From:
Sent: Monday 11 February 2019 18:46
To: Electricity Interconnectors
Cc:
Subject: Celtic Electricity Interconnector

We support the analysis and consultation process outlined by Celtic in their CBCA. In particular, the Celtic CBCA estimation of socio-economic welfare and the network benefits clearly follows the quantification process outlined in ENTSO-E and ACER guidelines.

The CBCA process offers a critical investment framework for new interconnector investors with PCI status and will contribute significantly to the Europe-wider goals of market integration.

We note, however, that in following the assumptions outlined in the ENTSO-E TYNDP 2018 guidance, Celtic may have excluded the impact of cross-border transmission capacity attributable between GB and FR to a greater extent than necessary.

AQUIND's understanding of the Celtic Brexit assumptions

The Celtic CBCA application includes several sensitivity assessments on the basis of the UK's withdrawal from the European Union after March 2019. There were two main scenarios relating to the UK's withdrawal: "Soft Brexit" and "Hard Brexit". AQUIND understands that both sensitivities were applied to the four main scenarios (three TYNDP scenarios and additional scenario requested by CRE/CRU) in order to estimate the impact of the project on socio-economic welfare.

AQUIND understands that Celtic's "Soft Brexit" scenario modelling included limitations on future cross-border interconnection between GB and France. The capacity restrictions under the "Soft Brexit" sensitivity includes:

4000 MW of FR/GB interconnection capacity from Eleclink (1000 MW), IFA2 (1000 MW) and IFA 2000 (2000 MW)

The Celtic CBCA "Hard Brexit" scenario includes further restrictions on future interconnection capacity:

4000 MW of FR/GB interconnection capacity from Eleclink (1000 MW), IFA2 (1000 MW) and IFA 2000 (2000 MW)

0 MW of DE/GB capacity

500 MW of IE/GB capacity (East-West Interconnector)

1400 MW of GB/Norway capacity (North Sea Link)

1400 MW of GB/Denmark (Viking Link)

Wholesale market decoupling between GB and continental Europe

AQUIND's response on Brexit modelling assumptions

Several FR/GB interconnectors are still in stages of development and for commissioning in the near-term; AQUIND notes that the TYNDP 2018 cross-border capacity assumptions include a net transfer capacity of 6900 MW (excluding AQUIND) at the FR/GB border in the 2027 reference grid.

We would expect therefore that Celtic's sensitivity assumptions would more closely reflect the current expectation of cross-border capacity investment (under both "Soft Brexit" and "Hard Brexit"). The current assumptions are very conservative regarding the level of FR/GB capacity in the long-term, and do not reflect industry-wide expectations, even taking into account Brexit.

Whilst AQUIND acknowledges that Brexit introduces a degree of short-term uncertainty for GB-France interconnector investors, it is very likely that legal and regulatory implications even of the hardest Brexit will be resolved in the midterm future through appropriate trade agreements. Potentially, even before the Celtic Interconnector is commissioned into operation. The fundamental investment signals for GB-France interconnection will remain post-29 March as these are driven by underlying market fundamentals in the connected, and wider-European, markets.

As a baseline, AQUIND's view is that the correct reference grid assumptions (TYNDP 2018 including AQUIND), based on a cross-border capacity of 8900 MW, is the appropriate starting point for the Brexit sensitivities.

Even though a sensitivity is a valuable tool to evaluate potential future market scenarios, but a distinction needs to be made how these results are treated.

Slowest Progress

It has been customer over the previous decade or so to automatically assume that slower economy results in much slower renewables deployment. However, with renewables approaching grid parity, they in fact become more efficient solution than fossil fuel based power generation. For example, significant additions to offshore wind capacity in the UK happened in the wake of the wake of 2008 crisis, while solar plants are being developed without reliance on tariffs. While there still might be a relation between the overall economy and the development of RES, it is not that direct and linear as it is typically assumed based on the evidence from that period of time when renewables required heavy subsidies.

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