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Stuart Borland
Ofgem,
9 Millbank
London, SW1P 3GE

11 September 2015

Dear Stuart,

Response to consultation on Ofgem's Update on the Initial Project Assessment of the Greenlink interconnector

We appreciate the opportunity to respond to Ofgem's open letter consultation, on updating the Initial Project Assessment (IPA) of our interconnector, Greenlink, to be eligible for a cap and floor regime in GB.

We were pleased to see that Ofgem's document refers to the information that we submitted in our response to the Initial Project Assessment consultation, and that this new information has made a material impact on the direction of Ofgem's minded-to decision. We now look forward to Ofgem confirming its minded to position with a decision to award Greenlink a Cap and Floor regime under the Initial Project Assessment (IPA), so that we can proceed with development towards the Final Project Assessment (FPA) stage.

In the sections below, we outline our response to the questions posted in Ofgem's consultation document.

Ofgem's proposed changes to the assessment of Greenlink

In our response¹ to Ofgem's IPA of Greenlink and the other three interconnectors², we identified three key areas in the analysis performed for Ofgem that were detracting from the true value that Greenlink would offer GB. These were:

- The constraint cost calculations were not reflecting the commercial arrangements that would be put into place between Greenlink and National Grid to protect consumers from constraint costs that under specific circumstances would be caused by Greenlink (i.e. an intertrip) – which would reduce Greenlink's constraint costs to zero (or very close to zero),

¹ Available at: https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/element_power_0.pdf

² IFA2, FAB Link, and Viking

- The market modelling was not reflecting the intended design of the Irish Integrated Single Electricity Market (I-SEM) in 2020, which had the effect of reducing the value of flows on Greenlink, and
- No value was being attributed to Greenlink's ability to provide ancillary services from the Irish system to GB.

In addition to the three significant areas above we also highlighted four additional areas that were not being captured by the scope of Ofgem's analysis³.

Therefore, we are supportive of Ofgem reflecting the impact of the intertrip on removing constraint costs arising specifically due to Greenlink, and on using the unconstrained market price in Ireland, which best reflects the information that we have received from the Irish regulator. We understand that further work is required with EirGrid to confirm the quantity, and hence the value, of Greenlink's contribution to ancillary service provision in GB, and look forward to working with National Grid and EirGrid on this analysis in due course.

We have reviewed Ofgem's updated calculations on Greenlink's impact on GB, which are broadly in line with our expectations. In our response to Ofgem's IPA consultation on the four interconnectors, we set out the approximate adjustments that we believed could be made to Ofgem's CBA calculations if the areas that we identified were addressed. When we compare these to the results provided by Ofgem in its open letter, the impact of Greenlink's intertrip in our adjustment is almost exactly the same⁴, while our expected impact of lifting the constraint in modelling I-SEM is slightly higher for most results across the board (though we expected variations given that we are using approximations on Ofgem's modelling, and not the actual model itself). Therefore in our view Ofgem's revised forecasts of GB consumer and GB overall welfare are sound.

Finally, we agree with Ofgem that the link will provide more efficient use of renewable resources over the GB and Irish systems over its lifetime, and agree that the link should have significant extrinsic value. We have investigated this through conducting probabilistic modelling, which has shown that, on average, Greenlink is expected to earn around 20% higher revenues than expressed through deterministic modelling.

Conditions on Ofgem's decision

Ofgem has indicated that would be three conditions applied to Greenlink, in addition to the conditions that will be applied to all cap and floor interconnectors. The Greenlink-specific conditions will be focused around:

- Greenlink's connection terms not negatively affecting Ofgem's updated analysis,
- The design of I-SEM being unconstrained as indicated in Ofgem's open letter, and
- Confirmation that the Irish regulatory regime supported the other 50% of the value of the project.

We understand the need for these conditions, and look forward to working with Ofgem on the exact wording, which will be crucial to maintain the financeability of Greenlink. For example:

³ Which were differences in the levels of installed wind capacity anticipated for 2020, the incremental benefit produced for Greenlink from reducing Moyle Interconnector's Ireland – GB capacity from 2017 to 2023, planned reductions in losses on Greenlink, and the incremental value exposed through modelling Greenlink's revenues extrinsically.

⁴ Though there could be up to a £1m NPV cost to Greenlink from operation of the intertrip, which would be incorporated in the overall GB NPV result.

- **Condition on the Greenlink intertrip:** We support having a condition around Greenlink's intertrip, to ensure that there is an incentive to put this in place in the detailed connection arrangements. We agree that the intertrip should isolate consumers from constraint costs caused by Greenlink (taking account of the date of Greenwire's connection agreement), and that its usage should not affect the reconciliation of Greenlink's cap and floor (i.e. the costs incurred to Greenlink as a result of firing the intertrip will not be accounted for in the calculation of revenues received). However it is important that Greenlink itself is protected from curtailment that is driven by other factors, such as other critical system boundaries and by new connections on the network in South Wales after Greenwire's connection date. To achieve this we will require carefully aligned wording between Ofgem's licence and our connection agreement with NGET – we welcome further dialogue with Ofgem on how we can go about practically achieving this.
- **Condition on the I-SEM design:** We understand this condition to be linked to the impact of the developing I-SEM design on market prices in Ireland and associated interconnector value, revenues and welfare. We believe that this condition will need to be time-limited (worst case up to FPA), as it would not be reasonable for Greenlink to carry the risk of losing its regulatory regime in GB for something outside its control, given that such a condition has not to our knowledge been extended to other interconnectors.
- **Condition on the Irish regulatory regime:** We are not yet certain on how the Irish regulator (the Commission for Energy Regulation (CER)) wishes to treat Greenlink, therefore any condition will need to be carefully worded to allow for the Irish regime to be developed without fettering the ability of the Irish regulator to deliver an appropriate and acceptable regime for the Irish half of the project.

We also note that the final decision on Greenlink's IPA from Ofgem will be later than originally assumed, which will impact on Greenlink's FPA deadline, thereby also affecting Greenlink's anticipated operational date (which was planned for late 2020). It is now anticipated that Greenlink will become operational in 2021, and we intend to provide our updated programme of work to FPA once Ofgem has finalised its IPA decision.

We look forward to working with Ofgem on the above conditions, and on the design of the cap and floor regime for project-financed entities as anticipated for Greenlink over the coming months, and after Ofgem has finalised its decision. In the meantime, please do not hesitate to contact me or Guy Nicholson if you have any queries on this response.

Yours sincerely,

Mike O'Neill

CEO, Element Power

cc. guy.nicholson@elpower.com