

ElecLink: Additional information to be taken into account by Ofgem in assessing the impact of the ElecLink Interconnector

Consultation

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Overview:

This document sets out particular impacts that Ofgem is required to consider in the assessment of the ElecLink Interconnector exemption application. The information set out in this document should be taken into consideration in addition to the information and questions set out in the Joint Consultation published by Ofgem and CRE.

Context

Article 17 of Regulation (EC) No 714/2009 ("Article 17", "the Regulation") permits National Regulatory Authorities ("NRAs") to, in agreement with any other relevant concerned NRAs, and subject to the approval of the European Commission ("the EC"), exempt new investments in cross border electricity interconnectors from legal provisions concerning third party access, regulatory approval for tariffs, use of revenue and ownership unbundling.

Eleclink Limited ("Eleclink"), a joint venture between Star Capital Partners Limited ("Star Capital") and Groupe Eurotunnel is seeking an exemption for its proposed interconnector ("the Eleclink Interconnector") between the transmission systems in Great Britain and France. In September 2013, Eleclink submitted an exemption request under Article 17 to the relevant concerned NRAs.

The concerned NRA in GB is the Gas and Electricity Markets Authority ("the Authority"), whose administrative functions are carried out by the Office of Gas and Electricity Markets ("Ofgem"). The concerned NRA in France is the Commission de Régulation de l'Énergie ("CRE") (together "the NRAs").

Ofgem and CRE have today published a joint consultation on Eleclink's exemption request – Request from Eleclink for an exemption under Article 17 of Regulation (EC) 714/2009 for a GB-France interconnector – ("the Joint Consultation") which can be found on Ofgem's website here: <https://www.ofgem.gov.uk/publications-and-updates/request-eleclink-exemption-under-article-17-regulation-ec-7142009-gb-france-interconnector>

The Joint Consultation sets out the conditions, defined by Article 17 of the Regulation, that Eleclink must satisfy in order for an exemption to be granted. It also outlines the evidence provided by Eleclink in its application in support of its view that it should be granted an exemption for the Eleclink Interconnector. It also seeks views from interested parties as to whether they consider Eleclink has met the exemption conditions.

This document sets out additional impacts of the Eleclink Interconnector that are relevant for Ofgem's assessment of the impacts of the project as required under Section 5A of the Utilities Act 2000 (set out Further in Chapter 1). This document should be read in conjunction with the Joint Consultation and comments or responses on this separate document should be provided to Ofgem.

Associated documents

Ofgem and CRE joint consultation: Request from Eleclink for an exemption under Article 17 of Regulation (EC) 714/2009 for a GB-France interconnector.

<https://www.ofgem.gov.uk/publications-and-updates/request-eleclink-exemption-under-article-17-regulation-ec-7142009-gb-france-interconnector>

Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity:

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0015:0035:EN:PDF>

Directive 2009/72/EC concerning common rules for the internal market in electricity:

<http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:211:0055:0093:EN:PDF>

Commission staff working document on Article 22 of Directive 2003/55/EC concerning common rules for the internal market in natural gas and Article 7 of Regulation (EC) No 1228/2003 on conditions for access to the network for cross-border exchanges in electricity:

http://ec.europa.eu/energy/infrastructure/infrastructure/gas/doc/sec_2009-642.pdf

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1. Introduction

1.1. Section 5A of the Utilities Act 2000 places a duty on the Gas and Electricity Markets Authority (“the Authority”) to carry out an Impact Assessment (“IA”) for any proposal for the purposes or in connection with its powers under Part 1 of the Electricity Act 1989 (“the Act”), which the Authority believes to be “important”. We note that ‘important’ is defined by reference to a proposal that would involve a major change in our activities or significantly impact industry participants, the general public or the environment. We think that a decision on ElecLink’s exemption request falls within these criteria.

1.2. The Joint Consultation seeks views on the impacts of the ElecLink Interconnector against the framework of the exemption conditions set out in Article 17 of the Regulation. In addition to these impacts, and in line with our principal objective, Ofgem has considered in this document particular additional impacts of the ElecLink Interconnector that we consider relevant in making our decision. Please note that these additional factors are relevant for the Authority’s decision only and as such we have included them in this separate document to be considered alongside the Joint Consultation.

1.3. This document therefore sets out the impacts that granting ElecLink’s exemption request would have on a number of key areas, including: consumers, competition, sustainable development and the environment. Many of these impacts (and other impacts) of ElecLink’s proposal are set out in the Joint Consultation published alongside this document. The impact of the ElecLink Interconnector are also considered in the report commissioned by Ofgem and CRE compiled by London Economics, a summary of which is attached at Appendix 2 of the Joint Consultation.

