RE: Policy for Electricity Interconnectors – Assessment Criteria for Electricity Interconnection Applications – CRU/18/131

Dear Sir, Madam,

Context

Bord Gáis Energy (BGE) welcomes this opportunity to respond to the Commission for Regulation of Utilities (CRU) consultation on the Assessment Criteria for Electricity Interconnection Applications. This consultation is timely as it coincides with the recent policy statement on interconnectors issued by the DCCAE. As both a supplier and generator of electricity in Ireland, BGE welcomes the DCCAE’s policy statement as it provides for a holistic view to be taken to assessing an interconnector application – it considers the need to protect energy consumers as well as taking into account other regulatory initiatives and policy objectives. It is with these overarching views and policies in mind that we present our positions below.

BGE’s main concern around the policy for interconnectors is that if it is viewed as a stand-alone policy in isolation to other regulatory initiatives and investment signals it could overlook, or at worst undermine, such initiatives and signals. For example, the DS3 market has been established to send signals to fast, flexible generation such as battery storage and DSUs, the capacity market signals reliable capacity, while the new Renewable Electricity Support Scheme (RESS) is being developed to incentivise renewable technologies, all of which are expected to contribute to Ireland’s EU energy targets.

BGE believes that the DS3, capacity, and interconnector policies together with the Irish grid connection policy are complementary to the overarching EU and Irish policy on renewables. The policies all need to be considered holistically to maximise scarce grid capacity resource in pursuing overarching energy objectives.

A holistic assessment in our view requires the CRU to have a clear view of their end goal informed by overarching renewables objectives. The CRU should then review the various options that could achieve their end goal(s). Ideally, the appropriate mix of infrastructure that can best achieve the end goal should at least be assessed in the context of the DCCAE’s policy objectives and the need for interconnection to have a positive impact at least on each of the three pillars of Ireland’s energy policy – sustainability, security of supply and competitiveness (including cost). We outline separately below, our view on the various scenarios and sensitivities that could be taken into account in determining this optimal mix of infrastructure for achieving end goal(s).

In parallel to determining the appropriate mix of infrastructure to meet the end goal, the holistic assessment in our view also requires recognition of the fact that there are up to 8 interconnector proposals for the Irish system. BGE is also currently reviewing the CRU’s consultation on the Greenlink CBA approach and we understand that a second interconnector application to the CRU is expected imminently. In this context, while there are potential benefits of an interconnector to the Irish system, it should also be recognised that (particularly given the small size of the Irish system), there is a very high probability of diminishing returns beyond one interconnector. The CRU’s analysis needs to not only be clear on the benefits an interconnector could bring but also needs to be clear on what the optimal project is to best realise identified benefits as part of the wider optimal mix of infrastructure. In terms of determining which interconnector is optimal, the decision in our view must be heavily informed by the

---

1 According to the Generation Capacity Statement
costs to the consumer. These costs need to consider the prospects of the interconnector not only progressing but succeeding operationally and commercially. In the event that the consumer may have to partially underwrite its costs, the prospects of a chosen interconnector facilitating delivery of the identified benefits need to be convincing as failure of an interconnector investment would come at a high cost to the consumer.

Furthermore, from a networks operation perspective, grid capacity is already a scarce resource which can have a negative impact on both the extent of market entry and growth of competition within the market. We are mindful of the fact that a new interconnector would likely require grid reinforcements to accommodate its entry to the market. Where such reinforcements are necessary, the costs of such should also be factored into the CBA. Moreover, given the existing level of constraints issues in the Irish system at present, which BGE strongly believes should be resolved as a matter of urgency, we request that the capability of an interconnector to enhance or indeed worsen the constraints issue is a key criterion in assessing the value and benefit of a particular interconnector. Finally, we urge the CRU to ensure that Irish grid connections needed to accommodate DS3, capacity and RESS outcomes are not unduly undermined by the introduction of new interconnection to the system.

