



[www.eirgrid.com](http://www.eirgrid.com)

The Oval, 160 Shelbourne Road  
Ballsbridge, Dublin D04 FW28, Ireland

Telephone +353 1 677 1700

Email [info@eirgrid.com](mailto:info@eirgrid.com)

Stuart Coleman  
Manager, Energy Networks  
The Commission for Regulation of Utilities  
The Exchange  
Belgard Square North  
Tallaght  
Dublin 24

21 May 2020

**Re. Greenlink Electricity Interconnector “Cap and Floor Request”, CRU/20/042**

Dear Stuart,

On behalf of EirGrid, in its capacity as Transmission System Operator and Market Operator, I welcome the opportunity to engage with the CRU as part of its development of investment frameworks for interconnector projects. As the industry continues its transition to a smarter and more flexible future energy system, clarity on the regulatory treatment of interconnectors is increasingly important. EirGrid is encouraged by the CRU’s commitment to continuing its work to ensure that electricity interconnectors, such as Greenlink, can be integrated into the existing SEM infrastructure. We look forward to wholesale market participants and, ultimately, consumers benefitting further from access to cross-border renewable generation.

By way of summary, EirGrid acknowledges the appropriateness of the proposed *Cap and Floor* arrangements for the Greenlink interconnector from the perspective of the developer and supports a consistent regulatory approach being applied at either end of any interconnector project. There are, however, outstanding questions relating to the interaction between the network charges processes and any payments to be made to Greenlink through the Cap and Floor mechanism, as well as the operating principles of the Greenlink interconnector, which EirGrid feels are necessary to address prior to the draft determination (programmed for Q3 2020) and the final decision on the Cap and Floor Regime (programmed for Q4 2020). We remain at your disposal to work through these areas in the coming months.

Our views on the questions posed by the CRU can be found overleaf; these are not considered confidential and, along with this letter, can be published alongside any other consultation responses. EirGrid is happy to discuss the content of this response further, should this be helpful in supporting the CRU during its decision-making process. For further details, please contact Adam Hipgrave ([adam.hipgrave@eirgrid.com](mailto:adam.hipgrave@eirgrid.com)).

Yours sincerely,

*[sent by email and accordingly bears no signature]*

**Bill Thompson**

**Head of Group Regulation, EirGrid**

c.c. Adam Hipgrave, Group Regulation, EirGrid

## EirGrid Response to the CRU's Consultation on the Greenlink Cap and Floor Request

**Question 1: Do you agree with the CRU's minded to position that a Cap and Floor regime is the appropriate regulatory revenue model for Greenlink in Ireland?**

In considering its response to this question, EirGrid welcomes the CRU's reassertion that it will "choose the regulatory approach depending on the circumstances of the electricity interconnector being considered". We consider this to be consistent with the CRU's PCI Incentive Methodology ([CER/15/269](#)), published in 2015, and the 2018 Greenlink Consultation Paper ([CRU/18/119](#)). Furthermore, recognising that the objectives of interconnector developers can differ, EirGrid also supports the CRU's fundamental criteria used to consider the appropriateness of the Greenlink interconnector Cap and Floor request. We recognise the importance of striking an optimal balance between the following three areas, as listed in Section 2.3 of the consultation document:

- 1. Facilitating different financing solutions, including from private developers, as a way of attracting efficient and innovative proposals;*
- 2. Providing consistent incentives for the developers across both jurisdictions (Ireland and GB) that the interconnector links to; and*
- 3. Appropriate allocation of risk between consumers, developers and other affected parties (e.g. domestic generators).*

At a conceptual level, it would appear that the Cap and Floor regime has been effective in stimulating recent private investment in the interconnector market in Great Britain. We see that the independent, commercial arm of the National Grid Group, National Grid Ventures, has used the framework to fund the operational NemoLink and the under-construction IFA2, North Sea Link and Viking Link. Given the assurance and confidence that this framework provides, in that it provides a consumer-written guaranteed level of revenue, we understand its appeal to Element Power Holdings and Partners Group, the joint owners of Greenlink Interconnector Limited.

We agree with the CRU's view that "applying a different regulatory approach on the Irish side of the connection (to that of the GB side) could result in perverse incentives on Greenlink's operation". Achieving consumer benefits from interconnector development and operation is predicated on operating the link with common vision and purpose; the regulatory framework that is in place by the regulatory authorities at both ends of the link should serve to establish that common vision and purpose. Hence, the CRU's decision to follow the approach of the neighbouring regulatory authority seems prudent.

Noting that the CRU's draft determination on the Cap and Floor Regime is programmed for Q3 2020 and the CRU's final decision is programmed for Q4 2020, EirGrid wishes to highlight the need for significant further engagement in relation to how the proposed mechanism would interact with the existing Transmission Use of System (TUoS) charges processes. The consultation document would appear to suggest the Greenlink Interconnector Limited would undergo an annual reconciliation "assessment", potentially leading to the company's revenues being "topped up through network charges paid for by the consumer". It is unclear to EirGrid how this will be achieved in practice. It



should be noted that, unlike in GB (where the modifications to the Connection and Use of System Code were informed by existing practices detailed in the System Operator-Transmission Owner Code), there is currently no framework in place in the SEM on which such a process could be based. EirGrid, therefore, sees a need to further understand the detailed approach being proposed by the CRU and Greenlink in order to determine whether the CRU's proposed design will be feasible or compatible with the current network charges and tariffs arrangements. We make ourselves available to discuss this with both parties to progress this in the coming months.

