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23<sup>rd</sup> July 2021

**RE: Celtic Electricity Interconnector “EirGrid - Regulatory Framework Request”, CRU/21/057**

Dear Mantas,

Bord Gáis Energy (**BGE**) welcomes the opportunity to respond to this consultation on CRU's proposals for the Cost Recovery Regulatory Framework for the Celtic interconnector (**the ‘consultation’**).

In general, BGE agrees with the CRU's overall aim in the consultation to balance the ability of EirGrid to finance the interconnector while ensuring an excessive risk in terms of higher transmission charges is not put on consumers because of this investment.<sup>1</sup> We welcome the CRU proposal to treat the Celtic interconnector (**IC**) as a separable project rather than as part of the TSO's asset base, for transparency and predictability of cost. We are concerned however that recent developments reflect heightened risk in terms of the cost of Celtic IC for the consumer and that the CRU's proposals may not go far enough to mitigate this consumer cost exposure.

In the next steps taken on the Celtic IC, BGE asks that:

1. **CRU provides transparent insight on the increased costs of the Celtic IC to enable industry and consumers understand the drivers for, and impacts of, the cost increases.**
  - a. We have been notified in this consultation that the investment costs, including contingency risk, for the Celtic IC have increased by 20% from €930m to ~€1,116m. In the CRU's CBCA decision CRU19051 the CRU and the French CRE agreed that, *‘in the event that the cost of the main supply contracts materially exceeds the estimated costs (i.e. by 20%) or that the total costs of the project are reviewed significantly upwards (i.e. by 20%), the two regulators would review their decision in order to reconsider the opportunity to invest in the project and/or the cross-border cost allocation decision regarding cost overruns.’* It is not clear from the consultation what the plan is for liaising with EirGrid as well as with the French TSO (RTE) and regulator (CRE). It is unclear if for example the Irish consumer share of Celtic IC investment costs of 65% could increase or how the 50/50 France/ Ireland share of cost overruns might be impacted. We would like to better understand drivers and impacts of the 20% cost increase and get confirmation that the French TSO and Regulator are still committed to the project and their portion of the costs despite the escalating costs.
  - b. Furthermore, the EU funding now only covers ~48% of the investment costs instead of the original 60%<sup>2</sup> threshold that the two regulators decided was the appropriate threshold to pass for EU funding if negative impacts on both countries' consumers were to be avoided. Under Article 10(3) of Regulation (EU) No. 1316/2013 the amount of Union financial assistance can cover up to 75% of project costs. We request CRU's view on whether any scope exists to re-open the funding request to obtain further EU funding?
2. **CRU reassesses the original Cost Benefit Analysis (CBA) taking account particularly of the cost of wider network reinforcement costs and of changes relating to the Greenlink IC build, BREXIT and Ireland's latest security of supply concerns.** The CRU has indicated the costs are being reassessed thus, in tandem, so too should the benefits be reassessed.
  - a. ***On top of an update on the construction costs, a pressing requirement is EirGrid's and CRU's view on the expected reinforcement costs and total system costs needed to facilitate the Celtic IC.*** We understood at the time of the original CBA that the CRU would consider these costs at a later date. The

<sup>1</sup> The focus on the consumer is reflected in CRU's recognition that EirGrid's proposed cost recovery mechanism provides insufficient protection to electricity customers from inefficient expenditure, particularly during the construction phase.

<sup>2</sup> The EU financial assistance awarded represented 57% of the estimate investment costs at the time which the regulators determined was sufficiently close to their 60% threshold.

documentation at the time of the CBA inferred there will be considerably more constrained running of on-island units with Celtic IC connecting. This in turn will lead to increased dispatch balancing costs and, together with the costs of on-island reserves required on foot of a large single infeed of 700MW, will have a considerable impact on consumer imperfection charges and TUoS costs. It is unlikely that network and locational issues will be resolved by 2030 so network limitations will exist in 2026 when Celtic IC is expected to connect. In the Cork area already, there are severe limitations with getting more MWs out of the region and no transmission development plans to alleviate the bottlenecks have been published to date. Imports through Celtic could thus increase renewable curtailment in the area too. Given the rising investment cost, security of supply concerns and the required shift in generation on, and operation of, the network this decade we need to understand the complete costs and benefits of the Celtic IC project before committing the Irish consumer to underwriting it.

