

Stuart Borland  
Electricity Transmission  
Ofgem  
9 Millbank  
London  
SW1P 3GE

Email to: [cap.floor@ofgem.gov.uk](mailto:cap.floor@ofgem.gov.uk)

11 September 2014

### **Cap and floor regime: Update on our Initial Project Assessment of the Greenlink interconnector**

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

Ofgem's proposed changes to the assessment of the Greenlink interconnector to Ireland seem reasonable. However, while we support the development of new interconnectors to GB that are economic, we are concerned that Ofgem's current assessment methodology will result in an overstatement of consumer benefits. As mentioned in our March 2015 response, we believe the Cost Benefit Analysis (CBA) must take into account differences in policies and regulations, e.g. Carbon Price Support (CPS) and grid costs, between interconnecting countries to ensure economic efficiency is achieved. Moreover, in order to fully understand the impact these projects would have on GB consumers, the CBA should consider the impact new interconnectors are likely to have on broader energy policies including the Capacity Market and the low carbon support payments made by consumers. In particular, the analysis must take into account the increase in cost of payments for low carbon generation e.g. for CfD FIT, due to lower wholesale prices. Until this is done, it is difficult to determine whether Greenlink would have a positive impact on GB consumers.

In terms of the specific changes proposed, we have the following comments:

- **Altering the modelling of the Irish wholesale prices.** Given that the latest I-SEM design consultation suggests that the preferred market design is more likely to use the unconstrained wholesale market price in the day-ahead market, it seems reasonable to alter the modelling of the Irish wholesale prices.
- **Altering the impact on GB constraint costs.** If Greenlink is planning to use an intertrip that would mitigate the negative impact on GB constraint cost, then this should also be reflected in Ofgem's updated analysis.
- **Excluding the benefits of potential ancillary services to GB.** As mentioned in our March 2015 response, we think it is premature to factor in potential consumer benefits that interconnectors may be able to provide by offering new ancillary services needed for future system operability. Until the System Operator can clearly define its

system needs and provide a detailed description of the services required, and an assessment made of Greenlink's contribution to these services relative to other market participants, these benefits should not be reflected in the analysis.

If Ofgem decides to grant the cap and floor in principle to Greenlink, we believe it should be conditional on the I-SEM design as indicated in the consultation and the final form of Greenlink's connection terms not negatively impacting GB constraint cost. Additionally, while we understood from the March 2015 consultation that the proposed cost and revenue sharing of the project would be 50:50, if there are any uncertainties in the sharing factor used, then the utilisation of the 50:50 sharing factor should also be another condition.

I hope you find our comments helpful. Should you wish to discuss any of the issues raised in our response or have any queries, please contact Mark Cox on 01452 658415, or me.

I confirm that this letter and its attachment may be published on Ofgem's website.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Angela Hepworth'.

**Angela Hepworth**  
Corporate Policy and Regulation Director