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By-mail

20th May 2020

**Att.: Mantas Vencius**

**Ref: CRU20042 Greenlink Electricity Interconnector - Cap and Floor Request**

Dear Sir,

Thank you for the opportunity to respond to your consultation regarding offering a Cap and Floor to Greenlink Interconnector.

Statkraft is the largest producer of renewable electricity in Europe, producing over 60TWh a year. We exist to lead a shift to a renewable world. Globally we develop and operate hydropower, wind, solar, gas and biomass, supply district heating and buy and sell energy. In Ireland we are actively developing 1GW of onshore wind, the 500MW NISA offshore project, nearly 400MW of solar.

Our vision for Ireland's energy system in 2030 is strongly aligned with the government policy around decarbonisation. We are focussed not just on the new renewable projects required to reach the 70% RES-E target, but also the associated changes in the way the power system that are vitally necessary. Getting (close) to 40% by 2020 was a significant achievement, but there is a step change in complexity in running a power system at the levels needed for 2030. The energy industry will be required to deliver new technologies, in particular ensuring that all investment is in technologies that increase the flexibility of the power system. We have already commissioned one battery storage system, and we have another in construction. We have committed a decade of research to other forms of flexibility, and we are active in complementary areas such as EVs, flexible generation, virtual power plants and novel stability technologies.

The one technology that stands head and shoulders above all others in terms of large-scale cost effective flexibility are HVDC interconnectors. The technology is mature, their environmental impact is negligible, and the savings they bring to consumers are at scale. The current state of the art Li-Ion batteries are effective at providing reserves and system services, but are simply not able to provide the deep flexibility of 500MW flowing for hours, days or even weeks, that an asset like Greenlink can provide. Quite simply, if Ireland is to get to 70% RES-E cost effectively, it needs to build at least Greenlink and ideally Celtic as well. The additional benefits in terms of security of supply that such an interconnector would bring cannot be underestimated given the current high dependency on foreign fossil fuels that Ireland has. Statkraft therefore strongly supports the "minded to" position to offer Greenlink a Cap and Floor support.

At present Statkraft like other renewable energy developers are concerned at the challenges required to develop the Irish grid system in order to support the ambition setout in the Government's Climate Action Plan. Ireland has historically been slow to develop and construct new infrastructure due to policy and development challenges in Ireland Examples of projects that experienced such issues are the North South Interconnector and other Eirgrid network upgrade projects. Similarly, a project like Greenlink could progress slowly. Statkraft believe it is vital that CRU expedites the project by approving the necessary regulatory support so that it can be delivered in the near future and reduce the levels of curtailment that Statkraft and others are currently experiencing on their renewable energy projects.

*Question 1 - Do you agree with the CRU's position that a Cap and Floor regime is the appropriate regulatory revenue model for Greenlink in Ireland?*
We believe that the Cap and Floor regime is a not just appropriate, it is likely the only practical regime that can be used. It is unlikely that private investment would come forward under the merchant model. A fully regulated solution is not compatible with the UK regulatory regime, and put's an unnecessary level of risk onto Irish consumers. The Cap and Floor regime secures private sector investment, yielding significant savings for Irish electricity consumers and enabling deep decarbonisation, all at most likely zero cost and small risk to Irish consumers. There appears to be a compelling case for cap and floor over the alternatives.

*Question 2-3*
*What are your views on Greenlink's requested regime features? Are there other features that the CRU should consider?*
In general, Statkraf agrees that the list of features requested by Greenlink appears reasonable and comprehensive. We do not intend to complete a detailed assessment, as this is outside our area of concern and expertise.

However one area not mentioned is the risk of market change. It is inevitable that over the operating life of the project there will be material changes to the electricity market structures in both UK and Ireland, whether driven by local or EU policy. These could have positive or negative effects on the revenues earned by Greenlink or the benefits accruing to consumers. Ideally Greenlink should be shielded from such risks, since they can do little to mitigate against them once the investment decision has been made, but the regime should at least make it clear where how the costs and risks associated with such changes are allocated between the various parties.

*Question 4 - What are your views on the CRU's initial assessment of the requested features?*
As with the previous question, as this level of detail is outside our area of expertise, Statkraft does not wish to provide a detailed assessment. At a high level, we agree with the CRU's position on ensuring that project operational risks are not supported by the floor, at least in the case where they can and should be mitigated by the project owner and thus the risk borne by the project equity.

*Question 5 - Should the CRU consider any other specific factors or elements in its initial assessment of the requested features?*
Statkraft has not identified any other specific factors or elements.

In summary, Statkraft is strongly supportive of Ireland building additional interconnection with its neighbours. Of all the flexibility mechanisms that are going to be required to successfully reach the very high levels of renewables planned for 2030 and beyond, HVDC interconnectors are the most mature and able to deliver the largest positive impact for consumers. They are therefore consistent with and vital to Statkraft's view of the future power system. The cap and floor regime appears to offer an excellent value for money for Irish consumers. In looking at the details of the regime, the regulator should work through the detail to ensure risks are allocated to the party best able to control it, but never lose sight of the overall benefits of the project to Irish consumers and the wider decarbonisation policy.

We look forward to future projects using this innovative cap and floor regime.

Yours sincerely,
for Employer

Kevin O'Donovan
Country Manager
Statkraft Ireland Ltd.