1.4. To avoid repetition, relevant information contained in the Joint Consultation is not repeated here. This document and the Joint Consultation should therefore be read together. Should there be specific comments on the material provided in this document, Ofgem welcomes responses on impacts specifically addressed here in addition to those addressed in the Joint Consultation.

1.5. The nature of our thinking at this stage (ie before we have decided whether to grant an exemption, whether this exemption would have conditions and if so, what those conditions would be) means that it is difficult to accurately quantify some of the direct costs and benefits that granting an exemption, with or without conditions, would have. This document is therefore largely qualitative at this stage, supported by existing analysis where appropriate. Responses to this document and the Joint Consultation will be used to form a final assessment of the impacts of the ElecLink Interconnector and will form the basis of our decision on the exemption application. Ofgem welcomes views on the particular impacts set out in this document by 3 January 2014, alongside responses to the Joint Consultation.

1.6. Ofgem notes that the consultation period is just over 4 weeks (plus extension due to Christmas period) rather than the usual 8 weeks. Ofgem considers a shorter

consultation period to be appropriate and justified in this instance given the regulatory requirement to reach a decision on the exemption request within 6 months. Ofgem also notes that this is in line with its consultation guidance¹ which allows for a four week consultation where it is working to timescales constrained by regulatory requirements.

The Authority's Duties

1.7. The Authority's powers and duties are largely provided for in statute (such as the Gas Act 1986, the Electricity Act 1989, the Utilities Act 2000, the Competition Act 1998, the Enterprise Act 2002 and the Energy Acts of 2004, 2008, 2010 and 2011) as well as arising from EU legislation.

Protecting existing and future consumers

1.8. The Authority's principal objective is to protect the interests of existing and future consumers in relation to electricity conveyed by distribution or transmission systems. The interests of consumers are their interests taken as a whole, including their interests in the reduction of greenhouse gases, in the security of the supply of electricity to them, and their interests in the fulfilment by the Authority, when carrying out its functions as designated regulatory authority for GB, of specified objectives set out in EU legislation.

Promoting competition

1.9. The Authority is generally required to carry out its functions in the manner it considers is best calculated to further the principal objective, wherever appropriate by promoting effective competition between persons engaged in, or commercial activities connected with:

- the generation, transmission, distribution or supply of electricity; and
- the provision or use of electricity interconnectors.

¹Guidance on Ofgem's approach to consultation:
<https://www.ofgem.gov.uk/ofgem-publications/37043/guidance-ofgems-approach-consultation.pdf>

Promoting a single European electricity market and cross border trade

1.10. The European Third Energy Package of legislation on European electricity and gas markets² ('the Third Package') fully came into force in GB in 2011. The provisions of the Third Package have added to the Authority's principal objective of protecting consumer interests, such that the consumer interest now takes account of certain of our duties as NRA for GB, including regarding the promotion of the internal energy market and the removal of restrictions to trade between Member States.

Promoting sustainable development

1.11. The Authority's duty to contribute to the achievement of sustainable development was introduced in 2004. In 2008, the Energy Act placed this duty on an equal footing with our duties to meet reasonable demand and finance authorised activities. The Act also highlighted that our principle objective, to protect the interests of consumers, refers to future as well as existing consumers.

² The Third Package comprises the Electricity Directive (2009/72/EC), the Gas Directive (2009/73/EC), the Electricity Regulation (2009/714/EC), the Gas Regulation (2009/715/EC) and the Agency Regulation (2009/713/EC), as well as the implementing legislation in GB, the Electricity and Gas (Internal Markets) Regulations 2011 (SI 2011/2704).

2. Additional impacts considered by the Authority

Chapter Summary

This chapter sets out an explanation of the impacts that the Authority is required to consider as part of an Impact Assessment. This includes clarifying where the impacts are addressed as part of the Joint Consultation and an initial assessment of the impacts of the Eleclink Interconnector against criteria that the Authority is required to consider as part of an Impact Assessment.

Question box

Question A1: Do you agree that the Eleclink Interconnector will not have a disproportionate impact on different classes of businesses, new entrants or consumer groups (including vulnerable customers)? If not, please provide detail of any potential impact.

Question A2: Do you have anything to add (in addition to any response you have made to Question 25 in the Joint Consultation) on the impact of the Eleclink Interconnector on consumers in light of the Authority's principal objective as set out above?

Question A3: Are there other impacts on sustainable development that the Authority should take into account when assessing the impact of the Eleclink Interconnector?