In their policy statement on interconnectors the DCCAE state that the CRU should consider potential alternatives to electricity interconnection such as storage. This supports our point about the need to consider what mix of technologies is the most efficient solution for meeting national and EU policy objectives in a manner that does not undermine existing Irish regulatory initiatives. From that perspective, the most efficient solution for meeting national and EU targets may be delivered by alternative technology solutions which may or may not include an interconnector(s). As mentioned above, there are numerous policies including DS3, capacity and RESS which provide signals to invest in a diverse mix of technologies to meet Ireland’s energy requirements. In assessing the various options to determine the optimal outcome for the Irish system a suitable approach may be to conduct a least worst regrets scenario assessment on a range of possible scenarios, such as those identified by EirGrid in their Tomorrow’s Energy Scenarios paper. The most efficient cost-effective solution should be strongly considered in the CRU’s decision, regardless of whether that includes one, more or no interconnectors. If an interconnector is to be under-written by the consumer through Transmission Use of System (TUoS) tariffs, the cost-effectiveness benefits of the interconnector for the consumer must be a primary assessment criterion.

Related to our above point, we believe the opportunity for interconnectors to recover their costs through the TUoS tariffs is something that should be considered extremely carefully by the CRU. This guaranteed revenue stream provides interconnectors with a major market advantage compared to other investors that have to finance on a ‘merchant’ basis. While we recognise that the DCCAE wishes to increase the level of interconnectivity in Ireland subject to a CBA, the policy for interconnectors should encourage interconnector developers to bear revenue risk themselves rather than relying wholly on TUoS tariffs to recover their costs. A merchant based financial structure for interconnectors in turn would provide a more level playing field for all types of units in the market. The extent to which an interconnector is capable of financing on a merchant basis should be viewed very favourably. However, with a view to protecting consumers, should there be a need for an interconnector to recover some costs through the TUoS tariff, the CRU should set out a clear set of KPIs to ensure the interconnector is operating as efficiently as possible. Furthermore, if an interconnector investment is made by the TSOs, consideration should also be given by the CRU to whether stronger ring-fencing requirements should be applied.

With regards to the criteria proposed by the CRU in their Consultation paper, we believe they should in general provide a good indication of the impacts that an additional interconnector may have on the Irish transmission system in terms of socio-economic welfare. In the context of our above positions, we have some specific comments related to some of the criteria which we believe should further strengthen the assessments.

**Scenarios and sensitivities**

Given our overarching renewables policy and complementary DS3, capacity, interconnector and grid capacity policies the assessment of interconnector benefits should be considered across a range of scenarios which include the different potential evolutions on the system. We believe that EirGrid’s
Tomorrow's Energy Scenarios paper would form a good basis for assessing which of the different potential electricity system evolutions/scenarios best achieves the CRU's end goal.

As recognised by the DCCAE, end goals can be achieved in different ways. Again, EirGrid's Tomorrow's Energy Scenarios paper should provide a good basis for the expected evolution of all types of technology including recognition of the role of battery storage, peakers as well as interconnectors. The scenarios assessed in our view should also incorporate the expected volumes of storage that may come onto the system as a result of upcoming DS3 Capped Volume and capacity and RES auction.

EU targets - interconnection

As outlined in our Context section above, a realistic view on the level of interconnection required to meet overarching EU energy targets is required as there is likely to be high diminishing returns beyond one interconnector. Based on the recent National Policy Statement for Electricity Interconnectors published by the Department of Communications, Climate Action and Environment (DCCAE), there is a desire to increase Ireland's level of interconnection to 15% by 2030 to meet the EU's Member State specific targets. The European Commission believes that Ireland's interconnection level is currently at 7.4%, however this is based on the ratio of imports to on-island generation at a single point in time (11 January 2017 19:00). We believe a more appropriate approach would be to compare the total available import volume against Ireland's peak demand. Under this approach and using EirGrid's Generation Capacity Statement 2017-2026 \(^2\) as a reference, the level of interconnection in Ireland is currently at 9.4% and may reduce to 8.7% by 2026 based on the median demand forecasts for the Total Electricity Requirement. This is illustrated in figure 1 below.

![TER vs Interconnection level](image)

Figure 1: Level of available interconnection as a percentage of total electricity requirement year on year.

Figure 1 suggests that in order to reach a 15% interconnection target by 2030, it would be necessary to build only one additional interconnector. This in our view lends support to the point outlined in our Context section that the CRU needs to be really clear as to the benefits of an interconnector but also – if an interconnector is in fact deemed a necessary element of the optimal infrastructure mix needed to meet policy objectives – which interconnector project of all applicants is best placed to help realise the identified benefits. Again, these benefits need to be assessed at least in terms of consumer costs, grid costs and constraints impacts, reliability and sustainability, security of supply and competition.

