



Andrew Bullimore
Ofgem

Email: Cap.Floor@ofgem.gov.uk

Contact	Raoul Thulin
Phone	07795 354334
Email	raoul.thulin@rwe.com

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Dear Andrew,

Interconnector policy review: Working paper for Workstream 2 – socio-economic modelling, Working Paper 3 – Wider impacts

We welcome the opportunity to respond to Ofgem's Interconnector Policy Review. This response is provided on behalf of RWE Generation UK plc and RWE Renewables in the UK. Our comments are primarily related to Working Papers 2, 3, and 4 but we have also made some more general points related to the wider review.

Our broad comments are set out below in bullet-point form:

- Ofgem should only commit GB consumer's money to support projects which are clearly beneficial for both GB consumers and for GB net welfare. Projects that are overall beneficial across the multiple markets they connect, but which are not demonstrably and robustly in the interests of GB consumers or the GB economy should not be underwritten by GB consumers.
- Market support mechanisms to interconnectors in the form of Cap & Floor and other regulatory dispensations potentially distort GB energy markets and create perverse investment incentives.
- Ofgem's review should take into account likely trading inefficiencies as a result of the UK's exit from the EU.
- The assessment criteria need to clearly differentiate between real socio-economic benefits and those that result from different policy or regulatory frameworks. In particular, distortions due to different carbon pricing and network charges need to be properly accounted for in the economic assessment.
- Projects subject to market support through Cap & Floor should not also compete directly in competitive energy markets, in the same way that renewables and nuclear plant in receipt of CfD payments are not eligible for capacity payments.

RWE Supply & Trading GmbH
Swindon Branch

Windmill Hill Business Park
Whitehill Way
Swindon SN5 6PB
United Kingdom

T +44(0)1793/87 77 77
F +44(0)1793/89 25 25
I www.rwe.com

Registered No. BR 7373

VAT Registration No.
GB 524 921354

Supervisory Board:
Dr Michael Müller
(Chairman)

Board of Directors:
Andree Stracke (CEO)
Gunhild Grieve
Peter Krembel
Ulf Kerstin

Head Office:
Essen, Germany
Registered at:
Local District Court, Essen
Registered No.
HR B 14327

Bank details:
Deutsche Bank Essen
Bank Code 360 700 50
Account No. 105 127 500
SWIFT: DEUTDEDE
IBAN: DE05 3607 0050 0105
1275 00

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WS2 – Review of the Cap & Floor Regime

The gap between the date of the report (December 2020) and its release means that some aspects of the modelling seem out of date. For example, our understanding is that BSUoS charges are likely to be removed from large generators by April 2023 and therefore that should be a base case rather than a sensitivity, and should be referenced as such in Ofgem's documents.

We are concerned that the assessment still does not properly differentiate between real socio-economic benefits and those that result from different policy or regulatory frameworks. In particular, distortions due to different carbon pricing and network charges need to be removed from the economic assessment to improve its robustness.

Previously Ofgem has justified Cap & Floor awards primarily through their net benefit to GB consumers. Ofgem needs to be consistent in its assessment. Even without allowing for the issues with carbon pricing and network charging, the AFRY modelling indicates that the point-to-point interconnectors it looked at are not in the interests of GB consumers or GB net welfare. If other benefits are assumed to be delivered, these should be properly assessed and quantified.

WS3 – Wider Impacts of Interconnection

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

In general the approach seems reasonable. However the approach is by nature qualitative, and it is important that unquantified impacts which are most likely small in comparison to total costs should not be given undue weight in Ofgem's decision-making framework. It is also inherently difficult to differentiate between justified qualitative conclusions and pure assertions.

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

The impact categories seem comprehensive.

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.

We do not agree. Our more detailed comments are set out below.

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

We agree with some of Ofgem's statements, and not with others. A key concern is that there is little consideration of the type of marginal generation producing the power that the GB market is importing.