Question A4: Are there other impacts on the environment that the Authority should take into account when assessing the impact of the Eleclink Interconnector?

Question A5: Are there any impacts on health and safety that the Authority should take into account when assessing the impact of the Eleclink Interconnector?

Impact on competition, relevant regulated transmission systems, the internal market and social welfare.

2.1. As set out in the Joint Consultation, Article 17 of the Regulation sets out six conditions that must be met for an exemption to be granted. These include the following two conditions:

- (a) the investment must enhance competition in electricity supply; and
- (f) the exemption is not detrimental to competition or the effective functioning of the internal electricity market, or the efficient functioning of the regulated system to which the interconnector is connected.

Impact on consumers

2.2. Ofgem’s principal objective is to protect the interest of existing and future consumers. The impact of the ElecLink Interconnector on consumers is considered throughout the Joint Consultation. In particular:

- In Part 2, Chapter 3 of the Joint Consultation we have set out the analysis presented by ElecLink on the impact of the project on consumers. We have asked for specific views on this impact in Question 25 of the Joint Consultation.

2.3. We note that as part of the Joint Consultation the impact of the ElecLink Interconnector on specific consumer groups or types of network users has not been assessed. Overall, we do not expect the ElecLink Interconnector to have any substantially different effect or targeted impact on different classes of businesses or new entrants to the electricity market. Furthermore, we do not expect the ElecLink Interconnector to have a targeted impact on any specific consumer group (including vulnerable consumers).

Question A1: Do you agree that the ElecLink Interconnector will not have a disproportionate impact on different classes of businesses, new entrants or consumer groups (including vulnerable customers)? If not, please provide detail of any potential impact.

Question A2: Do you have anything to add (in addition to any response you have made to Question 25 in the Joint Consultation) on the impact of the ElecLink Interconnector on consumers in light of the Authority’s principal objective as set out above?

Impact on competition, transmission systems and the internal market

2.4. Conditions (a) and (f) require an assessment of the impact of the proposed interconnector on competition as well an assessment of the extent to which any exemption granted under Article 17 of the Regulation may be detrimental to competition, the relevant regulated transmission systems and the internal energy market.

2.5. In support of its exemption request Eleclink has provided analysis and evidence as to how it meets the above conditions.³ This analysis and evidence is considered in the Joint Consultation document. In particular:

³ Chapter 3 of the Joint Consultation (Impact on competition, the effective functioning of the internal market and on the efficient of the regulated system)

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- We have sought views on the impacts of the ElecLink Interconnector on competition in electricity supply in Part 1 of Chapter 3 of the Joint Consultation. We have asked for views on this in Question 1 of the Joint Consultation; and
- We have also sought views on the impact that the ElecLink Interconnector has in promoting a single electricity market in Part 1 of Chapter 3 of the Joint Consultation. We have asked for views on this in Question 3 of the Joint Consultation;

2.6. In addition, Ofgem and CRE commissioned London Economics to conduct a critical review of the evidence provided by Eleclink on these points. London Economics' summary report is attached at Appendix 2 of the Joint Consultation.

Impact on sustainable development

2.7. As part of our assessment of the ElecLink Interconnector, we are required to consider the impact on sustainable development. This impact has been considered in Part 2, Chapter 3 of the Joint Consultation and should be considered in the extent to which the ElecLink Interconnector meets condition (f).⁴ To ensure that we are capturing the appropriate impacts of the ElecLink Interconnector on sustainable development we have provided initial additional information below on which we seek views.

Integration of variable generation

2.8. The EU has committed to increasing the proportion of renewable energy in energy consumption to 20% by 2020.⁵ Similarly, GB has a decarbonisation target for 2050 set out in the Climate Change Act 2008.⁶ Reducing the carbon emissions of the electricity generation sector through installation of renewable generation is a key area through which progress towards decarbonisation can be made.

2.9. The variability of renewable generation (such as wind generation) is a major challenge for system operation. Increased interconnection can help to reduce problems associated with variability – for example, allowing GB to import energy at times when wind generation output is low. The need to deliver more cross border infrastructure to support the integration of renewable energy sources has been highlighted by the European Commission in the Energy Infrastructure Package.

⁴ Condition (f): the exemption is not detrimental to competition or the effective functioning of the internal electricity market, or the efficient functioning of the regulated system to which the interconnector is connected.