Political landscapes

We agree with the CRU that strong consideration should be given to the impact that Brexit may have on market prices and national targets. As the DCCAE note in their policy statement, if the UK leaves

---

the Internal Energy Market it may no longer benefit from EU electricity market coupling, making trade between the UK and EU Member States potentially less efficient. Should the reason for building further interconnection be to meet EU targets, the CRU should strongly consider the appropriateness of enhancing connections with the UK market.

Interconnector reliability

An interconnector’s expected usage and ability to deliver any identified benefits should also be stress tested to account for unplanned, extreme outages, as has been seen over the past number of years in existing Irish interconnectors. For example, based on SEMO data, EWIC had zero flow for 30% in H1 2017 and 26% zero flow in H1 2018. This would have a seriously negative effect on consumers, as although they continue paying for the interconnector, it is unable to provide any market or renewables benefits during such times.

Shared CBA assessments between two countries

Assuming the interconnector’s costs will be recovered via two parties (i.e. two countries), we believe the CBA results provided by an interconnector to the Regulators in one country should be consistent with the results provided to the other connecting country. For example, the net social welfare seen for producers, consumers and interconnectors should have similar results in both sets of CBA results to ensure the integrity of their findings.

Based on the recent consultation on the Greenlink interconnector, the results of the CBA showed significantly negative social welfare for GB consumers, while the contrary was provided to Ofgem which subsequently gained Ofgem’s approval. To maintain credibility of any CBA reports, any discrepancies showing alternative results should be explained and justified in a clear and transparent way.

Summary and Conclusion

In conclusion, BGE accepts the need to develop a policy for assessing interconnector applications in Ireland. It is however crucial that the policy is not considered in isolation to other regulatory initiatives and policies in existence or in development that all have a role in facilitating our overarching renewables objectives. Any such assessment should have the objectives of minimisation of costs for consumers and minimisation of grid costs, grid constraint and grid connection impacts to the fore. The DCACE’s policy and core energy pillars of sustainability, security of supply and competition are also fundamental in informing the outcome of such assessments. In summary, a holistic approach to assessing interconnector applications in our view requires that:

i. The CRU has a clear view on its end goal and objectives informed by energy targets. The complementary DS3, capacity, interconnector and grid connection policies need to be viewed holistically in their role in supporting such objectives. A view on the optimal mix of infrastructure needed to meet the end goal can then be determined (based for example on Tomorrow’s Energy Scenarios) including whether and which interconnector(s) should form part of the optimal mix or not in the near future;

ii. There is recognition of the fact that given the small size of our system, diminishing returns are to be expected beyond one interconnector. Analysis shows that it is unlikely more than one interconnector would be required to meet EU 2030 interconnector targets. In determining the optimal infrastructure mix, if an interconnector is to form part of that mix (and is justified for example in terms of costs to the consumer and prospects of the interconnector succeeding commercially and operationally as well as other considerations discussed above), further determination of the optimal interconnector project of all applicants is required;

iii. A least worst regrets scenario assessment with one, more or no interconnectors in the optimal mix of infrastructure may help inform any assessment;

iv. A view of the impact of the interconnector on Irish grid constraints should be taken into account as should the impact of the connection of any interconnector on the grid connections required to accommodate the market outcomes of DS3, capacity and RESS auctions. Negative impacts should be avoided insofar as possible;

v. The need for an interconnector to be partially funded by the consumer through TUOS tariffs needs to be carefully considered. Interconnectors capable of financing more on a “merchant”
basis should be viewed favourably given that TUOS-funded interconnectors provide an unequal market advantage to interconnectors compared to other investors which could in turn undermine the complementary policies of DS3, capacity and grid connection. TUOS-funded interconnection also places higher risks on consumers as in the event that the interconnector fails to deliver on the anticipated benefits, the cost falls on the consumer;

vi. The influence of BREXIT on efficient interconnector flows and prices should be considered in determining the optimal interconnector project where a choice between projects is necessitated. The expected reliability of an interconnector given recent outages experienced on EWIC which undermines the value of the interconnector to the consumer which it is paying for should also be a key factor in any assessment.

I hope you find the comments and suggestions above useful. Please do not hesitate to contact me if you have any questions or queries.

Kind regards,

Regulatory Affairs – Commercial
Bord Gáis Energy

(By email)