



Stuart Borland
Electricity Transmission
Ofgem
9 Millbank, London
SW1P 3GE

Head Office
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

By email: Cap.Floor@ofgem.gov.uk

lois.wares@sse.com

11 September 2015

Dear Stuart

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

SSE welcomes the opportunity to provide comment on Ofgem's updated analysis of the Greenlink interconnector.

As indicated in our previous responses, we agree that increased interconnection may provide benefits to GB consumers but that it is important that Ofgem undertakes comprehensive analysis of all the relevant factors which could impact the outcome of the CBA for any new interconnector.

We note that the details of Poyry's updated IPA has not been included for review and would value any further information Ofgem can publish. In the absence of this it is difficult to fully evaluate whether the changes proposed to the analysis are appropriate, however we have taken the time to highlight some key points which need to be considered as part of the analysis.

Interconnector flows

Whilst we do not dispute the principles of the I-SEM design presented in the consultation, specifically that unconstrained I-SEM prices would be likely to differ from constrained SEM prices, we do not believe Poyry's analysis should have been updated to include only unconstrained I-SEM prices. This assumes bidding behaviour in the I-SEM that reflects a perfect forecast of wind, which is unrealistic. The I-SEM design includes a balancing responsibility as well as marginal pricing, and indications are that in order to bypass the risk of being exposed to imbalance prices due to inaccurate forecasting at day-ahead stage,

wind generators are more likely to offer conservative estimates of wind volumes at Day Ahead stage or offer volumes in the Balancing Market directly. This will expose the market to marginal pricing which is unlikely to be much different from what we see today, and therefore not necessarily lower than the GB price more often, or with a larger differential in existing lower-priced periods as relied upon in Poyry's updated analysis.

Without sight of the assumptions used in Poyry's updated analysis we cannot comment more fully on whether the changes proposed are appropriate and therefore whether the estimated impacts seem reasonable. We would however suggest that the perceived benefits of uncurtailed wind generation be significantly reduced in order to determine a more accurate day-ahead price differential to be used in Poyry's analysis.

Export constraints

We agree that the inclusion of an intertrip will have a positive impact on the constraint risks previously identified, however there are other constraint risks which need to be considered before any negative impact is removed from Ofgem's assessment. The FCA network code would suggest that any constraint payment not received would not reduce interconnector payments to firm capacity holders. Constraint payments not received by the Greenlink interconnector would be recovered from all users in the event that its revenue fell below the floor.

Export constraints/limits on the Irish system have a significant impact on the real-time availability of the interconnector, with the Irish system currently unable to accommodate Moyle and EWIC export volumes in excess of 500MW out of a total capacity of 772MW as a result of system frequency limitations¹. The Poyry analysis should take into account operational constraints on existing and future IE-GB interconnectors and the expected impact of these on projected revenues, unless these can be demonstrably resolved before the commissioning of Greenlink.

Net Welfare Case – CPS receipts

We note that you are not proposing or consulting on any broader changes to your analysis, however we consider it important to highlight again what seems to be a significant gap in the analysis undertaken to date. This being that the IPAs for all four interconnectors do not include the potential for a reduction in HM Treasury carbon price support receipts, which were projected by HM Treasury to be worth over £3 billion between 2013-16.

We note from Ofgem's 21 July decision document on the FAB Link, IFA2 and Viking Link interconnectors, that CPS receipts are considered to be out with the scope of the CBA,

¹ EirGrid (2015) Operational Constraints Update V1.29 August,
<http://www.eirgrid.com/operations/dispatchbalancingcosts/operationalconstraints/>



however no rationale has been presented to explain why indirect taxation would be considered out of scope. If the assumption is that the impact of lost CPS receipts will be outweighed by the positive impacts of increased interconnection then this should be reflected in the analysis. We would highlight that public sector bodies incorporate indirect tax revenues when assessing and evaluating policies, programmes and projects through a CBA. This is in line with Treasury guidance, 'The Green Book', which emphasises the need to take account of the wider social costs and benefits of proposals and highlights that the relevant costs and benefits are those that can be affected by the decision at hand. This means that as well as taking into account the direct effects of interventions, the wider effects on other areas of the economy should also be considered.

In light of the issues identified above we believe it is necessary for Ofgem to undertake some further analysis on the possible impacts of the development before any changes are made to the original assessment.

If you would like to discuss the details of our response please get in touch.

Yours sincerely

Lois Wares
Regulation