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Dear Stuart

Cap and floor regime: Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink interconnectors

We welcome the opportunity to respond to the consultation on the Cap and floor regime: Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink interconnectors.

About ABB

ABB is a global leader in power and automation technologies, providing products and systems across the energy, transport and manufacturing sectors. We have a very good global perspective and understanding of the technical, commercial and operational drivers that impact on the development of interconnector projects. We also recognise that our clients operate within varied regulatory structures and cost/revenue models. We take an interest in these models as it enables us to understand the solutions clients seek for asset delivery, renewal or replacement. On this basis we have followed the development of the UK cap and floor regime with interest.

Consultation Response

Our response focuses on 2 main aspects of the Initial Project Assessment:

- Cost Benefit Analysis; and
- Project deliverability

Cost Benefit Analysis

The cap and floor regulatory regime provides a route for the development of regulated cross border electricity interconnection between Great Britain and other markets. ABB broadly supports the minded-to positions to grant FAB Link, IFA2 and Viking Link a cap and floor in principle. The conclusions appear to be supported by the cost benefit analysis undertaken by Pöyry.

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While we cannot comment on the robustness of the CBA methodology and calculations, we are concerned that the CBA fails to demonstrate the sensitivity of the base case outcome to relatively small changes in assumptions.

The CBA approach tests the base case scenario and alternatives to develop the limits of the plausible range. The High value scenario, highlights the significant value of interconnectors given market assumptions favourable to interconnector operators. Similarly, the CBA modelling generates negative GB impact given unfavourable market assumptions. These results are largely to be expected and say little with respect to the robustness of the project benefits case. ABB considers that the CBA modelling looks to identify the likely tipping point at which the benefits case becomes negative.

Project deliverability

The UK is currently competing in global markets for capital, transmission equipment, civil engineering support and access to skilled labour as several countries embark on ambitious investment programmes to deliver electrical networks for the 21st century. Across Europe, interconnector developers, offshore wind projects, oil and gas operators and TSO are competing to secure access to limited supply chain resources, with the potential for demand to drive up costs and/or delay project delivery plans.

ABB is concerned that the backstop date in the Cap & Floor regime of 31 December 2020, creates an unnecessary risk to the commercial viability of some interconnector projects depending on planning processes, access to finance and supply chain availability – vessels, cables, civil engineering. Several projects have unresolved planning issues that have the potential to delay project programmes by several months/years. Equally, supply chain can be slow to respond to market signals due to the long lead times in delivering major investments – new vessels, manufacturing plant, training and skill development.

ABB is actively engaging with key industry players to ensure that we are able to meet the requirements of their projects in a socially and environmentally responsible manner. We consider that the regulatory framework must be sufficiently flexible and pragmatic to enable project developers to deal with new challenges as larger and more complex projects are developed. ABB believes that there should be flexibility in the Cap and Floor start date to reflect likely deliverability factors within each project.

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We trust that these comments are helpful in informing your thinking. Please do not hesitate to contact Colin Green (Tel: 07808 611647) should you require any clarification to our comments.

Yours sincerely

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