



GETLINK PROJECTS 2 LIMITED  
UK Terminal  
Ashford Road  
Folkestone, Kent  
United Kingdom  
CT18 8XX

Nick Pittarello  
Ofgem  
10 South Colonnade  
London  
E14 4PU  
[Cap.Floor@ofgem.gov.uk](mailto:Cap.Floor@ofgem.gov.uk)

**BY EMAIL ONLY**

31st May 2024

Dear Nick,

**RE: Initial Project Assessment of the Third Cap and Floor Window for Electricity Interconnectors**

Getlink Projects 2 Limited ('Getlink') welcomes the opportunity to respond to Ofgem's consultation on its Initial Project Assessment of the Third Cap and Floor Window for Electricity Interconnectors (the 'Consultation').

Getlink is a key player in mobility infrastructures, international transport and a leader in eco-responsible transport in Europe. Getlink is committed on a daily basis to facilitating trade, supporting economic activity between the UK and continental Europe and creating value for all its stakeholders, by bringing people, business and culture together.

Getlink has extensive experience in developing interconnector projects and operating interconnector infrastructure. Under the Getlink portfolio is ElecLink, a 1GW HVDC electricity interconnector between Great Britain and France. Commencing full operations in May 2022, ElecLink has helped strengthen the security of energy supply between Great Britain and France and is also the first HVDC electricity interconnector between Europe and the UK that has no impact on underwater ecosystems.

Getlink is currently in the early stages of development of a new 1GW GB-France interconnector through the Channel Tunnel and is the preferred future project of choice on the GB-France border by CRE and RTE<sup>1</sup>. This project is referred to as the Cobalt interconnector.

**Summary of Response**

Getlink welcomes the opportunity that Ofgem presents to consider the results of the Initial Project Assessment (IPA) of Ofgem's third Cap and Floor (C&F) Window for Electricity Interconnectors. Our response will focus on two main aspects:

- Window 3 IPA Approach
- Constraint Costs Analysis

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<sup>1</sup> [Opportunity for new electricity interconnection capacity between France and the United Kingdom | CRE](#)

The C&F regime has been a valuable mechanism which has successfully incentivised the development of GB electricity interconnectors. We agree with Ofgem that there remains a strategic case for further interconnection in GB. As also recognised by the UK Government in the Department for Energy Security and Net Zero's National Policy Statement for energy infrastructure, interconnectors will continue to play a vital role in the electricity market by providing system flexibility, enabling the efficient operation of the power system, and supporting security of supply as the GB market transitions to a renewables-dominated power system<sup>2</sup>.

The C&F regime also serves as an important mechanism in meeting the UK's ambition of 18GW of interconnector capacity by 2030 in the road to net zero. In this context, we strongly encourage Ofgem to consider how the approach and the ultimate decisions of this C&F window support the aims and ambitions of the UK Government in respect to interconnection and net zero.

Furthermore, we would like to highlight that the viability of an interconnector project is equally dependant on the position of authorities in connecting markets as they are in Great Britain. If there is a limited optimal capacity for interconnection from the perspective of a connecting country compared to GB, it is critical that the principles of Window 3 (which considers the viability of a project in the connecting market) are also applied to interconnector projects in previous windows that are yet to reach FID but considered as baseline projects. This will support Ofgem aligning with the position of the connecting market and to ensure economic analysis for Window 3 projects is based on an accurate representation of the GB power grid.

### **Window 3 Initial Project Assessment Approach**

Socio-economic Welfare (SEW) analysis is one of the central components of Ofgem's assessment process of future interconnection under the Cap and Floor Regime. We believe that a robust, transparent and replicable approach to the assessment of future projects, including the assumptions, scenarios and methodologies used in any such modelling will allow for an accurate assessment of the value of future interconnection to GB.