- b. **Greenlink inclusion on the base case.** In the original CBA documentation the Greenlink IC was not included in the base case for Celtic IC. The CBA information in 2019 showed how both Celtic IC and Greenlink IC deliver reduced benefits when the other IC project is also delivered. A cap-and-floor approach has been decided on since the CBA and we are awaiting the final decision from CRU on the details of the cap-and-floor approach. The prospect of Greenlink progressing and its costs are therefore more concrete at this point in time and should be considered by CRU in updating its CBA for the project.
  - c. **The robustness of the BREXIT assumption.** The BREXIT sensitivity in the original CBA carried a lot of weight in determining that the Celtic IC was in the public interest. That BREXIT sensitivity was more weighted towards a “hard” BREXIT but given recent developments and agreements around BREXIT a softening (or possible removal) of this sensitivity and assumption around efficient interconnector flows may be necessary.
  - d. **Security of supply in scenarios.** The security of supply situation in Ireland has changed since the initial CBA. It is therefore pertinent that a revision of the contribution of Celtic IC towards security of supply occurs. While the IC could help in import mode, considerations around the scope for common weather patterns occurring across Ireland and France such that when the system is tight the Celtic IC could also go into export mode, is also needed.
3. **CRU considers whether a different regulatory framework to RABXWACC such as a cap and floor approach is necessary to protect the consumer interests given that the financials of the Celtic IC seem to be shifting.** This would be informed on foot of the updates that would outturn from the two points above, i.e. what the drivers for increasing costs are and whether the cost sharing arrangements between France and Ireland still stand; whether more funding can be obtained from the EU, and; what cost/ benefit trade-off is now for Celtic IC determined on foot of the updates to the CBA.
- a. Precedent for how a cap-and-floor (C&F) regime might be designed exists for Ireland. A cap-and-floor regime was recently approved, and the details consulted on by CRU, for the Greenlink IC. The CRU regarded that C&F regime as providing a suitable balance between providing incentives for IC operators to minimise cost and optimise performance providing protection for consumers from excess cost and excess returns, as well as offering protection for debtholders to ensure project financeability. Depending on the extent of consumer cost exposure determined on foot of our asks in points 1 and 2 above, a C&F regime might offer better protection for consumers while not undermining financeability and feasibility of the Celtic IC.
  - b. We note the CRU’s rationale for not investigating the C&F regime appears to be that it would not be possible under a C&F regime to eliminate potential conflicts of interest. One potential way of mitigating the issue could be to ring-fence the Celtic IC within EirGrid group.
  - c. Benefits of cap-and-floor regimes are widely commented on and reasons why it might be determined as more appropriate for the Celtic IC depending on the outcome of actions in points 1 and 2 above, include it:
    - is most equitable between all types of interconnector investors,
    - best reflects uncertainties on benefits outweighing costs particularly if both ICs proceed, and
    - mitigates any level playing field concerns between merchant alternative technologies and interconnector projects (notwithstanding the substantial grants that such projects can obtain).

**BGE supports the CRU developing thinking on certain other matters in the consultation** such as applying symmetrical incentives if EirGrid deliver the interconnector on or below cost and in line with the expected timeframe but not making a decision on ‘money at risk’ at this point in time. A performance-based incentive related to a target availability level would also be needed on operation of the IC. We look forward to future engagement on these and other processes needing further consultation including around governance, licensing, debt service coverage ratio requests and arrangements for cost recovery should the project not proceed.

**In conclusion**, our primary asks on next steps for the Celtic IC are that the CRU:

1. Clearly explains to industry and consumers what the drivers are for the 20% investment cost increases for the Celtic IC, whether more EU funding can be obtained and whether the French TSO and regulator is still willing to share costs such that Irish consumers are not negatively impacted by these increases.
2. Updates and provides clarity on the understanding of the costs and benefits of the Celtic IC. A revision of the CBA must necessarily include updates on assumptions around network reinforcement costs, related overall system costs and of changes relating to the Greenlink IC build, BREXIT as well as Ireland's latest security of supply concerns. Before EirGrid progress to tender stage in Q4 2021 confirmation that the costs/ benefits for Celtic IC still stack up is requested before committing the Irish consumer to a regulatory framework for cost recovery.
3. Further considers the scope for a cap-and-floor (C&F) type regime to better protect consumers compared to a RABXWACC particularly if the finances of the Celtic IC are escalating at an unexpected rate such that IC costs outweigh benefits. The need for further consideration of a cap-and-floor regime will be informed by the updates discernible from points 1 and 2 above. Ring-fencing of the Celtic IC could help mitigate any conflict of interest concerns if the C&F is determined necessary for better consumer cost mitigation.

I hope you find the above comments and suggestions clear and helpful. Please do not hesitate to contact me should you have any queries thereon.

Yours sincerely,

**Julie-Anne Hannon**  
**Regulatory Affairs – Commercial**  
**Bord Gáis Energy**

*{By email}*