



**DEPARTMENT OF COMMUNICATIONS, CLIMATE ACTION, AND  
ENVIRONMENT**

**SSE RESPONSE TO**

**DRAFT NATIONAL POLICY ON ELECTRICITY INTERCONNECTION IN  
IRELAND: PUBLIC CONSULTATION**

**MARCH 2018**

## About SSE

SSE is Ireland's second largest energy utility and the country's leading developer and investor in cleaner energy infrastructure. It is part of SSE plc, a UK-listed, FTSE 100 company and the broadest-based energy utility on the London Stock Exchange. Since 2008, we have invested over €2 billion in the development of Ireland's sustainable energy infrastructure, helping to green our economy and secure our energy future.

In Ireland, SSE owns and operates 2,061MW of generation capacity, of which 768MW is from its portfolio of 28 onshore wind farms, making SSE the largest generator and provider of renewable energy in the all-island Single Electricity Market. In 2015, SSE commissioned Ireland's newest and one of its cleanest power plants, the 464MW CCGT (combined cycle gas turbine) power station at Great Island, Co. Wexford, which is generating enough greener energy to power over half a million Irish homes.<sup>1</sup>

SSE has jointly developed Ireland's largest and best performing wind farm, the 169MW Galway Wind Park, which has now entered commercial operation. Jointly developed and constructed by SSE and Coillte at a total investment cost of over €280m, Galway Wind Park will be Ireland's highest producing wind farm and is forecast to produce almost 600GWh of green energy each year – enough renewable energy to power 140,000 average-sized Irish homes including the equivalent of all of the 112,000 homes in Galway city and county.<sup>2</sup>

As Ireland's largest wind farm, Galway Wind Park will make the biggest single contribution of any renewable energy site towards greening national energy supply and decarbonising power generation across the island of Ireland. In a typical year, the green energy produced at Galway Wind Park will offset over 230,000 tonnes of harmful CO<sub>2</sub> emissions. The project was named Green Project of the Year at the 2017 Irish Construction Industry Awards.

SSE's retail arm, SSE Airtricity, is proud to be Ireland's largest provider of green energy to all its home and business customers and the second largest energy provider on the island of Ireland, supplying greener electricity, natural gas and essential services to around 800,000 homes and businesses. In addition to the renewable energy offtake from SSE plc's fleet of wind farms, SSE Airtricity also has long term Power Purchase Agreements in place with third party renewable energy generators for over 300MW of wind and solar sourced power on the island, including energy from the largest solar farm on the island of Ireland, Bann Road at Rasharkin in Co. Antrim. Its street lighting division SSE Airtricity Utility Solutions is Ireland's largest public lighting contractor responsible for the maintenance of over 250,000 street lights across the country.

Since 2010, SSE has contributed over €5bn to Irish Gross Domestic Product (GDP), demonstrating the scale of economic activity that SSE's operations support across Ireland. In the last year, SSE's Irish operations have contributed almost €800m to GDP, equivalent to 0.4% of the country's entire GDP and supporting over 4,700 jobs regionally and nationally. In

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<sup>1</sup> 232,725 tonnes of CO<sub>2</sub> emissions offset based on projected annual energy output of 592,176MWh and average CO<sub>2</sub> emissions in the Single Electricity Market of 0.393t/MWh (latest All Island Project Fuel Mix Disclosure, published 2016).

<sup>2</sup> Homes powered based on typical annual consumption of 4,200 kWh (Commission for Regulation of Utilities, 1 October 2017) and 1-year average forecast capacity factor of Galway Wind Park; quoted figures are for guideline purposes – actual future performance may vary. Equivalent homes in Galway city and county based on 112,054 housing stock recorded in Census of Population 2016, Central Statistics Office.

direct capital expenditure, SSE has invested over €2bn since 2008 in the developing new and cleaner energy infrastructure for Ireland.

SSE is Ireland's largest single contributor of funding to rural communities from wind energy. Since 2008, SSE's Community Funds have provided voluntary funding totalling over €5million to over 2,100 groups near SSE wind farms in regional Ireland supporting community-led energy efficiency and sustainability projects. **To view the report in full, click on the link here:** [Energising Communities in Rural Ireland - Community Funds Annual Review 2016/17](http://ireland.sse.com/media/21125/Energising%20Communities%20in%20Rural%20Ireland.pdf)<sup>3</sup>

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## Introduction

SSE wishes to make the enclosed submission for consideration as part of the Department of Communications, Climate Action, and Environment (DCCA) consultation on the *Draft National Policy on Interconnection in Ireland*.

Whilst SSE welcomes the development of the national policy on electricity interconnection it is important to distinguish the legislative boundaries between the various parties who have a role in assessing the benefits of interconnectors. The role of the economic regulator; Commission for the Regulation of Utilities (CRU) is set out in legislation and the roles and the functions of the Commission include the continuity, quality and security of electricity as per Article 9.