In this regard, Getlink considers that the approach taken by Arup in the Initial Project Assessment (IPA) of the Third Cap and Floor Window for interconnection falls short in the following areas:

- 1. Arup's modelling includes all interconnection projects that are currently operational, under construction or under development with GB regulatory approval. This is not a credible baseline.**

Arup's interconnector baseline assumes that GB has 14.3GW of interconnection capacity – 10.25GW of currently operational capacity and 4.05GW currently under development or in construction with regulatory approval. Even with regulatory approval, projects may not always have a clear route to become operational, and some pre-FID projects included in Arup's baseline have seen little to no progress since their regulatory regime was granted. Not only is the inclusion of all interconnector projects under development unrealistic, we are concerned that this approach also undervalues the likely added benefits of further, and potentially more viable interconnection capacity at the cost of GB consumers.

This issue is specific to the GB-France border where Arup have included two interconnector projects within its baseline (FAB Link and GridLink equating to 2.65GW of capacity) which are yet to attain Final Investment Decisions (FID). Given that: (i) CRE's recent consultation on the opportunity for new electricity interconnection capacity between France and the United

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<sup>2</sup> <https://www.gov.uk/government/collections/national-policy-statements-for-energy-infrastructure>

Kingdom, cites that a future project of around 1GW of capacity to be the optimal size for further interconnection capacity on the GB border; and (ii) CRE does not consider either of these two aforementioned projects as its preferred GB-France project, the validity of these projects in France is questionable. Furthermore, the pathway to development in GB for these two projects is also unclear due to significant delays experienced by these projects after receiving their IPA decisions. FID for both projects are due to be made in 2026. Given this timeline, we believe it will be challenging for these projects to meet even Ofgem's Window 3 backstop date for operation of the end of 2032, when considering the time needed for procurement (approximately 2 years) and then the construction phase (3-4 years)<sup>3</sup>. It should therefore be questioned whether the viability of these projects is sufficient for them to be considered in the baseline. We believe that an inaccuracy in a key underlying input assumption ultimately undermines Arup's SEW analysis and any conclusions subsequently formed from the analysis.

We see it as an omission from Arup's analysis that it does not consider at least one sensitivity scenario where projects which have not begun construction are not considered as becoming operational, particularly as these are concerns that stakeholders have previously raised to Ofgem during its Interconnector Policy Review (ICPR).

The aim of the ICPR was to review Ofgem's regulatory and policy approach to future windows of new electricity interconnectors. Workstream 2 of the ICPR gave specific consideration to Ofgem's approach to socio-economic modelling of future interconnectors. Within this workstream, not only did stakeholders highlight the flaws of including interconnectors which may not become operational within modelling assumptions, Ofgem too also highlighted that such assumptions are likely to underplay the socio-economic needs case of future interconnection and proposed to review the methodology currently used in their CBAs and supporting analysis in order to ensure it appropriately addresses sensitivities around projects coming online and the wider impacts of future interconnectors<sup>45</sup>. It is disappointing to see that this has not been considered in the IPA of Window 3 projects and calls into question the foundation by which Ofgem have made the IPA decisions for a number of the projects.

## **2. Arup's modelling does not give due consideration to the large number of significant policy reforms in both UK and EU wholesale electricity markets that will have substantial impacts on future interconnection projects.**

As both GB and connecting European countries drive towards decarbonisation, there is a rapidly changing energy policy environment in which future interconnector projects will be realised.

Whilst Ofgem's IPA of Window 3 projects rightly identifies locational pricing – a workstream under the Department of Energy Security and Net Zero (DESNZ)'s Review of the Electricity Market Arrangements (REMA) – as a key policy workstream which may impact interconnector flows and operations, we believe there are other significant policy reforms that also need to be given due consideration within the C&F analysis, these include:

- Potential changes to existing Contracts for Difference (CfD) also under REMA;
- Ofgem's TNUoS Review;
- EU wholesale market reform; and
- EU Carbon Border Adjustment Mechanism (CBAM).

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<sup>3</sup> FAB Link is a Cap and Floor Window 1 project, following Ofgem's decision in November 2022, the project is now required to have a connection date before the end of 2030. GridLink is a Cap & Floor Window 2 project and was therefore expected to progress in line with the original timelines.

