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Dear Stuart,

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

This response is on behalf of National Grid Electricity Transmission plc. This response is not confidential and we are happy for it to be placed on the Ofgem website and for it to be shared more widely.

We support Ofgem's minded to position to award FAB Link, IFA2 and Viking Link a cap and floor regime in principle subject to no material escalation in costs. We believe that greater regulatory certainty will aid the delivery of future interconnection. This in turn will ensure GB consumers are well placed to enjoy the benefits interconnection can provide consumers and aid the development of a single European energy market. We note the importance of the timely delivery of investments and therefore recommend that decisions are made within an appropriate timescale to ensure consumers can reap the benefits of interconnection.

In our submission to Ofgem, we highlighted that FAB Link, IFA2 and Viking Link have the potential to bring significant benefits to system operation by increasing competition in the provision of ancillary services. The benefits to consumers are further demonstrated in Ofgem's analysis. As noted in our response to the NSN IPA we would, however, like to highlight that the analysis undertaken by Poyry has a slightly different purpose than the modelling undertaken by ENTSO-e which we explain in more detail in the Appendix. Despite the differences in modelling approaches, we believe that these projects will deliver notable benefits to GB consumers.

We recognise Ofgem's decision not to award Greenlink a cap and floor as Poyry's analysis demonstrates that this project does not offer welfare benefits for GB. However, it is worth noting that Greenlink has provided us with further information during the consultation stage, which suggests that the interconnector would have no material (negative) impact on GB constraints during its operational life. More detail on this is provided in our response to question 2 below.

As raised in our response to the NSN IPA, we believe it is important to ensure that our transmission charges provide a level of certainty for customers and future movements in them are predicable. There is a potential risk that without a suitable mechanism in place, that payments to / from interconnectors under a cap and floor regime may provide uncertainty into transmission charges. This could result in an increased cost to the consumer, as suppliers hedge against the potential price fluctuations. We believe that consideration should be given to the timing and notice of these payments to adequately manage uncertainty in transmission charges.

Our answers to the specific questions raised in the consultation are contained in the attached appendix. We are happy to discuss our views contained within this letter and appendix further should that be helpful. For further details, please contact Jenny Doherty Jennifer.doherty@nationalgrid.com.

Yours sincerely

[By email]

Ben Graff
Transmission Strategy Manager

Appendix 1: Questions raised in Cap and floor regime: Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink interconnectors

1. Do you agree with our minded-to positions on the four projects considered in this consultation?

We agree with your overall conclusions on the IPA for FAB Link, IFA2 and Viking Link and support Ofgem's decision to award a cap and floor subject to no significant escalation in costs. We note our queries in response to question three on the modelling of flows and assessment of welfare benefits; however believe these projects are in the best interests of consumers.

We recognise Ofgem's decision not to award Greenlink a cap and floor as Poyry's analysis demonstrates that this project does not offer welfare benefits for GB. Regarding ancillary services (including constraints management), it is worth noting that Greenlink has provided us with further information during the consultation stage, which suggests that the interconnector would have no material (negative) impact on GB constraints during its operational life. Further details of this are presented in response to question 2. We recommend that Ofgem should consider this additional information as necessary.

On a different note, we disagree with Ofgem's approach to translate system operation impacts, in particular constraint management costs, into any scenario specific net present values. Further details regarding this issue are outlined in response to question 6.

2. Is there any additional information that you think we should take into account when reaching our decision on the IPA of the projects?

We believe that Ofgem have considered all of the key information to reach the IPA decisions FAB Link, IFA 2 and Viking Link. However, Element Power has recently suggested that, for Greenlink, they would opt for a customer choice connection offer with an intertrip to avoid constraints. Such an offer, if technically feasible, would result in no material constraints attributable to Greenlink throughout the project's operational life. We recommend that Ofgem consider this additional information, as necessary, in reaching their decision.

On the subject of Fast Frequency Response (FFR) for Greenlink, however, as recommended by our initial analysis, we have discussed the requirements with Eirgrid and further studies will be required to quantify the realistic volume of FFR that can be achieved from Greenlink.

3. What are your views on the approach Poyry has taken to modelling the impact of cross-border interconnector flows?

We agree with the modelling outcomes of Poyry's analysis, which concludes that IFA2, Fablink and Viking Link would deliver welfare benefits for GB. Furthermore, we recognise Poyry's analysis regarding Greenlink, which suggests that the project is likely result in a total welfare loss for GB.

