

Stuart Borland
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Ofgem
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11 September 2015

Dear Stuart,

Cap and floor regime: Update on our Initial Project Assessment (IPA) of the Greenlink interconnector

We are pleased to respond to Ofgem's open letter of 10 August 2015 seeking views on its updated IPA of the Greenlink interconnector.

As noted in our previous responses to Ofgem's consultations (on the IPA decisions in relation to NSN, then subsequently FAB Link, IFA2, Viking Link and Greenlink), we are supportive of cost-effective measures to increase interconnection. Given the significant benefits projected to be gained as a result of FAB Link, IFA2, Viking and NSN, we were broadly supportive of Ofgem's decision to provisionally award these projects cap and floor support. However, we expressed our general concern at the absence of a level playing field between GB and non-GB generators, or between interconnectors and other technologies which could provide similar benefits – points which we still believe need to be addressed.

In this context, we appreciate that if there are changes in the likely market design in Ireland, and there is a change in constraint costs attributable to the project due to a change in the connection agreement, there may be a higher level of benefit to GB consumers than shown in the initial analysis of the Greenlink project. We also accept that this improved benefit could justify Ofgem revising its position on whether the Greenlink project should be awarded cap and floor support. However, in the interest of transparency, and in view of the potentially large costs to consumers of cap and floor support, we believe Ofgem should be publishing the updated Poyry report on which its letter is based.

Without seeing the updated Poyry report, it is difficult to comment in detail on the revised assessment. However, we have a few queries about the approach and assumption on which we would welcome further clarity:

- a) Ofgem's letter makes reference to changes to the day-ahead market. Will consideration also be given to the potential effect on the intra-day market, once the internal energy market has progressed to that point?
- b) The letter mentions the strong correlation between wind in Ireland and in GB. We would therefore question how much benefit GB would receive from Irish wind spill, bearing in mind that GB prices are likely to be relatively low at such times. Do the results of the new analysis suggest that this will not be the case?

- c) The revised analysis suggests that the introduction of an inter-trip will protect consumers from any significant constraint costs. However, it is not clear whether any account has been taken of the likely costs of activating the inter-trip, for example the cost of replacing via the balancing mechanism any energy lost as a result.

The benefits of Greenlink set out in Ofgem's letter are considerably smaller than those identified for the other interconnectors that received a positive IPA. Ofgem has also included some significant caveats in relation to any potential award of cap and floor support: In particular, any award would be conditional on the final form of Greenlink's connection terms not negatively affecting the updated analysis, and on the I-SEM market design using the unconstrained wholesale price in the day-ahead market.

In view of these important caveats, we believe it would be in consumers' interests for Ofgem to wait until the decisions in relation to the I-SEM are finalised, and allow the Greenlink project to reapply at that point or in a future application window, before forming a view on whether to award cap and floor support. Not only would this provide certainty in relation to the conditions Ofgem has set out, but it could also allow Greenlink to be assessed in the context of any other projects which may be at a similar stage in their development and may ultimately provide benefits greater than Greenlink. We note that there are a number of future interconnector projects included in the ENTSO-E consultation on the 2016 European Ten Year Network Development Plan but that Greenlink was rejected as one of the projects for consideration in this consultation due to failure to include appropriate documentation.

Please do not hesitate to get in touch should you wish to discuss any aspect of this response.

Yours sincerely,



Rupert Steele
Director of Regulation