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Dear Ikbal,

**Cap and floor regime: Initial Project Assessment for the GridLink, NeuConnect and NorthConnect interconnectors**

InterGen welcomes the opportunity to respond to the consultation on the Initial Project Assessment (IPA) for the GridLink, NeuConnect and NorthConnect interconnectors. Whilst we recognise the potential benefits to GB consumers in the short term, we believe that the projects overall are inefficient and a potential detriment to GB as a whole, both in the long and short-term. The advantages enjoyed by interconnectors, such as exemption from network charges and limited downside risk, are anti-competitive and will distort the GB market. This is illustrated in the Pöyry assessment<sup>1</sup>, which in several scenarios show an overall negative GB total welfare impact for each of the proposed projects. Without a clear distinction of interconnectors as either transmission assets or generators, Ofgem is maintaining an uneven playing field in GB and subsidising a benefit to European generators. As such, we do not believe that Ofgem's analysis is comparing like for like. Whilst interconnectors are subsidised through guaranteed returns offered by Cap and Floor payments, GB generators are exposed to greater levels of risk and will not be able to compete on the same terms.

Moreover, the cost benefit analysis is underpinned by the current policy arbitrage offered by the carbon price support which has a high level of uncertainty around its future trajectory. The carbon price support is an essential intervention to ensure progression to a low carbon future, however, it is not envisaged to be enduring.

InterGen disagrees with the view that greater levels of interconnection supports security of supply, particularly at peak levels of demand, as this, depending on the price differentials across interconnected markets, potentially increases the level of exports at these times.

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<sup>1</sup> [https://www.ofgem.gov.uk/system/files/docs/2017/06/window2\\_cba\\_independentreport\\_poyry.pdf](https://www.ofgem.gov.uk/system/files/docs/2017/06/window2_cba_independentreport_poyry.pdf)

## Background

InterGen remains the only genuinely independent generator active in the GB market with a track record of developing, constructing and operating large scale thermal power generation projects. We have been active in the market since the 1990s and therefore bring a unique perspective to this consultation. InterGen is owned by two major international investors, representing two key classes of investment which the Government is seeking to attract to UK infrastructure investment, namely, pension funds (Ontario Teachers' Pension Plan) and strategic investors from the People's Republic of China (China Huaneng/Yudean).

InterGen is one of the UK's largest independent generators, operating a portfolio of three flexible gas-fired power stations totalling 2,490MW; an investment of some £2.1bn. These stations are located at Rocksavage (Cheshire), Spalding (Lincolnshire) and Coryton (Essex).


In December 2016, at the T-4 auction, InterGen won a fifteen-year capacity market agreement to construct a 300MW OCGT, an expansion of the existing Spalding site. InterGen is also ready to build new H-class CCGT projects at sites in Spalding (Spalding Energy Expansion) and Essex (Gateway Energy). The new CCGT stations, which are shovel-ready, will cost around £800million to construct and create around 3,000 jobs over their three year build programmes.

Unlike interconnector projects, our existing and prospective sites operate on a merchant basis without the option to apply for a cap and floor subsidy to guarantee a level of return for investors.

We welcome the decision not to run a further cap and floor window in 2017/18. The energy industry and its associated policy landscape is evolving rapidly. With Brexit in progress and the terms of our involvement or otherwise in the Internal Energy Market unknown, ongoing participation in the EU ETS scheme not certain and the carbon pricing policy within GB and neighbouring countries also evolving no credible assessment of interconnector projects can be made until there is clarity on these matters.

We have outlined detailed responses to the consultation questions in appendix 1. Please do not hesitate to get in touch if you have any questions or would like further discussion on any of the points raised above or in our response to the consultation questions, below.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'A Lamond'.

Alastair Lamond  
Commercial Manager  
InterGen UK

## Appendix 1: Responses to questions in *Cap and floor regime: Initial Project Assessment for the GridLink, NeuConnect and NorthConnect interconnectors*

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

InterGen does not agree with Ofgem's minded position to grant GridLink, NeuConnect and NorthConnect a cap and floor framework. The cost-benefit analysis does not present a compelling case that total GB welfare will increase as a result of these interconnector projects, only in a select few scenarios is there an increase in net GB welfare. Indeed, the Pöyry base case scenario shows negative overall GB welfare for all three interconnector projects. Furthermore, several negative effects are not fully considered in the analysis, for example, the displacement of domestic capacity and increasing dependence on marginal carbon plant. We do not believe that interconnectors increase security of supply and that the perceived benefits remain largely unproven.

