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30 May 2024

ESO Joint Response to "Initial Project Assessment of the third cap and floor window for electricity interconnectors" and "Initial Project Assessment of the Offshore Hybrid Asset pilot projects"

Dear Nick,

Thank you for the opportunity to respond to both your "Initial Project Assessment of the third cap and floor window for electricity interconnectors" consultation and your "Initial Project Assessment of the Offshore Hybrid Asset pilot projects" consultation. This correspondence is a joint response to both these consultations.

Who we are

As the Electricity System Operator (ESO) for Great Britain, we are at the heart of the energy system, balancing electricity supply and demand second by second.

Our mission, as the UK moves towards its 2050 net zero target, is to drive the transformation to a fully decarbonised electricity system by 2035, one which is reliable, affordable, and fair for all. We play a central role in driving Great Britain's path to net zero and use our unique perspective and independent position to facilitate network and market-based solutions to the challenges posed by the energy trilemma.

As National Energy System Operator (NESO) we will continue to build on the ESO's position at the heart of the energy industry, acting as an enabler for greater industry collaboration and alignment. We will unlock value for current and future consumers through more effective strategic planning, management, and coordination across the whole energy system.

Our key points

- ESO welcomes Ofgem's use of a multi-criteria assessment framework to assess potential future interconnectors and Offshore Hybrid Assets (OHA) in a holistic manner and Ofgem's commitment to maximum transparency for stakeholders via this consultation.
- The ESO is developing the Centralised Strategic Network Plan to help meet the UK Government's decarbonisation and Net Zero targets. It will allow a better understanding of the important future role interconnection and OHA has to play.
- Our neighbouring EU Transmission System Operators (TSOs), and ENTSO-E, are performing similar strategic network assessment and planning activities to GB. Since UK's EU Exit, these GB and EU processes have been progressed separately of each other, as it has not yet been possible to re-

establish formal cooperation between UK and EU TSOs. To produce optimal future outcomes, closer coordination and an increased exchange of information would be beneficial and should be an objective for GB.

- Independent reviews of domestic wholesale electricity markets are underway in both GB and the EU. The reestablishment of cooperation between the ENTSO-E and UK TSOs is required to ensure that the outcomes of these reviews are compatible and leads to efficient cross border markets.

ESO welcomes further discussion with Ofgem on this key topic in the near future. We can also confirm that this consultation response is not considered to be confidential, and we are happy for it to be published in full. Should you require further information on any of the points raised in our response please contact Tom Ireland, Cross Border and EU Manager, at thomas.ireland@nationalgrideso.com .

Yours sincerely

Matt Magill

Director of Markets

Appendix 1 - Our detailed points

- ESO welcomes the opportunity to comment on Ofgem's consultations on the Initial Project Assessment of the Third Cap and Floor Window for Electricity Interconnectors as well as the consultation on Initial Project Assessment of the Offshore Hybrid Asset pilot projects. ESO has been intricately involved in the development and completion of the analysis that underpins Ofgem's minded-to position covered by these consultations, consequently, we will not comment on the specific consultation analysis but wish to focus our feedback on a number of key, relevant principles and concepts.
- We welcome Ofgem's approach of using a multi-criteria assessment framework to consider the various facets of potential future interconnectors in a holistic manner.
- In addition, we welcome Ofgem's commitment to providing maximum transparency to stakeholders by publishing the assessment framework methodology, the modelling results, and the underlying justifications for the minded-to positions.
- ESO continues to believe that interconnection (whether via an interconnector or an OHA) is a key component of achieving net zero by 2050, by increasing transfer capacity between neighbouring systems. Such enhanced linking of markets potentially adds billions of pounds of additional GB consumer value and provides a route for exporting electricity when generation from renewable sources exceeds demand in Great Britain. The location of new interconnection is critical; If interconnectors connect to Great Britain's network where there is existing network congestion, then the interconnector may increase congestion further, undermining the overall socio-economic value of the project. Alternatively, interconnectors may help reduce network congestion if located at other parts of the network.
- As we move towards net zero it is important to develop both the onshore and offshore networks holistically and interconnectors will have an important role to play. The ESO is currently developing the Centralised Strategic Network Plan (CSNP) – a strategic investment plan to help meet the government's decarbonisation and Net Zero targets. The ESO welcomes the opportunity to work closely with Ofgem to ensure any subsequent investment windows for interconnectors and OHAs align with the CSNP process.
- We welcome the opportunity to work alongside ARUP, Ofgem's consultants for the Cap and Floor Window 3 work. We note the potential challenges from different parties undertaking complex modelling with, as far as possible, the same inputs but using different modelling software packages. In this instance, this has resulted in differences in results, despite ours and ARUP's best endeavours, which increased the time taken to deliver the work. This issue may become increasingly important as increasing levels of modelling and analysis are undertaken as the energy industry continues to change as we focus on delivering net zero by 2050.
- It should be noted that our neighbouring EU TSOs and ENTSO-E are performing similar activities to GB, such as assessing and analysing potential future cross border projects and performing strategic network planning. Since UK's EU Exit, these GB and EU processes have been independent of each other, and close cooperation has not been possible. Consequently, harmonisation of data, processes and assumptions has been limited. To produce optimal outcomes, closes cooperation and exchange of information and best practice would be beneficial both ways and so this should be strived towards.
- In additional both the GB and EU are undertaking fundamental reviews of their domestic wholesale electricity markets. These reviews have, to date, been independent of each other. These independent reviews, in combination with the general, iterative evolution of both markets, could result in a divergence of compatibility between GB and EU market fundamentals. Future interconnection between GB and EU markets needs to be efficient and divergence or incompatibility must be avoided. The first step towards this is the reestablishment of cooperation between the ENTSO-E and UK TSOs.