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**Response to: Interconnector policy review**  
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## Uniper

Uniper is an international energy company with around 12,000 employees in more than 40 countries. The company is headquartered in Düsseldorf. In the UK, Uniper operates a flexible generation portfolio of seven power stations capable of powering around six million homes, and a fast-cycle gas storage facility.

### Consultation Response: Interconnector policy review

Uniper welcomes Ofgem's Interconnector policy review and the consultation on the four working papers published as part of the review process. Uniper has a global and pan-European energy trading activity which trades across interconnectors. Interconnectors can be beneficial for supporting liquidity in energy markets if coupled with efficient cross border trading arrangements. However, if interconnection is invested in inefficiently then customers can be left paying for significant additional costs for little or no benefit. Therefore it is important that assessment and support for new interconnection, such as through protective cap and floor arrangements underwritten by GB consumers, takes into account all relevant factors.

We note that Capacity Market provisions are outside the scope of the review. Nonetheless, Capacity Market participation by interconnectors represents a distortion in the market whereby interconnectors are regarded as pseudo generation assets for Capacity Market revenues but are not subject to the same costs as other generators, such as TNUoS or carbon price support, because they are legally categorised as transmission assets. Additionally, the cap and floor mechanism appears to shield interconnector capacity providers to some extent from the full effects of the Capacity Market penalty regime as revenues cannot go below the floor level. This is something that is not available to other capacity providers. This should not be disregarded when assessing the need for interconnector capacity. Similarly, if interconnectors are to compete with competitive market participants in the provision of balancing and ancillary services, they should be subject to the same obligations such as the payment of similar transmission charges.

We have responded to some but not all of the questions in the consultation.

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

### **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?**

The methodology excludes interconnector revenues from both capacity payments and payments received for the provision of ancillary services. As both are material then it is difficult to draw conclusions about IRR or Cap and Floor levels with any degree of certainty.

### **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?**

Ofgem’s view on the modelling is that it supports the needs case for further interconnection, whilst noting a likely shift of benefits between consumers, producers and the connected countries. The AFRY report notes that GB consumers are negatively impacted in all scenarios and that none of the connections has a significantly positive impact on GB overall. In the absence of further evidence the case for increased interconnector capacity remains ambiguous.

It is suggested in Working Paper 2 that interconnectors will switch from operating as net importers of energy to net exporters. The net zero scenario described in the paper suggests the opposite. It would be useful for Ofgem to further explore this balance.

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

Ofgem concludes that there is “likely a need for further GB interconnection” and recognise “that the allocation of benefits from the modelling suggests a negative impact on GB consumers”. It would be appropriate for Ofgem to understand and set out clearly the allocation of benefits between stakeholders as part of the assessment for any future interconnector proposals.

## **Interconnector policy review: Working Paper 3 – Wider impacts**

### **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**

With respect to decarbonisation, while more interconnectors can reduce renewable curtailment and thus reduce carbon emissions, the discussion and analysis should consider that interconnectors may simply transfer carbon emissions from one country to another by shifting thermal generation.

The contribution of interconnectors to system flexibility is more nuanced than the discussion presented in the WS3 paper. Interconnectors only allow for the rapid response to changes in market signals if there are generating assets on the other side of the interconnector. The majority of renewable curtailment is due to internal transmission constraints, and any benefit due to interconnectors would be heavily dependent on location.



The system operability discussion in paper WS3 captures the pertinent issues. Interconnectors can make some contribution to frequency response, reserve and reactive response providing that capable generating assets are available on the other side of the link. However the location of an interconnector and largest loss on the system have far more impact on system operability than provision of ancillary services. There is little point in interconnectors shifting a lot of the generation to the other side of the link if the ESO has to buy-them-back and activate GB thermal plant in the Balancing Market to provide system operability. This is likely to result in additional costs for GB consumers.

The WS3 paper captures stakeholder views on both the positive and negative impacts which interconnectors have on security of supply.

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

It is likely that interconnectors have a positive impact on decarbonisation, albeit that the Aurora report noted a diminishing reduction in carbon reduction as interconnector capacity increased. Ofgem's cost benefit analysis already captures some of the benefits of decarbonisation via better sharing of renewables, avoided curtailment and lower electricity prices across the two countries. The lower electricity prices in part reflect lower carbon emissions and future assessments will need careful analysis to avoid double counting of carbon benefits.

Interconnectors increase the pool of generation assets which provide flexibility. Ofgem's initial view would appear to overplay the flexibility benefits provided by interconnectors.

Ofgem's recognition that there is a need to have a more formal and structured assessment of the impacts of interconnectors on system operability is welcome.

The discussion presented in WS3 demonstrates the debatable contribution of interconnectors to security of supply. Ofgem are right to scrutinise carefully any potential future needs case assessments to ensure that any new capacity enhances security of supply.

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

We agree with Ofgem that interconnectors likely have a positive impact on decarbonisation, flexibility and security of supply, although the size of the benefit is unclear and may be small. Value to GB consumers is unclear.

Interconnectors may have a detrimental impact on system operability and the ESO should carry out detailed analysis of any future proposals.

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

The assertion that there is "likely a need for further GB interconnection" needs to be justified with further evidence. Although there are some benefits identified there are also significant negative impacts. The balance between the two is not clear. Consequently the value to GB consumers is difficult to assess. The steps listed should help to provide clarity.



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