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

Dear Stuart,

RWE welcomes the opportunity to respond to the Ofgem consultation on the Cap and floor regime: Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink Interconnectors (the Consultation Document). We are responding on behalf of RWE companies operating in the UK.

RWE remains supportive of efforts to improve interconnection between GB and the continent which will improve market liquidity, competition and security of supply. We expect interconnectors to play a growing role in the integrated European electricity market by enabling balancing of supply and demand as the impact of renewable generation increases.

As we stated in our response to the NSN Interconnector consultation it is important that the merchant approach towards DC interconnection is retained as the preferred route towards investment. However, we recognise that interconnectors form part of the transmission system in line with Directive 2009/72/EC. As such interconnectors must comply with all EU Regulations, guidelines and network codes. The cap and floor approach has a role to play in ensuring efficient and cost effective provision of vital infrastructure where such an approach can be properly justified.

We continue to believe that there is unjustified risk for customers under the “cap and floor” arrangements as a result of uncertainty in outcomes. Consequently the “cap and floor” arrangements could result in GB customers underwriting a significant degree of downside risk for interconnector investment (i.e. there is insufficient revenue from flows and customers end up funding the investment through the floor arrangements).

It is our view that the “cap and floor” arrangements associated with the FAB Link, IFA2 and Viking Link Interconnectors have not been fully justified in the Consultation Document. In particular there is undue downside risk for GB customers illustrated by the range of outcomes in the Poyry Interconnector Report. Collectively the GB Carbon Floor Price, the GB Capacity market and the EU target model, which reduce risks for interconnector investment, are capable of creating the conditions for efficient investment in merchant interconnection underwritten by shareholders without the need for additional support in the form of the “cap and floor” regime underwritten by GB customers.

Our responses to the specific questions are included in Annex 1 to this document.

If you have any comments or wish to discuss the contents of this letter then please do not hesitate to contact me.

Yours faithfully

By email

Bill Reed
Market Development Manager

Annex 1: RWE Response to the Consultation Questions

Chapter Three

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

We do not agree with the minded to positions on the four projects with respect to the “cap and floor” regime. We believe that it is important assess whether the interconnector investment is efficient and economic if we did not have a carbon floor price. In this context merchant projects may be better value for money for customers than inclusion in a regulated regime.

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

The economics of the projects with and without the carbon price floor should be assessed to determine whether the interconnector projects deliver value for money for customers.

Chapter Four

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

The approach taken by Poyry to modelling the impact of cross border interconnector flows appear plausible given the current policy landscape.

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

We do not have any additional evidence in this area that could be taken into account.

Chapter Five

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

We do not have sufficient information to assess whether the outcomes presented are efficient. Further work if therefore required to audit fully the information and to assess whether alternative onshore connection arrangements could result in efficient interconnection investment.

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

We have not identified any additional factors for the interconnectors that should be considered at this time.

Chapter Six

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

We note the qualitative assessment of the impact of the interconnectors' projects. We do not believe that this assessment should be relied upon to justify the approval of the interconnectors and the cap and floor arrangements.

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

We have not identified any additional impacts on the interconnectors that should be considered qualitatively at this time.

Chapter Seven

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

We do not have sufficient information to assess whether the outcomes presented are efficient. Further work is therefore required to audit fully the information and to assess whether alternative connection locations or cable routes result in efficient interconnection investment.

Chapter Eight

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

We do not believe that inclusion of FAB Link, IFA2 and Viking Link in the cap and floor has been fully justified. Therefore we do not believe that the regime should be applied in relation to NSN.