<sup>4</sup> <https://www.ofgem.gov.uk/consultation/interconnector-policy-review-working-paper-workstream-2-socio-economic-modelling> Paragraph 2.31

<sup>5</sup> <https://www.ofgem.gov.uk/consultation/interconnector-policy-review-working-paper-workstream-1-review-cap-and-floor-regime> Paragraphs 4.20-4.24

Each of the above contain substantial policy changes to the existing wholesale market, and their implementation will have material impact on interconnector flows and operations.

Whilst it may indeed be impractical to model all possible permutations of future wholesale market reform, it is disappointing that there has been no due consideration for some options identified under REMA. We would have expected there to be extensive engagement between Ofgem and DESNZ prior to the publication of both the IPA of Window 3 projects and the second REMA consultation in order for the former to understand which REMA options were likely to be brought forward in the second REMA consultation.

This is particularly pertinent as some projects in Window 3 which Ofgem are minded not to take forward, are due to the high constraint costs identified as part of the SEW analysis. We believe it is a flawed position to reject projects due to high constraints, when there are currently live policy reforms which seek to address these specific issues and will likely be delivered before the backstop date for the Window 3 projects. We believe not including any scenarios with this consideration severely limits Arup's analysis and Ofgem's minded-to decisions for some Window 3 projects.

### **Constraint Costs identified in Window 3 IPA**

Getlink agrees with Ofgem's approach to aligning interconnector windows to the evolution of strategic network planning. As renewable energy sources increase, viable solutions that can address the challenges of locational signals in particular will be required. It is therefore useful for Ofgem to provide an insight into National Grid Electricity System Operator (NGESO)'s analysis on constraint costs for Window 3. We are however concerned about the approach to NGESO's modelling; the distinct lack of transparency; the assumed baseline of interconnection; the framing of their analysis; the lack of consideration for wider energy market developments (such as REMA); and the use of their analysis as a basis for rejecting interconnector projects.

NGESO does not use the most up to date Future Energy Scenarios (FES) from 2023 in their modelling, but rather uses the FES 2022 data. We recognise that at the time of the analysis, the FES 2022 data would have been the most up to date publicly available FES, however due to the use of outdated data and changes to input assumptions between FES 2022 and FES 2023, we believe that both Ofgem and NGESO should place far more emphasis on the fact that NGESO's constraint costs analysis is not likely to be completely accurate based on the latest data, and that this uncertainty should be fully reflected<sup>6</sup>.

NGESO's interconnector baseline also assumes that GB has 14.3GW of interconnection capacity – 10.25GW of currently operational capacity and 4.05GW currently under development or in construction. We have previously mentioned the flaws with this approach when discussing Arup's modelling and would like to further highlight that the inclusion of all interconnector projects, including those which are yet to reach their Final Investment Decision, in NGESO's constraints analysis will only serve to inflate the costs of constraints, resulting in an inaccurate analysis.

Additionally, in NGESO's modelling, NGESO assumes that no further grid reinforcement work will take place over the entire duration of the 25-year C&F regulatory regime. This is not a credible position and certainly not in line with the connections process which includes liabilities for the enabling works within the connection offers themselves.

These aspects are of high importance because if Ofgem are to reject future projects due to their forecasted constraint costs, it is then highly critical that the modelling used to detail these costs

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<sup>6</sup> For example: increased battery storage in Scotland; delays to small modular reactors; revisions to the location of offshore wind.

is fully transparent, as accurate as possible, reflective of the connections process and most importantly, replicable by market parties in order to challenge and identify potential solutions.

As previously noted, no due consideration has given to the Review of the Electricity Market Arrangements (REMA) being led by DESNZ and the ramifications of options being considered on the UK electricity market. REMA seeks to undertake a comprehensive review of the GB wholesale market and seeks to create options that are able to address some of the challenges identified in GB's current wholesale market, including the challenge of locational signals. Whilst Getlink believes it is indeed useful for Ofgem to provide an insight into NGENSO's analysis of constraint costs for Window 3, we believe it is a fundamentally flawed position to reject projects using constraint costs as part of the rationale, when it is possible that by the time these projects are operational – and certainly during their lifetime – the nature of the GB wholesale market may look very different to the counterfactual.

