Response to:

CER Information Paper
Policy for Electricity Interconnectors – Consultation Process and Call for Initial Comments
ESB Generation and Wholesale Markets (GWM) welcome the opportunity to respond to the CERs Information Paper on Policy for Electricity Interconnection – Consultation and Call for Initial Comments (CER/16/239). The development of a separate connection policy for electricity interconnection is welcome as it is clear that interconnection requires wider consideration in light of both European policy and cross border issues compared to generation or demand connections.

As stated in CER/16/239, the policy for interconnection sits within CER’s overall policy objective to provide a ‘fair opportunity for connection to the network taking account of system needs, efficiency, national policy and the consumer interest. Accordingly, the policy will be fair, non-discriminatory and promote efficient use of the existing network. This in turn should reduce the end-user cost of the network and facilitating competition in the wholesale energy market, thereby reducing energy prices.’ Against this backdrop, it is our view that the following issues need to be considered in the development of a policy for interconnectors.

**Transparent and Independently Verified Economic Appraisal**

The CER has an obligation to protect the energy consumers’ interests while also being fair and non-discriminate. Therefore any preferential treatment afforded by the CER to a particular connection type needs to be underpinned by a comprehensive and an independently verified economic appraisal which can inform a subsequent a go/no go decision to issue a connection offer. Where the Irish electricity consumer is underpinning some of the risk under a regulated funding model the transparency around this process and the role of the CER in protecting consumer’s interests is even more critical. By way of example, the Ireland - France Interconnector Assessment Briefing Note that accompanies this consultation, in our view, requires an independent economic appraisal and subsequent go/no go decision by the CER before the project can move into the initial design phase.

Should a project emerge today, it is our understanding that a cost benefit analysis (CBA) would be commissioned by the CER similar to that which would have been undertaken for the East West Interconnector between Ireland and GB\(^1\). However, while this CBA did highlight particular benefits and costs, whether the outcome was positive or negative was not clear other than to say such a project was worthy of a further and more detailed feasibility assessment. To our knowledge, a subsequent independent economic appraisal was never carried out by the CER once a more detailed feasibility analysis and business case had been undertaken by the developer. For EWIC, such an economic appraisal would have taken a more in depth appraisal of the security of supply benefits highlighted in the Business Case which in retrospect have not materialised due to a lower demand growth than forecasted.

It is our view that where an interconnection project is seeking to connect ahead of other participants the CER should publish the economic assessment that has been carried out by the developer. In the interests of consumer protection, this study should be assessed by the CER through an independent economic appraisal in an open and transparent way as part of the decision to grant or refuse priority to a connection offer ahead of generation or demand. This will serve two primary purposes:

Firstly it will ensure that, under an independent CER led economic appraisal of the developers detailed assessment, the wider costs and benefits to the energy consumer (gas and electricity) are fully quantified. One example of this would be the impact that the proposed electricity interconnector would have on gas capacity tariffs as a result of expected reduction in flows on the gas interconnectors. This should be quantified against the expected reduction in electricity prices that interconnection brings.

Secondly, third party verification of the findings of the developer led feasibility study by the CER would ensure that the benefits are tangible and quantifiable and the costs are comprehensively assessed. An example of this is providing quantifiable analysis around security of supply benefits that interconnection can bring by comparison against the costs and benefits of other or existing alternatives that it may displace. As well as the capital investment and expected O&M costs, this analysis would need to give consideration to the availability of the interconnector compared to the alternatives in a electricity supply emergency and take into account different scenarios in the future.

Improvement in security of supply was a key benefit that was attributed to the initial CER high level CBA for an East West Interconnector between Ireland and GB on the basis that it could improve security of supply at a lower cost than the alternatives. However, consideration to the availability of an East West Interconnector in an emergency did not appear to be considered (e.g. in a gas supply shortage there is a significant risk that electricity interconnectors will not be available due to gas supply shortages in GB and on mainland Europe). EirGrid, by their own admission in the Briefing Note on the Celtic Interconnector accompanying this consultation have recognised the limitations of GB interconnection by stating that the Celtic Interconnector would "Increase diversification of fuel sources and make Ireland less reliant on its electricity interconnection to Great Britain, a market which has identified an impending capacity shortage."

Conflicting Regulations and Legislation
There is a myriad of European Legislation and Regulations when it comes to energy policy and some of these do appear to conflict in certain areas. One clear example of this is European policy explicitly favouring interconnection between Member States while the RES
Directive explicitly states renewable technologies should have priority access to and dispatch on electricity networks.

However, while European policy favours interconnection, it is not entirely clear whether the interconnection may be given priority access to the network. From a high level desk top review, we do not believe there to be explicit provision for priority access for interconnection in the Third Package or the Network Codes.

Furthermore, as stated by the CER in the Treatment of Conventional Generator Connection Applications\(^2\) in the Gate 3 Process the strategic benefits (assumed by the CER) "do not mean that interconnection should be advanced in Gate 3 regardless of its impact on other applicants for network capacity in a congested system". Consequently, CER issued a non-firm connection offer to a merchant interconnector at the time (IMEA).

We believe therefore that the consultation on connection policy for interconnection needs to set out explicitly the various clauses of European Regulations and policies that would merit preferential treatment to interconnection receiving a firm offer to connect to the system ahead of generation or demand.

**Cross Border Considerations**

We believe that the consultation on connection policy for interconnection also needs to consider any wider policy differences between the two jurisdictions involved; renewable support schemes and interconnector funding models being the two obvious examples.

Connection policy needs to consider the funding models for interconnection in the relevant jurisdiction so that there is an equal and proportionate sharing of the costs and risks associated with the interconnector relative to the benefits to consumers in each jurisdiction. In particular, a regulated model, underpinned by the Irish consumer needs to take careful consideration of the opposite jurisdiction’s funding model, if any, such that the Irish consumer is not faced with a disproportionate level of risk relative to the benefits accrued. Further consideration needs to be given to the risk associated with the consequences of relying on external circumstances against whose policies we have no control (outside of Irish jurisdiction).

Similarly, the impact of different support scheme structures between both jurisdictions need to be fully understood and taken into consideration in the CER assessment of the developer’s detailed feasibility study. From an Irish perspective there is the question of how to adequately

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recognise the benefit and consequences (both direct and indirect costs) of zero marginal cost energy being exported to another jurisdiction that has been funded by the Irish electricity consumer through the Public Service Obligation levy.

Conclusion

In conclusion, we believe that any preferential treatment consulted on needs to be shown to be clearly underpinned by the relevant EU legislation in light of CERs remit and given the impact it would have in the market. Should preferential treatment for interconnection be deemed necessary, then the consultation on interconnection connection policy needs to ensure that tangible and quantifiable benefits and costs to the energy consumer (both electricity and gas) are identified, particularly if the Irish consumer is underwriting some of the risk in a regulated funding model. These benefits, and costs, should be independently verified in a comprehensive and transparent manner and need to take account of any cross-border issues which would then inform the decision to issue a connection offer.

We would welcome the opportunity to discuss these matters in further detail should you have any queries when considering the proposals for the interconnector connection policy consultation.

Yours sincerely,

ESB GWM