

Electricity Interconnectors factsheet

What are interconnectors?

Interconnectors are transmission cables that allow electricity to flow from one country to another.

Interconnectors can offer significant benefits for consumers. They can help to:

- lower electricity supply prices
- lower the cost of delivering security of supply
- support the decarbonisation of energy supplies.

Where are Great Britain's interconnectors?

Great Britain (GB) currently has four electricity interconnectors. They link us to France, Ireland, the Netherlands and Northern Ireland. These links, totalling 4 gigawatts (GW), represent around 5% of our existing electricity generation capacity.

How do they work?

Interconnectors provide the transmission capacity for electricity to flow between the two countries, with power flowing to the market that has higher prices. Interconnector operators principally make money through capacity auctions, with revenues driven by the size of price differences between the two markets.



- ↔ 2GW to France
- ↔ 1GW to the Netherlands
- ↔ 500MW to Northern Ireland
- ↔ 500MW to the Republic of Ireland

How are they regulated now?

In GB, developers identify opportunities to build and operate an interconnector and seek exemptions from certain regulatory conditions to make the project commercially viable.

Interconnector regulation from 2014

The current approach has not delivered the amount of interconnection we think is in consumers' interest. We are now aiming to put in place a new regulatory regime (to sit alongside the current approach) that will encourage additional new electricity interconnectors to be built in the near term that will deliver value for consumers.

As the regulator we are putting in place:

- a 'cap and floor' mechanism for regulating how much money a company can earn from operating an interconnector.
- the process by which companies can apply for a 'cap and floor' regulated revenue stream and how we assess their proposed interconnector projects.

Cap and floor

Under the cap and floor approach, if developers' revenues exceed the cap then revenue above the cap is returned to consumers. Conversely, if their revenues fall below the floor then consumers top up developers' revenues to the level of the floor.

The floor encourages interconnectors to be built as it insulates developers' exposure to the full potential loss, ie makes the investment less risky.

We will carry out a robust project assessment to ensure that only projects in consumers' interests are awarded a cap and floor.

More information on the process can be found at:

<https://www.ofgem.gov.uk/electricity/transmission-networks/electricity-interconnectors>

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The process for projects to be proposed and assessed

Subject to consideration of consultation responses and our decision on whether to roll out a cap and floor approach, we envisage the deadline for applications for cap and floor treatment could be the end of September 2014. We will then review the information over the autumn and winter, and would consult on our assessment of whether projects would be in consumers' interest. Where projects have provided detailed information on their costs at the outset, we could be in a position to make proposals for individual projects by the spring of 2015.

Where projects do not yet have detailed costs information we would stagger our assessment so that that information is assessed later. In such cases we would consult again after our second assessment before making a final decision of whether to award a project a cap and floor.

Future interconnection regulation

We are looking at the regulation of electricity transmission covering onshore, offshore and interconnectors for the longer term in our Integrated Transmission Planning and Regulation project. We aim to consult on our draft conclusions on this in September 2014.