We are also concerned that rejecting projects due to forecasted constraint costs ultimately paints the picture of interconnector assets as creating the issue of constraints. We do not believe this is a fair or accurate representation of the interconnector asset class. Interconnector flows are purely driven by market demands and therefore forecast constraint costs are not created by interconnectors but rather manifest in the analysis as a result of an expected lack of investment in the transmission network or a forecasted illiquid balancing market. It is the system operator's duty to ensure the grid is sufficient to facilitate an economically beneficial market which must include flexible assets such as interconnectors in order for the benefits of these assets to be fully realised by GB consumers.

Rejecting projects on the basis of constraint costs only serves to further shift the problem away from NGENSO and does not incentivise NGENSO to continue to find adequate solutions either for grid investment or optimised balancing markets to the benefit of *all* market parties.

### **Next Steps**

As set out above, the overly narrow input assumptions and scenarios used in the economic modelling of the Window 3 projects leads to a material undervaluing of the assessed projects. Prior to a decision by Ofgem, Getlink would support an extension to the study by Arup to identify the SEW value that may be missing from the initial analysis. This extension should use up to date and realistic assumptions (i.e., an adjustment to the baseline interconnector capacity assumptions to remove significantly delayed projects from previous windows and which are yet to have reached FID) and should consider policy options for the GB wholesale market, identified by REMA.

In order to establish the viability of pre-FID baselined projects a view must be made on the project's situation in the connecting market. This is a requirement as part of a Window 3 application and therefore should also be applied to the pre-FID interconnector projects included in the baseline when assessing economic value. This is especially important on borders where there are competing projects and where clarity exists on the position of the connecting market to those projects if considered in the baseline. To ignore this element of a project's viability (baselined or being assessed in Window 3) blindly embeds the first come first serve principle in the analysis and undermines the viability of the assessment to the detriment of current and future GB consumers.

For projects which have been granted IPA decisions in principle, Ofgem has previously set conditions for which the respective projects would need to meet. Material deviations from and/or failure to meet these conditions would require a project to be re-assessed in order to ensure that the project remains in the best interests of current and future GB consumers. It is Getlink's understanding that conditions and deadlines set for projects awarded a C&F regime in principle

during C&F windows 1 and 2 are rapidly approaching. It is therefore both sensible and practical for Ofgem to re-assess Window 3, using a first additional of projects brought forward in Window 3, projects which have a clear route to development in the connecting country (as cited in NRA publications), and projects approaching the deadline of their IPA decision.

If there is a limited optimal capacity for interconnection between connecting countries, it is critical that the principles of Window 3 are also applied to interconnector projects in previous windows that are yet to reach FID, in order for Ofgem to align with the position of the connecting market and also to ensure that the project with most benefit to the GB consumer is identified. This will also align with the Connections Reform process which seeks to resolve the issue of stagnant projects and mitigate any risk of conflicting positions towards projects between the two processes.

Interconnectors continue to be recognised by the UK Government as vital assets in GB's transition to a renewables-dominated system. It is therefore essential that the UK Government, Ofgem and NGENSO (soon NESO) all work in tandem to ensure continued support for electricity interconnectors to the benefit of GB and neighbouring country's consumers.

We welcome the opportunity to respond to this consultation on the Initial Project Assessment of the Third Cap and Floor Window for Electricity Interconnectors. Furthermore, we would welcome the opportunity to discuss the points made in this response directly with you and in more detail. If you have any questions regarding the response, please don't hesitate to contact myself or Alice Varney ([alice.varney@eleclink.co.uk](mailto:alice.varney@eleclink.co.uk)).

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Alice", with a long horizontal stroke extending to the right.

Richard Sidley

**ElecLink - COO**  
**Project Director, Cobalt**