



First Hydro Company is part of a joint venture between  
International Power plc and Mitsui & Co., Ltd.

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Dear Emmanouela,

### Electricity Interconnector Policy

International Power (IPR) is responding to your consultation on behalf of First Hydro Company, Saltend Cogeneration Company Ltd., Rugeley Power Ltd., Deeside Power Ltd. and Indian Queens Power Ltd.

Please find attached our response to the various questions contained in your Electricity Interconnector Policy document.

Should you require further information please feel free to contact me.

Yours sincerely,

Dave McGuinness

Electricity Interconnector Policy

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**Question 1.1: Have we accurately captured the benefits of and demand for new interconnection? Are the projects under consideration all viable? Would they be sufficient? Are there other projects being developed?**

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We believe this consultation accurately captures the potential benefits of new interconnection. Due to the significant costs of Interconnection associated with the GB region, more analysis and modelling, with differing future scenarios, is needed to demonstrate the intrinsic value of these perceived benefits.

**Question 1.2: Are there other key aspects of the legal or regulatory framework that we should consider, or should some features be given a different emphasis?**

The legal framework under which national TSO's trade should also be given due consideration. In the UK National Grid regularly alters the directional flow of the interconnector by entering into unit specific schedule 7 trades with capacity holders. The provisions of services agreement with interconnector owners should also be considered along with the legal framework in which TSO's are able to issue Intra-day transfer limits on Interconnectors.

**Question 1.3: How can the Regional Initiative best contribute to development or implementation of policy? Do you agree with the priorities and approach outlined?**

The new IFA Capacity Management System has provided a robust environment in which to trade the IFA. The reduced operational risk around non-notification of schedules potentially enhances liquidity on the IFA.

Outside the European target model, we believe the regional initiative should focus more attention on the 'ease of use' and reducing 'operational risk' when trading new interconnections. A central platform/company to trade all interconnectors and to submit all schedules would be desirable.

**Question 2.1: Are the target models explained in this chapter appropriate for GB? What are the issues that need to be considered? Are there alternative approaches that would be better? Will the target models effectively accommodate increased intermittency?**

The target models on capacity allocation seem broadly appropriate for GB. Market coupling is the most efficient way of producing flows at the day-ahead stage and operationally is relatively easy to implement.

However, we believe more focus is required on developing intra-day markets to facilitate efficient flows, and would be more consistent with the continuously traded market in GB. Over emphasis on day-ahead market coupling, at a largely arbitrary point in time, will not result in efficient capacity allocation. This will be reinforced as the impact of wind intermittency increases, introducing greater volatility in day-ahead and intra-day pricing.

Increasing liquidity and access to Intra- day markets whilst removing TSO's restrictive powers on real time efficient interconnector flows should therefore be explored further in relation to the target European model. TSOs should only be able to

facilitate a market and alter efficient flows through an effective merit order based TSO-TSO balancing mechanism.

**Question 2.2: What should be our approach to firmness of interconnector capacity? Should this vary between new and existing interconnectors, or between regulated and exempt? What are the categories of costs and benefits from changing approach, where should they fall and can they be quantified?**

Liquidity naturally falls when system conditions become tight. At the same time non-firmness risk increases, as the punitive costs of going short increases. Non-firmness costs thus rise significantly when the need for efficient interconnector flows is at its greatest.

One solution would be for full capacity at the D and D-1 stage to be firm. There should be no associated imbalance costs. The TSO's manage the system with no imbalance charged to the interconnector owner. There could also be a mechanism for sharing the costs/gains between the TSO's if this was deemed necessary.

Planned outages known before capacity allocation would be assumed to be priced in to any capacity bid and, within reasonable time frames, not subject to change.

**Question 2.3: Should we seek regional solutions rather than individual project solutions for access rules, such as through a broader North West European solution for market coupling? What are the priority areas for greater regional co-ordination?**

To promote 'ease of use' and to increase interconnector participation, whilst creating a stable environment to promote further interconnector investment, in our view, a regional solution is the best option.

**Question 3.1: Does this chapter capture the key issues in regulation of new electricity interconnectors? Should we assume that all new interconnectors will seek exemptions?**

The chapter covers the key issues. We certainly assume any new interconnections with the GB would seek exemptions, given the high commercial risks associated with these projects.

**Question 3.2: Of the options set out, which are preferable and why? What are the key considerations in taking forward any of the options?**

There are only two options, the fully regulated approach or the full market approach.

We think that it is important to maintain opportunities for merchant interconnector investment and operation, and given the costs associated with building DC interconnectors with the UK the most efficient option is the uncapped option 1. The fully regulated approach would provide an inefficient number of interconnectors at

significant cost to the consumer. There may also be liquidity consequences if the regulated approach produced too many interconnectors.

Clear access rules should be defined and a third party (a regulated GB or European interconnector business provider) should facilitate the market for capacity and market coupling. Interconnector revenues would then be passed to the interconnector owner and should not be capped to provide the correct market signals to provide further interconnection.

**Question 3.3: Is it feasible to have a mixture of different approaches for different interconnectors – such as some exempt and others regulated? If not, why and how should this be resolved?**

To provide the correct investment signals for new interconnector build we believe it would be preferable to have a consistent approach.