Policy for Electricity Interconnectors Consultation Paper CER/16/239

A Submission by EirGrid

September 2016
Executive Summary

EirGrid the licensed Transmission System Operator (TSO) for Ireland has obligations to operate and ensure the maintenance of, and if necessary, develop a safe, secure, reliable, economical, and efficient electricity transmission system and under Condition 9 of its License and Regulation 8 of SI 445 (2000) has a statutory obligation to “explore and develop opportunities for further interconnection.”

As noted under Directive 2009/72/EC - “A secure supply of electricity is of vital importance for the development of European society, the implementation of a sustainable climate change policy, and the fostering of competitiveness within the internal market. To that end, cross-border interconnections should be further developed in order to secure the supply of all energy sources at the most competitive prices to consumers and industry within the Community.”

Noting the above, and further to our response to the CER’s consultation paper on the development of an enduring connection policy (CER/15/284), EirGrid welcomes the opportunity to provide input into the CER’s development of a Policy for Electricity Interconnectors provided under CER/16/239.
1 Background

EirGrid is the licenced Transmission System Operator (TSO) for Ireland and has been certified as an independent TSO by the European Commission.

EirGrid is required under licence to operate and ensure the maintenance of, and if necessary, develop a safe, secure, reliable, economical, and efficient electricity transmission system as part of an efficient, economical, coordinated, safe, secure and reliable electricity transmission system on the Island of Ireland as a whole.

In addition under Condition 9 of its Licence and Regulation 8 of SI 445 (2000) EirGrid has a statutory obligation to “explore and develop opportunities for further interconnection.”

EirGrid has already in its response to the CER’s consultation paper on the development and implementation of an integrated and enduring connection policy for the electricity system in Ireland (CER/15/284) provided its views that explicit provision for interconnection should be made in connection policy and that response is the basis for the views expressed herein on what should be considered in the CER’s proposed consultation paper. This is also congruent with EirGrid’s stated view that interconnection forms a natural extension to the grid enabling the international transmission of power between jurisdictions and markets fostering efficient and effective use of power sources and encouraging competition. As such, interconnectors enable market competition and should not therefore be viewed as competing with other users.

In CER/16/239, Policy for Electricity Interconnectors, taking into account Government and EU Policy and noting it accepts the following points the CER is now seeking submissions on what should be considered in its consultation paper.

- European policy explicitly favours further interconnection between Member States, providing for increased market efficiency, enhanced trading, improved security of supply and reduced curtailment.
- the provisions of the Third Package and the EU Network Codes require preferential treatment for interconnectors
- interconnector projects are explicitly facilitated under the Projects of Common Interest (“PCI”) Regulations.
- interconnection is treated differently from generation and demand connections.

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2 Issues for Consideration

It is EirGrid’s view that the CER should consider the following issues in the development of interconnector policy:

The unique nature / characteristics of Interconnectors

- The principle of Optimal Grid Development and end user impact and taking these into account when considering interconnections and their connection
- Interconnection is viewed as critical infrastructure by the European Commission, which is essential to move to a genuinely integrated electricity market and to this end, the 3rd package legislates to ensure that the ownership of interconnection is independent of interests in generation and supply (through TSO certification)
- The important fact that at both European and domestic level generation and interconnection are seen and treated as two distinct undertakings, with differing rule sets /requirements specified on how each must be treated by the TSOs. This is reflected in the CER’s information note.
- Any arrangements to accommodate new interconnection onto the all-island transmission network must be consistent with Regulations establishing the Network Codes.
- That Access rights for cross-zonal trading are defined in the CACM (Capacity Allocation and Congestion Management) regulation. The CACM Code, the FCA (Forward Capacity Allocation) code and the approved HAR (Harmonised Allocation Rules) will determine the framework for compensation under the new market rules.

The importance of an efficiently developed and operable power system

- The ability of the power system to be operated safely and securely with a proposed AC or DC interconnector, specifically where this may be very large and could impact on frequency stability and overall operability of the system.
- Identification of the level of deep reinforcement required for a proposed interconnector and implications for TUoS charges evaluated as part of the analysis.
- Assessment of the extent of Transmission System losses exporting or importing electricity under the various operating scenarios should form part of the analysis of the benefits.
- The requirement to ensure an appropriate commitment model for getting a connection offer should apply to interconnectors which should be in line with the principle outlined in the CER’s consultation paper of facilitating viable projects and discourage inefficient allocation of capacity.

The importance of considering the costs and benefits of Interconnector on a holistic basis

- The management/treatment of Interconnector Cross border cost allocation in the context of European arrangements
- Consideration should be given to the methodology for the assessment of Net Present Value (NPV) and whether it should be consistent with the approach employed by ENTSO-e, in the European Ten Year Network Development Plans (TYNDP), tailored as necessary in the context of the Irish Electricity Network. For example, the current methodology used in TYNDP for accessing losses, while appropriate for a meshed AC system (e.g. continental Europe), does not accurately reflect the reality of the operation of a HVDC interconnector.

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1 CACM – Capacity Allocation and Congestion Management – EC 2015/1222
2 The ENTSO-E NPV approach is calculated based on the cost and benefit analysis methodology (CBA) put forward by ENTSO-e and adopted by the European Commission for the net benefit of a project to Europe.
• A standardised method for assessing losses in an Ireland context and for HVDC technology should be set out.

• In addition to an ENTSO-e based NPV assessment, ultimately, in assessing Interconnectors, the total societal benefit should be considered to ensure that all relevant elements relating to costs and benefits including:
  o Ancillary Services Benefit - An interconnector can provide valuable services to the power system, such as blackstart capability, frequency control and voltage support. This should be assessed both in terms of revenues earned if any and physical benefits to power system operations and stability; and
  o Capacity Benefit - Interconnectors may provide an additional power source which would reduce the risk of shortages and lost load. While quantifying this benefit is dependent on assumptions around future system adequacy and capacity market design, consideration should be given as to how this capacity should be calculated e.g. by employing an appropriate rating factor.

• Analysis of competition enhancement resulting from a proposed interconnector to determine the advantages including:
  o Proven positive welfare changes for consumers and the extent of welfare changes for generators, the interconnector owner and those of existing interconnector owners
  o Conditions regarding congestion management of the wider transmission system

With the proposed decision of the United Kingdom to leave the European Union, the termination point of proposed Interconnectors from Ireland may need to be considered such that Ireland has direct access to another EU Member State and robust links within the European Integrated Energy Market.