⁵ European Commission, '20 20 by 2020: Europe's climate change opportunity'. Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0030:FIN:EN:PDF>

⁶ The Climate Change Act 2008 can be viewed at: <http://www.legislation.gov.uk/ukpga/2008/27/contents>

2.10. Currently, excess generation, including renewable generation, can be curtailed in situations when demand is low (ie renewable generation is producing a surplus) or when transmission systems do not have sufficient capacity to export the electricity generated.

2.11. Increased interconnection with neighbouring markets provides the opportunity for cross border flows of electricity when supply exceeds demand. As the volume of variable wind generation increases, in GB and Ireland as well as on the continent, varying flows across interconnectors can help to accommodate fluctuations in wind output. Export would therefore help to achieve more efficient dispatch of renewables.

2.12. Further, the proposed ElecLink Interconnector may, in certain circumstances, provide an export route when transmission capacity is fully utilised and therefore generation would otherwise be constrained. In this situation, more efficient integration of variable generation could therefore reduce constraint payments (currently made by the system operator and funded through network charges).

Question A3: Are there other impacts on sustainable development that the Authority should take into account when assessing the impact of the ElecLink Interconnector?


Impact on the environment

2.13. This section focuses on the localised environmental impacts of the development of the ElecLink Interconnector.

2.14. We note that the ElecLink Interconnector will be sited within the Channel Tunnel's existing infrastructure and utilise existing AC cable routes. This avoids the need to lay sub-sea cables and the inherent negative impact upon the environment and disturbance to marine life.

2.15. Hence, whilst ordinarily we might consider the construction of an interconnector would be likely to have some localised negative impacts upon the environment, in this particular case we consider that the scope of such impact of the cable itself will be comparatively limited. The ElecLink Interconnector is therefore likely to result in limited visual disamenity, noise, localised vehicular pollution and transformation of the surrounding environment (amongst other impacts). We do consider however that the potential environmental impact of the ElecLink Interconnector will likely be lower compared to an interconnector project that would require sub-sea cabling (ie on the sea-bed) or overland cables that needed to be buried underground.

2.16. We expect ElecLink, as the project developer, to attempt to minimise localised construction-related impacts wherever possible. We note that ElecLink intends to complete environmental and planning studies by Q1 of 2014. ElecLink has also provided details of the planning consents it anticipates may be required from British



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and French planning authorities and intends to progress these processes through 2014. We note that Eleclink will be required to obtain and satisfy any relevant planning requirements as part of the development of the Eleclink Interconnector.

2.17. The choice of technology used in the plans for Eleclink's converter stations and substations also has environmental impacts. The interconnector will join Voltage Source Converters (VSCs) at either end of the cable. VSCs have a smaller footprint than conventional converter stations (Line Current Converters) and as such could reduce the impact on the local environment compared to other technology choices.

Question A4: Are there other impacts on the environment that the Authority should take into account when assessing the impact of the Eleclink Interconnector?

Impact on health and safety

2.18. We recognise that the Health and Safety Executive (HSE) is the principal regulator of safety and consider it to be important to support the functions that they perform.

2.19. We note that the physical location of the Eleclink Interconnector, ie through the Channel Tunnel, is likely to have different impacts on health and safety than an interconnector developed on the sea-bed.

2.20. It is the responsibility of Eleclink, to ensure compliance with all relevant legal health and safety requirements.

Question A5: Are there any impacts on health and safety that the Authority should take into account when assessing the impact of the Eleclink Interconnector?

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Appendix 1 - Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties in relation to any of the issues set out in this document.

1.2. We would especially welcome responses to the specific questions which we have set out at the beginning of each chapter heading and which are replicated below.

1.3. Responses should be received by 3 January 2014 and should be sent to:

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1.4. Unless marked confidential, all responses will be published by placing them in Ofgem's library and on its website www.ofgem.gov.uk. Respondents may request that their response is kept confidential. The Authority shall respect this request, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. Respondents who wish to have their responses remain confidential should clearly mark the document/s to that effect and include the reasons for confidentiality. It would be helpful if responses could be submitted both electronically and in writing. Respondents are asked to put any confidential material in the appendices to their responses.

1.6. Next steps: Having considered the responses to this consultation, the Authority intends to take this into account in our exemption decision on the Eleclink Interconnector. Any questions on this document should, in the first instance, be directed to the above.

CHAPTER: One

Question A1: Do you agree that the ElecLink Interconnector will not have a disproportionate impact on different classes of businesses, new entrants or consumer groups (including vulnerable customers)? If not, please provide detail of any potential impact.

Question A2: Do you have anything to add (in addition to any response you have made to Question 25 in the Joint Consultation) on the impact of the ElecLink Interconnector on consumers in light of the Authority's principal objective as set out above?

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