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Potential benefits of further interconnection

SD Advisory Group

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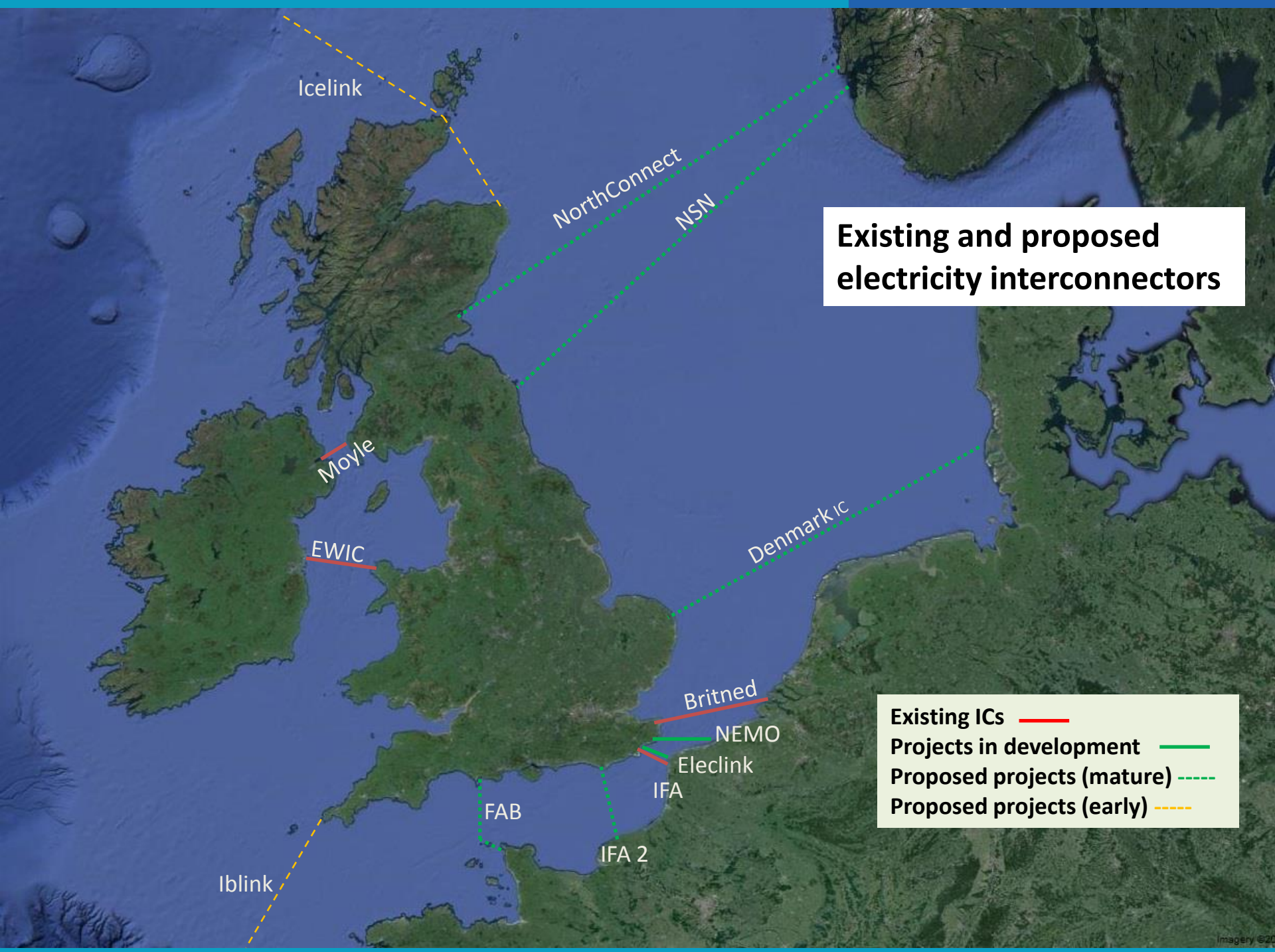
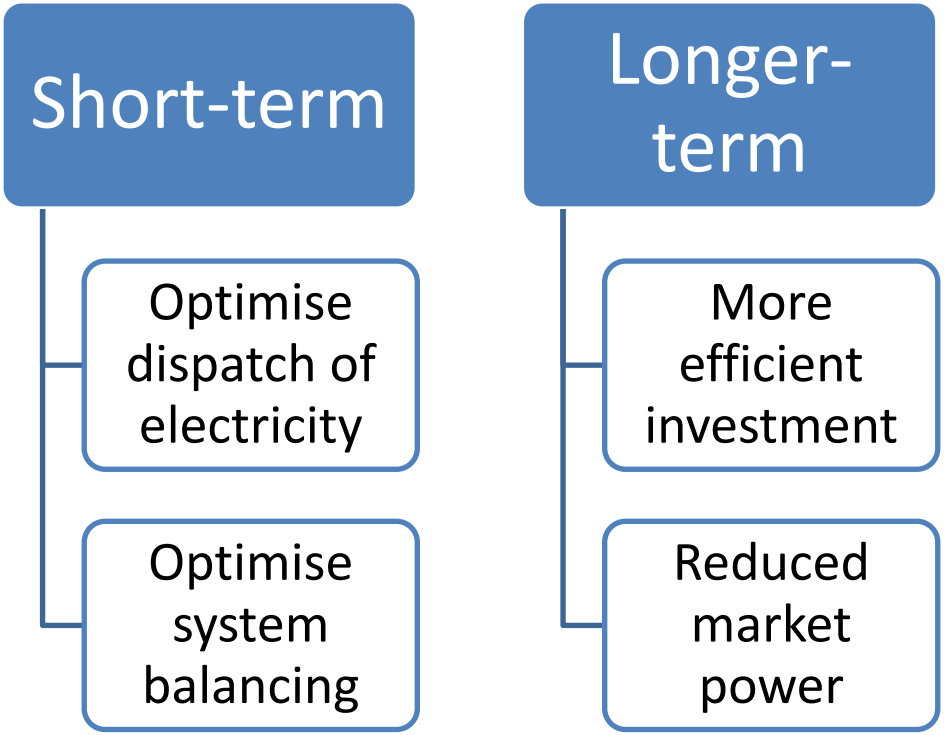
Context

