NGEN and other key stakeholders to position interconnectors as 'part of the solution and not part of the problem' and discuss any service that interconnectors can provide which would assist system operability issues, drive value for the end consumer and contribute positively to net zero.

Generally we consider that a review of system operation and resilience based on the generation mix, including HVDC interconnection should be undertaken.

Security of Supply

We agree with Ofgem that interconnectors are likely to have impact on security of supply in GB. Analysis has shown² that at times of GB system stress, it is more or less certain that GB electricity prices will be higher than our neighbouring countries, and therefore with the right commercial mechanisms, interconnectors will import and assist with the resolution of the stress event.

We note Ofgem's comments relating to the participation in the GB capacity market. We continue to believe that the de-rating methodology employed by the delivery body undervalues the contribution of interconnectors to security of supply and only serves to increase costs to the GB consumer.

Section 4

Question 5: Do you agree with our view on how wider impacts have been captured in past needs case assessments?

Yes

² <https://www.fticonsulting.com/insights/articles/contribution-electricity-interconnectors-gb-security-supply>

Question 6: How do you think we should approach future needs case assessments within the framework presented in this working paper? Are there any other options we should consider?

NGV considers that a key principle of the existing cap and floor process is that it is developer led. Developers have been responsible for demonstrating the benefits of their projects in order to receive a cap and floor in principle and then to demonstrate and justify the total costs of the project. At all stages of this process information is shared with Ofgem who probes and challenges to satisfy itself that there is benefit to GB consumers and that costs are being efficiently incurred. We would recommend alignment with the ENTSO-e CBA Methodology as a way forward in this area.

NGV considers that this developer-led process should continue. Within NGV, and we expect within other interconnector developers' organisations, there will be an internal governance process proceeding in parallel with the regulatory process. This internal process should be complementary to the regulatory process, and a developer-led approach with challenge from Ofgem, in our opinion, ensures that the most efficient costs of development, construction and operation of an interconnector are discovered.

Section 5

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

Yes.

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

Yes.

Other

Question 9: Do you have any further feedback on our analysis, conclusions or proposals presented in this consultation document?

No.

NGV is happy to discuss any aspect of this response in more detail with Ofgem. Please contact me if you wish to do so.

Yours sincerely

John Greasley

Regulation and Stakeholder Manager, National Grid Ventures