In addition, the role of National Regulatory Authorities (NRAs) i.e. CRU in Ireland and their independence is set out in the various energy packages. Directive 2009/72/EC sets out the responsibilities of NRAs with regards to the development of the internal market in electricity.

Para. 59 of the Preamble specifically states that;

*“The development of a true internal market in electricity, through a network connected across the Community, should be one of the main goals of this Directive and regulatory issues on cross-border interconnections and regional markets should, therefore, be one of the main tasks of the regulatory authorities, in close cooperation with the Agency where relevant”.*

This indicates that it is the NRAs which have core competence over the development of interconnector policy, in particular given that such infrastructure projects are recovered via end customers. As such, SSE wishes to clarify the rationale or legislative basis of the National policy development so as to better understand on what basis the economic regulator i.e. the CRU will develop its own policy decisions with regards to future interconnection for electricity.

Summarised below are our main views in the context of the Consultation:

- We welcome the publication of the Consultation Document by the Department, however, we note that the CRU has previously consulted on this matter as well as having carried out assessments on Projects of Common Interest (PCI). Therefore, it is unclear whether this policy will apply to current PCI projects or solely for new projects.
- The scope of DCCA's draft policy appears limited to projects with PCI status in that these assets will be regulated by CRU if they achieve positive results from the investment request to CRU. Given the intention to develop further interconnection over the coming years, SSE believes the scope of the Consultation should be extended, so that the resultant policy includes both regulated and merchant assets.
- The key priority underpinning the national interconnection policy should be that regulated projects are subject to rigorous and comprehensive cost-benefit analysis. This analysis should be led by independent experts such as the CRU in line with agreed criteria and published for feedback from all relevant stakeholders.

Further detail on these points and further considerations on the Consultation Document are outlined in further detail below.

## SSE Considerations on the Consultation Document

### **Q1. What, if any, additional weighting should the CRU apply to security of supply considerations in its decision-making process?**

It must be recognised that the island has significant interconnection relative to peak demand. As regards electricity security of supply, we would note that interconnection can provide benefits, but that interconnection capacity should more correctly be seen as ‘transfer capacity’. Interconnectors do not replace the need for system wide generation adequacy, whether this is at a national, regional, or EU-wide level.

In addition, the redesign of the I-SEM Capacity Remuneration Mechanisms (CRM) is intended to ensure that sufficient capacity is installed on the system. Consumers pay for such capacity to be available at times of peak demand, whereas interconnector flows are dependent on price signals in interlinked markets. As such, it is important to distinguish interconnectors which are transmission infrastructure from generators in Ireland who have and must under the CRM be available to generate energy when required.

### **Q2. What, if any, additional weighting should the CRU apply to diversity of supply considerations in its decision-making process?**

We note diversification of supply is a key consideration in the DCCAes paper. This principal should be applied to indigenous supply in the same manner. Ireland has significantly increased its renewable electricity penetration in the past decade predominantly through onshore wind development. In order to fully realise the benefits of diversification other technologies, such as offshore wind technology should be facilitated through Government and regulatory policies.

Furthermore, diversity of supply must be seen in the context of the generation mix in Ireland and the regulatory requirements imposed on generators. Under the Grid Code, thermal generators must be capable of switching to a secondary fuel for up to 5 days. Such requirements are not in place in other jurisdictions. As evidenced this week, a gas deficit warning was issued by National Grid Gas UK. At this time, gas fired generators made up approximately 25% of the fuel mix on 1 March, with renewables providing circa 55% of total energy requirements in the all-island market.

In addition, Gas Networks Ireland is close to completion of the twinning of the Onshore Scotland System which again aims to further bolster Ireland’s Security of Supply position. Any CBA on interconnection as a means of bolstering Security of Supply must take into account the entire energy mix so as to ensure that a robust CBA is ensured.

### **Q3. Should the CRU take EU interconnection targets into its evaluation? If so, how?**

### **Q4. What impact does EU policy and the EU’s Clean Energy Package for all Europeans have on electricity interconnection to Ireland? Are there any other EU/national legislation policy objectives that should be considered?**

The “Communication on Strengthening Europe’s Energy Networks”<sup>4</sup> states that although Ireland is expected to have reached 18% interconnection by 2020 (meeting both the 10% target by 2020 and the 15% target by 2030), when the UK leaves the EU, Ireland will have 0% interconnection until 2025 when the Celtic Interconnector between Ireland and France is

<sup>4</sup> [https://ec.europa.eu/energy/sites/ener/files/documents/communication\\_on\\_infrastructure\\_17.pdf](https://ec.europa.eu/energy/sites/ener/files/documents/communication_on_infrastructure_17.pdf)

expected to be completed. The Communication fails to consider the impact of Brexit on interconnection targets as they relate to other EU countries e.g. France and the Netherlands.