- **GB's current interconnection to other markets is limited** and further interconnection is able to benefit GB consumers
- Ofgem has been developing a cap and floor regime for the proposed **NEMO interconnector** since 2010
- Ofgem is currently assessing **ElecLink's Interconnector** exemption application
- Ofgem is also currently considering options for the future regulatory regime for interconnectors as part of the **Integrated Transmission Planning and Regulation (ITPR) project**
  - Is developer-led exemption and/or cap and floor regime able to deliver further interconnection in the best interests of GB consumers?
  - What are the pros and cons of moving towards central identification of new interconnector projects?
  - What should the regulatory approach be for the potential transmission links that would be primarily or solely driven by the need to connect non-GB generation as part of an inter-governmental renewables trading agreement?


Icelink
NorthConnect
NSN
Existing and proposed electricity interconnectors
Moyle
EWIC
Denmark IC
Britned
NEMO
Eleclink
IFA
FAB
IFA 2
Iblink
Existing ICs
Projects in development
Proposed projects (mature)
Proposed projects (early)

Potential benefits to GB of interconnecting with European electricity markets



These can:

- Lead to **lower prices for consumers**
- Increase **security of supply**, or allow the same security to be achieved more cost-effectively
- Support the integration of **low carbon generation** by allowing more efficient management of intermittency and/or more efficient location decisions

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Key factors in influencing the overall level of *net* benefit

Level of gross benefit

- Characteristics of the markets, eg generation and demand profiles, weather
- Technical capabilities of the interconnector re. balancing services
- Willingness to rely on neighbouring systems regarding securing safety and security of supply
- Whether there is agreement between governments on a framework for renewables trading

Costs

- Costs of building and operating the interconnector, including losses
- Impact on onshore networks, eg reinforcement costs, constraints
- Opportunity cost versus other options, eg DSR, storage