The advantages enjoyed by the dual-status of interconnectors as both transmission assets and as generators able to compete in capacity markets, in our view is anti-competitive, particularly due to the additional benefit under the cap and floor scheme. The interconnector investment case should be made on a level playing field with domestic generation.

### 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?

InterGen remains concerned that Ofgem do not clearly differentiate interconnectors as transmission or generation assets. In the analysis presented by Ofgem, the balancing services provided by interconnectors are able to compete with GB generation and are included in the customer welfare calculation. However, InterGen does not believe that interconnectors are eligible to receive balancing payments under the electricity balancing guidelines<sup>2</sup>. The draft system operation guideline defines balancing service provision as power generation units or demand side resources, not interconnectors which merely allow balancing services to take place across interconnected markets.

The ongoing balancing costs incurred by National Grid as a result of constraining inward interconnector flows in order to manage ROCOF via BSAD transaction is not reflected in the analysis presented and has a real time BSUoS impact that feeds through to the GB consumer.

### Question 3: What are your views on the approach Pöyry has taken to modelling the impact of cross-border interconnector flows?

InterGen welcome that Ofgem has engaged with Pöyry to undertake independent cost-benefit analysis for the GridLink, NeuConnect and NorthConnect projects. InterGen believe that Pöyry have adopted a sensible modelling approach and have considered the impacts of interconnection across a range of economic scenarios.

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<sup>2</sup> [https://ec.europa.eu/energy/sites/ener/files/documents/informal\\_service\\_level\\_ebgl\\_24-01-2017.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/informal_service_level_ebgl_24-01-2017.pdf)

InterGen note that GB welfare is highly sensitive to policy differences between the interconnected markets and whilst Pöyry have modelled some Policy differences (carbon and BSUoS) more analysis is needed in this area. Much of the price differentials between the GB and European markets can be explained by policy differentials. As a result, we do not believe that the simplistic approach adopted to measure the impact of policy changes in the modelling is appropriate nor accurate.

Pöyry also conclude that “None of the projects provides a benefit to GB overall In the base case” and that this is “due to the fact that lower gross margins for generators and revenue cannibalisation for other GB interconnectors is greater than the added benefit for GB consumers”. We do not believe that Ofgem has fully considered this finding in the Pöyry report.

[Question 4: Do you have any additional evidence in this area that we should take into account?](#)

InterGen does not have any additional evidence in this area.

[Question 5: Do you have any views on the information presented in this chapter?](#)

We do not believe that the potential impacts on the GB transmission network from increased interconnection has been fully examined and understood in the IPA. As such we would ask Ofgem to revisit this area and gain more certainty on impacts on the GB network.

[Question 6: Are there any additional factors that you think we should have considered?](#)

InterGen believe the ancillary services that interconnectors can theoretically provide remain unproven and are based on speculations that the interconnectors will in future have the required technology.

Ancillary services are becoming an increasingly important part of GB generator revenues. If interconnectors are able to compete for and displace domestic GB ancillary services this will likely force closures of current GB service providers and displace new build assets, adversely impacting security of supply or requiring higher revenues from other sources.

InterGen also remain concerned of the potential for conflict of interest between TSOs and the incentives to promote interconnector investment.

[Question 7: Have we appropriately assessed the hard-to-monetise impacts of the interconnectors?](#)

InterGen believe that the hard-to-monetise impacts of interconnectors should be considered, however, we note that Ofgem’s assessment has determined that the proposed interconnector projects will have a positive impact on the GB electricity market. With coal still a significant part of the generation mix in Germany, it is unclear from the analysis how NeuConnect would support the decarbonisation of energy supplies.

We would also urge Ofgem to also consider the following impacts:

1. The effects on generation mix from displaced GB generation capacity. As renewables penetration increases across Europe flexible generation will become increasingly important. InterGen believe that increased interconnector penetration, when not competing on a level playing field, will displace existing and in addition will disincentivise investment in new GB generation capacity.

2. Effects on security of supply should interconnectors be unavailable. IFA's extended period of reduced availability in winter 16/17 acted to benefit the GB consumer as they were shielded from the demand increase and associated price increase that would have resulted from exporting an additional 1GW to the continent during the periods of highest demand.

[Question 8: Are there any additional impacts of the interconnectors that we should consider qualitatively?](#)

InterGen does not believe that Ofgem has fully considered that increased reliance on interconnection requires increased integration with the European electricity market.

[Question 9: Do you have any views on the information presented in this chapter?](#)

InterGen remains concerned over the potential conflict of interest between SOs and transmission owners that have a commercial interest in interconnector projects.

[Question 10: Do you have any comments on our assessment of the project plans?](#)

InterGen has no further comments on Ofgem's assessment of the project plans.