As mentioned in our consultation response for Ofgem's decision on the IPA of NSN, we are of the opinion that Poyry's analysis has a slightly different purpose to the ENTSO-e studies and therefore are not fully aligned. For completeness, we would like to reiterate our note from our response to Ofgem's consultation on the IPA of NSN. The modelling of cross border interconnection flows requires multiple variables to be taken into consideration. We support the modelling of a diverse range of scenarios not least to establish the possible range of outcomes in the future. Such an approach is consistent with pan-European market modelling undertaken by ENSTO-E for development of the Regional Group Investment Plans (RGIPs) and the Ten Year Network Development Plan (TYNDP).

We support the two approaches, namely 'first-in approach' (FA) or 'marginal approach', adopted to assess the impact of cross border flows and subsequent welfare benefits. These approaches are similar to ENSTO-E recommended methods of PINT (put one in at a time) and TOOT (take one out at a time) for assessing the impacts of interconnectors.

The development and choice of scenarios for market modelling is a vital element of the process to ensure appropriate forecasts are produced. We believe the outcomes of the Low Scenario used in Poyry's analysis are somewhat unrealistic. We are unable to source reasonable evidence or qualitative arguments to support the assumptions adopted for the Low Scenario. The projections for GB wholesale energy prices, and those forecast for various other European member states appear to be very low. Subsequently, the forecast flows for all of the interconnectors assessed through this round of Cap and Floor assessment, may be inappropriate for the Low Scenario and could somewhat distort the decision making process.

4. Do you have any additional evidence in this area that we should take into account?

No, we do not have any additional evidence to be taken into account.

5. Do you have any views on the information presented in this chapter?

We believe that our analysis is presented appropriately in Chapter 5 of the Cap and floor regime: Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink interconnectors document. However, we have some concerns regarding how this information may have been used. This is outlined in response to question 6 below.

6. Are there any additional factors that you think we should have considered?

As stated in section 5.4 of the Cap and floor regime: Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink interconnectors document, NGET's analysis of the impact of each project on system operation uses 2020 as a single spot year in NGET's Gone Green scenario projection. The constraint forecasts could be different with a change in generation backgrounds. Furthermore, it is unclear how Ofgem have aligned NGET's Gone Green scenario to Poyry's High, Medium and Low scenarios while deriving project specific net present values (NPV). Within this context, it is not advisable to use the constraint cost forecasts prepared for a single scenario for a spot year in long term investment decision making process and NPV calculations over 25 years appraisal period.

With specific reference to GreenLink, through ongoing discussions Element Power have suggested to provide an offer to accept a customer choice connection and trip off to avoid constraints. Such an offer, if technically feasible, would result in nil constraints attributable to Greenlink.

With regard to FFR service, we have discussed the requirements with Eirgrid and further studies will be essential to quantify the realistic volume of FFR that can be achieved from the All Island system for Greenlink to deliver. This is particularly important as the volume of FFR that the whole Irish System can potentially provide to GB will be finite, and considering the already in-service HVDC links between the GB power system and the Irish system (Moyle and East-West), and the frequency response services already provided via these links, studies are required to determine how much extra response the Irish system can provide to GB. Hence, any changes to estimates for FFR based impacts for Greenlink will be dependent on the outcomes of studies which will be undertaken by Eirgrid.

Considering the recent ancillary service proposals from Greenlink, it is appropriate to infer that the project would result in no disbenefit for GB system operation. This new information should be reflected in the assessment for their decision.

7. Have we appropriately assessed the hard-to-monetise impacts of the interconnectors?

As noted in our response to the NSN IPA, we agree that it is difficult to quantify all aspects of interconnectors and that a suitable range of qualitative impacts have been considered. Diversity of supply and security of supply are particularly important benefits which interconnectors can provide the UK Electricity System.

8. Are there any additional impacts of the interconnectors that we should consider qualitatively?

No, we agree that a suitable range of qualitative impacts have been considered.

9. Do you have any views on the information presented in this chapter?

We support the connection information for FAB Link, IFA2 and Viking Link. We believe these are the most efficient connections onshore following our optioneering process, where we considered the impacts of a variety of onshore connection locations.

For Greenlink, we reiterate Ofgem's note that a further optioneering process would be required to ensure the best location for the interconnector. However, considering Greenlink's very recent suggestion to accept a customer choice connection and intertrip to avoid system constraints, the current onshore connection may emerge as the most efficient location in terms of system operation. However, this may impact the project's commercial and welfare case.

10. Do you have any comments on our assessment of the project plans?

The project plans seem reasonable based on the high level information provided in the consultation. All of the important areas which need to be taken into consideration appear to be covered.