Response to the OFGEM Consultation on the cap and floor regime: Initial Project Assessment of the GridLink, NeuConnect and NorthConnect Interconnectors

ENGIE UK

ENGIE is an international energy and services organisation that aims to lead the world's energy transition by developing integrated and innovative solutions for its customers.

ENGIE is present in 70 countries worldwide and has expertise in four key sectors: independent power generation, liquefied natural gas, renewable energy and energy efficiency services.

In the UK, ENGIE employs 20,000 people in a number of activities across three main areas: generation and supply of energy, management of facilities and regeneration of places and communities. ENGIE is one of the country's most significant power producers with interests in pumped storage, gas-fired combined heat and power and renewables (including wind and solar assets).

Already an established supplier of gas & electricity to businesses, we launched our new home energy business in May 2017, seeing ENGIE become the largest company to enter the UK domestic energy market for over 15 years. ENGIE is the first UK supplier to commit to rolling customers onto the cheapest available tariff at the end of their fixed term plan.

ENGIE is one of the top five outsourced services companies in the UK, delivering a range of technical, energy efficiency and facilities management services to more than 14,000 customer sites across the public and private sectors. ENGIE is the largest provider of energy services in the UK. In May 2017 we also acquired one of the largest providers of Regeneration to Local Government, Keepmoat Regeneration and, combined with our existing services to Cities, Communities and Healthcare, we now provide infrastructure, housing, facility management and smart government solutions.

Summary

- **ENGIE's response to the consultation is with reference to questions 1 and 2 only. ENGIE believes that these questions adequately cover the necessary elements of the report.**
- **A key message that ENGIE wishes to stress is the potential transfer of value out of the UK to the EU in a post Brexit situation.**
- **A level playing field is required between increased interconnection and domestic power generation, particularly with respect to transmission and balancing charges.**
- **The overriding assumption that the UK will be dependent on interconnector imports can lead to security of supply issues when flow is diverted or interrupted - solutions to which will be paid for by the end users via either costly supply alternatives or load shedding.**

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

1) ENGIE does not agree with the minded-to positions in the consultation for the following reasons:

   a. The assumptions made for GridLink are heavily weighted to the availability and reliability of the ageing nuclear fleet in France. The nuclear assets in France are nearing their end of life and the French Government has recently announced that the fleet should be reduced to 50% of the electricity fuel mix by 2025[1]. It is likely that the resulting supply gap would be satisfied by thermal generation. This does not appear to have been included in the supporting analysis. This raises the question whether the UK would be comfortable in importing fossil fuel based generation while obliging domestic thermal plant to pay the Carbon Price Support (CPS).

   b. The assessment of GB welfare versus EU (excluding GB) welfare is heavily weighted towards the EU. This translates as net outgoing of value from the GB economy to that of the concerned EU states which would be deemed to be against national interest within the context of the current climate of Brexit. Whilst the GB consumer may be the recipient of any welfare benefit, the movement of value away from the UK is borne by producers and suppliers of balancing services whose revenue is required for continued investment in the maintenance of the domestic infrastructure.

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?

2) The UK is currently a net importer of electricity partly due to the CPS. The CPS was introduced as a temporary measure to counter the sustained low market prices of the EU ETS. If Phase IV of the EU ETS results in a correction to the market price, it is likely that the CPS will reduce and potentially disappear hence causing a shift in interconnector behaviour. In addition, the scenario in which the government removes the CPS post 2021 has not been considered. As the Policy scenario (which assumes "no carbon price differential") reduces welfare for each project by a significant amount (30-40%), ENGIE believes that more weight should be given to assumptions within this scenario when considering a baseline.

3) Poyry's analysis doesn't take into account the retirement of displaced GB capacity in response to the build out of these new interconnectors. This would have a negative impact on the consumer welfare benefit for all of the projects. Ofgem adds this as a scenario but it should be the base case as introduction of more imports to the GB network will displace the price setting assets in the current merit order.

[1] https://www.forbes.com/sites/kensilverstein/2017/07/12/france-may-cut-its-nuclear-energy-fleet-which-is-core-to-its-economy/#78a35dec1d27

4) It is unclear whether the Poyry study takes into account the increase in GB system costs identified by National Grid, specifically the impact on transmission network and balancing services use of system charges (TNUoS and BSUoS) for GB generators. While National Grid anticipates a significant increase in GB system costs as a result of the new interconnector projects, the GB generator charging base bearing these costs is shrinking. The result will be a greater increase in fixed costs for remaining GB generators, and a greater value from price arbitrage than Poyry may have factored in to their base scenario (without any Policy changes to BSUoS charging).

5) The sensitivity on the capacity market does not take into account a change in the price, only a transfer of revenue from GB generators to these new interconnectors. This should be thought through in more detail to understand the dynamics of the capacity market. An increase in interconnector capacity will reduce the requirement for generator capacity and hence cause a downward shift in prices.

6) An increased number of interconnectors increases the risk of anchorage (damage caused to subsea cables by shipping) which could reduce available capacity (as happened in November 2016 to the UK-French interconnector which limited capacity to 50% until February 2017, incidentally the peak power demand period for the UK). This increases the risk of security of supply if domestic power generation has been displaced by interconnector imports and should be fully explored in the Poyry study.

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