In SSE's view, focusing strongly on these targets, which were established prior to Brexit, is not a holistic approach. There are wider economic considerations in the context of any future interconnection with mainland Europe and projects should be considered by way of a thorough independent cost-benefit analysis.

SSE considers the delivery of the North South Interconnector to be an urgent priority for the island of Ireland in order to increase security of supply, but also, importantly to reduce electricity costs for all consumers on the island. Clarity on the expected timeframe for the delivery of the interconnector in light of the recent planning approval in NI imperative to provide certainty for investors.

Indeed, before the questions raised in this section can be thoroughly answered, the status of the United Kingdom within the Energy Union needs to be succinctly addressed. Given the large upscale capital costs of interconnection, it is important that the platform for such decisions are made in an investment climate that is solid in terms of the legal, public policy and regulatory boundaries that will pertain to such capital investment.

**Q5. Are there any gaps in the policy backdrop outlined in this paper?**

**Section 2(4): Scope of draft DCCAE Policy on Interconnection:**

As referred to at the outset of our response, it would be useful to have clarity on the roles and responsibilities of both the Department and CRU in relation to setting policy for Interconnectors. SSE is supportive of the objective of this Consultation to help guide the CRU in determining its approach to electricity interconnection, by outlining the key evidence base.

However, given that the intended scope of this draft policy is confined to electricity interconnectors as regulated by the CRU – SSE believes that the final policy should set out the approach for both regulated and merchant interconnectors to be implemented by CRU.

With regards to gaps, evidence from other EU jurisdictions suggests that there are a number of regulatory “models” that may be employed. Some, such as merchant interconnectors have lower levels of regulatory involvement whereby access is required, but such assets are not underwritten by general consumers.

At the other end of the spectrum are those interconnectors which are fully underwritten by consumers and recovered via specific networks charges. Such interconnectors and the criteria for the regulatory model types is important to ensure that questions such as those posed earlier (security of supply etc.) feed into the criteria that the regulator utilises to assess the appropriate regulatory model.

**Q6. Are there any gaps in the evidence based outlined in this paper?**

**Section 3: Evidence Base important in the evaluation of electricity interconnector proposals:**

Where electricity interconnection assets are to be regulated, and in effect, underwritten by the Irish public, the key priority in establishing an evidence base, should be that such projects are subject to rigorous and comprehensive cost-benefit analysis. This analysis should be led by independent experts such as the CRU in line with agreed criteria and published for feedback from all relevant stakeholders.

Projects should only then proceed where a net positive exists for customers', bearing in mind the relative responsibilities to pay for the infrastructure by all beneficiaries, and potential financial assistance from the EU.

#### **Section 4: Additional Aspects CRU may take into account during Evaluations:**

1. Security of Supply: As noted in our response to Q1 above, electricity interconnection can provide benefits, but that interconnection capacity should more correctly be seen as 'transfer capacity'. Interconnectors do not replace the need for system wide generation adequacy, whether this is at a national, regional, or EU-wide level.
2. Alternatives to Electricity Interconnection: SSE welcomes the intention to consider alternatives to the electricity interconnectors being proposed. If regulated interconnection assets are to be constructed (ideally, market forces would deliver such infrastructure), this should be done on economic value to consumers and in comparison, to all available solutions (RES, storage, flexible generation/demand, energy efficiency etc.). In terms of alternatives, if markets for energy and ancillary services deliver efficient pricing signals, the most efficient infrastructure solutions will be delivered, whether they be generation, storage, or interconnection.
3. Regulatory Approaches: SSE believes that there should be a thorough assessment of the different models available e.g. full regulatory underwriting, cap and floor, and merchant approaches. Given that this Consultation aims to inform the development of Ireland's electricity interconnection policy and has a strong focus on regulated assets, further detail and consultation is needed as to how cap and floor and merchant approaches could work in practice before the policy is finalised.
4. EU Policy and EU Clean Energy Package: See Response to Q4 above.

**Q7. Is there anything else we need to consider as we set about finalising a national policy statement on electricity interconnection?**

## **Conclusion**

SSE welcomes the consultation on a National Policy for Interconnection and is supportive of the assessment criteria set out by DCCAE to evaluate interconnection projects. Our view remains that a comprehensive and robust CBA should be the basis for progression of any regulated assets to ensure the risk to consumers is minimised while continuing to integrate with other European market where beneficial to do so.

SSE is available to discuss any aspect of this submission further and would like to thank the Department of Communications, Climate Action, and Environment for the opportunity to respond to this consultation.