We are concerned about the robustness of some of the evidence considered. For example, in section 3.6, Ofgem quotes an assertion that interconnectors saved 1.13MTCO₂ in 2020 "with low-carbon imported electricity displacing carbon-intensive domestic generation." The document link however seems to imply that imports are zero carbon and domestic generation is assumed to be from a CCGT. It is clear that marginal generation in non-GB markets is not zero carbon; on the contrary it is sometimes likely to be from generation including coal and lignite. We believe that a more robust analysis of the total impact on total carbon emissions should be considered.

We do not agree with the statement that interconnectors "likely have a positive impact on decarbonisation [in GB]." his statement is too broad, as in reality this will depend on the particular assumptions about decarbonisation and prices in other markets. What is clear is that assuming imports to the GB market are always zero carbon is mistaken and could lead to unintended distortions and overall higher emissions.

We do not agree that "increased interconnection is likely to have a positive impact on the system by providing some of the additional flexibility needed..." Whilst this may hold true under specific market and weather conditions, NGESO have presented evidence in their transparency seminars that interconnectors can cause increased constraints in the south of England, and may necessitate increased flexibility from the rest of the system to compensate for them. Whilst interconnectors are, on the one hand, treated as transmission (eg, subject to cap and floor support) they are also treated as capacity (eg, access to the Capacity Market). As a result they are sometimes the single largest infeed loss and therefore require the ESO to carry additional operational reserves. Ofgem's assumption that interconnectors will always be a significant source of flexibility for GB relies on the interconnected systems being willing to be accommodate that flexibility (whether for importing power, or exporting excess power) and that they are able to do so. In times of low renewables generation, this may well not be the case.

We disagree strongly with Ofgem's assertion that interconnectors "contribute to GB security of supply."

The marginal contribution of each additional interconnector reduces as the level of interconnection increases. In addition, the correlation of weather patterns which produce periods of low wind will increasingly result in low availability all across Europe at times of greatest need, which strengthens the case

for a diverse technology mix which can provide capacity and certain flexibility to the GB market as required¹.

Furthermore, in the last T-4 capacity auction, interconnectors displaced over 7GW of de-rated GB generation capacity, some of which is existing power station capacity that will be likely to close at the expense of the local employees and communities. This does not demonstrate a net benefit of interconnection for these GB communities.

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

Generally we do not agree with Ofgem’s initial conclusions. As noted above, they are based on a number of assertions rather than robust evidence. Therefore Ofgem should, in our view, perform additional analysis to address the issues we have highlighted. Indeed we believe the issues identified in the document may well overall reduce the value of interconnectors compared with the quantitative socio-economic modelling presented in WS2.

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

We do not agree with Ofgem’s initial proposals.

The work presented does not demonstrate a likely need for further point to point interconnectors. On the contrary, the evidence provided demonstrates that many interconnector projects will result in increased costs for GB consumers and has a detrimental impact on GB net welfare.

WS4 – Multi-Purpose Interconnectors (“MPIs”)

The Offshore Transmission Network Review (“OTNR”) is seeking to incentivise coordination and integration of offshore and onshore transmission networks. BEIS and Ofgem have set out that this should commence in the 2020s and increase beyond 2030².

Given the efficiencies in terms of reduced offshore transmission infrastructure that could be delivered by integration³ it is logical to assume that successful delivery of both 40GW offshore wind and 18GW of interconnection by

¹ See for example Assessing the value of interconnection to the GB power system, LCP, 2018

² [Consultation on changes intended to bring about greater coordination in the development of offshore energy networks | Ofgem](#)

³ [Offshore Coordination Project | National Grid ESO](#)

2030 would therefore benefit from some coordination and integration of off-shore grid.

The work done by Afry and Ofgem in the other workstreams of the Interconnector Policy Review does not explicitly consider MPIs, though, which further points to a need to improve the robustness of the case that has been set out by Ofgem for further interconnection.

A key challenge for realising MPIs in the 2020s is the lack of a stable regulatory and market framework for this type of arrangement across markets. This is a crucial challenge to solve in order to enable MPIs.

RWE will engage further regarding MPIs via the OTNR.

Yours sincerely,

Raoul Thulin

Head of UK Markets and Performance Improvement

RWE Supply & Trading GmbH