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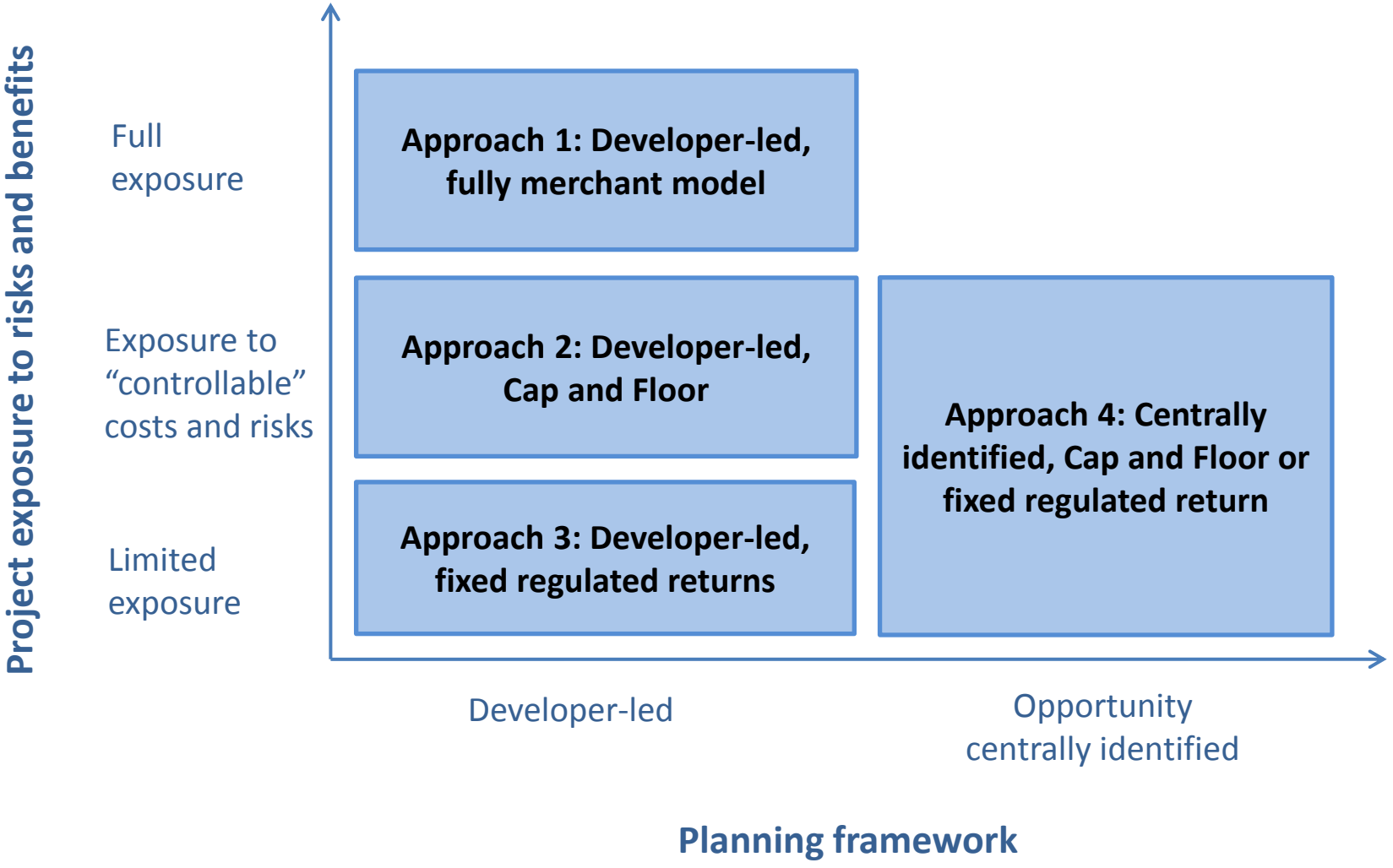
How to approach future interconnection?



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Next steps

NEMO

- Consultation on Impact Assessment closed on 13 February 2014
- Publication of decision on cap and floor methodology, initial cost assessment and updated impact assessment due in Spring 2014

Eleclink

- Joint consultation with CRE closed in January 2014
- Exemption decision (jointly with CRE) due by March 2014
- EC then has two months to either endorse NRAs' decision or request exemption be amended/withdrawn

Regulatory regime for future interconnectors

- Consultation on initial proposals for interconnection in Spring 2014: this will set out our views on the options for the regulatory regime for future IC
- Consideration of stakeholders' views
- Summer 2014: initial conclusions of ITPR, including interconnection

Regulatory approach for connection of non-GB generation

- Consultation on key options and issues closed on 17 January 2014
- We will provide an update on our proposed way forward in Spring 2014

Questions

- **Do you agree with our assessment of the benefits of interconnection?**
- **What do you consider to be the main benefits?**
- **Do you think that some of the factors that limit the benefits of interconnection can (and should) be mitigated?**
- **Do you have any high-level views on the extent to which the different regulatory options can deliver the benefits?**
  (Noting that there will be opportunity as part of the spring consultation to provide detailed views)