**Question 2:** Do you agree with Greenlink's requested regime features?

**Question 4:** What are your views on the CRU's initial assessment of the requested features?

*The content below constitutes a single joint response to Question 2 and Question 4.*

Noting the requirement to manage developer needs on a case-by-case basis, EirGrid understands the rationale behind the regime features requested by Greenlink. It is noted that, from the perspective of a project developer, the Cap and Floor framework has been attractive to those seeking to build interconnector infrastructure in Great Britain in recent years, despite the significant uncertainty surrounding Great Britain's cross-border arrangements following its exit from the European Union. It is, however, understandable that the CRU finds it *"challenging to establish which features of Greenlink's submission are necessary to meet the minimum financing requirements, and which features are more likely to be associated with improving the commercial investment case for Greenlink's sponsors"*. As such, we would encourage further bilateral engagement between the CRU and Greenlink to address the specific funding parameters of this project, so as to optimally balance the needs of Element Power Holdings and Partners Group, and those of the Irish consumer.

Looking at the proposed *Design Features*, EirGrid suggests that more clarity may be required on the underpinning assumptions of the *Incentives and Revenues* elements. In order to inform the setting of the Cap and Floor levels and to support the final investment decision of the Greenlink project, there will need to be a tripartite agreement established between National Grid Electricity System Operator, EirGrid (in its capacity as TSO) and the Greenlink Interconnector outlining how the three parties will work together to ensure that the link serves to increase market opportunities while supporting system security.

As part of this common understanding, it is assumed that the interconnector will provide ancillary services in keeping with the provisions set out in its interconnector licence. It should be noted that ancillary services include those *"directed by the Commission from time to time"* and that, in the event that the parties disagree on the proposed remuneration for any services provided, the Commission will settle any *"dispute between the Transmission System Operator and the Licensee in such manner as appears to the Commission to be reasonable"*. This fundamental position will not only impact on the setting of the cap and floor levels, as it will detail the remuneration principles for these ancillary services, but will also be critical in the final investment decision of the Greenlink project sponsors. EirGrid, therefore, recommends that this tripartite engagement begins as soon as reasonably practicable and asks the CRU to endorse this recommendation.

EirGrid welcomes the inclusion of an interconnector availability incentive. It should be reinforced, however, that this availability should relate to the availability of the interconnector to both the market, for trading purposes, and to the onshore system operators, for balancing purposes. This clarification would ensure that, in its operation, the interconnector owner focuses on the aspects which will deliver the most value to consumers. When considering interconnector availability more generally, we would assume that Greenlink will work with EirGrid and National Grid Electricity System Operator in order to agree appropriate maintenance schedules, and hence planned outage calendars, in such a manner that acknowledges any network constraints in either onshore network.

**Question 3:** Are there other features the CRU should consider?

**Question 5:** Should the CRU consider any other specific factors or elements in its initial assessment of the requested features?

*The content below constitutes a single joint response to Question 3 and Question 5.*

While the Cap and Floor model seeks to ensure that developers can proceed with the construction of “*physical transmission links which allow the transfer of electricity across borders*”, the enduring operation of the interconnector should be considered further at this stage in the design of the revenue framework. The relationship between the privately-funded interconnector and the onshore system operators at either end will have a significant impact on the money-flows between the Irish consumer, National Grid Electricity System Operator and the investors in the Greenlink project. At present, there is insufficient clarity on how the three parties will operate together, following the link’s go-live, to understand the possible financial ramifications on the three parties.

It is noted that similar issues were faced with the NemoLink interconnector, which links Great Britain and Belgium. The project, underwritten by a Cap and Floor framework, became operational in early 2019, expecting to offer its full capacity into the day-ahead market and accordingly generate the associated revenues. Due to capacity limitations being imposed on the interconnector by the onshore system operators, these revenues were not achieved, meaning that there was a reduction in the forecast returns that the project sponsors would make and, hence, an increased risk that consumers would need to make a “*top-up payment*” up to the value of NemoLink’s floor level. While EirGrid understands that this has now been resolved, this example serves to demonstrate the importance of achieving a common understanding of how an interconnector will be run far in advance of go-live, so that each party can assess the potential financial ramifications accordingly.

As referenced in our response to Questions 2 and 4, EirGrid would be seeking to agree, as part of this common understanding, that Greenlink will provide support to National Grid Electricity System Operator and EirGrid TSO in acknowledgement of the need to manage their respective networks. Ancillary services revenue would be addressed as part of such discussions. EirGrid TSO makes itself available to the representatives of the Greenlink project and National Grid Electricity System Operator to progress this work as soon as practicable.