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BY EMAIL
Emer Gerrard (egerrard@cru.ie)
Simon O'Hare (simon.ohare@uregni.gov.uk)

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Dear Simon and Emer

RE: Compensation Arrangements for Net Transfer Capacity Reductions (SEM-23-024) 15th March 2023

Transmission Investment (TI), as one of the UK's leading independent transmission companies, it is developing the LirIC interconnector project from GB to Northern Ireland (https://tinv.com/intercon-projects/liric/) and a link between GB and France with RTE the French national TSO. TI also manages one of the largest offshore electricity transmission portfolios and successfully participated in the GB stability Pathfinder programme, securing contracts to provide stability services at four sites.

TI owns 100% of TI LirIC Limited which is developing the interconnector project between south-west Scotland and County Antrim in Northern Ireland. It consists of over 100km of underground and subsea cables with a 700MW capacity between GB and ISEM markets: allowing power to be shared, enabling more renewable production in Northern Ireland, and increasing security of supply. The project has passed eligibility in Ofgem's Third Window process for a cap and floor arrangement (for the Great Britain portion of the project) and is seeking a regulatory arrangement, that supports the investment in this critical infrastructure, for the Northern Ireland portion.

The consultation provides background, context and examples of past and current compensation arrangements for reductions in Net-Transfer Capacity (NTC), (those applying in the EU Single Market (Capacity Allocation and Congestion Management, "CACM"), GB and SEM, under the Interim Cross-Zonal Arrangements, "ICZA"), but has no analysis of the compatibility or appropriateness for the SEM of the different arrangements described.

Principles underpinning compensation arrangements

As an interconnector project in development TI LirIC would promote the following key principles to underpin the future arrangements:

- Cost neutrality to interconnectors for NTC reductions, with appropriate methods for calculating the value of available transfer capacity;
- Causer pays for NTC reductions to align all parties to seek to avoid such events; and
- Incentivise maximisation of interconnector capacity availability, to enhance market efficiency, in all trading timeframes;

The final point is aligned to the Trade and Cooperation Agreement, which includes as a key principle: "to ensure that… (b) the maximum level of capacity of electricity interconnectors should be made available".

The GB approach, as it is outlined in the consultation document, appears to best align to the capacity maximisation principle, assuming in broad terms the compensation for allocated capacity is equivalent to ICZA and CACM. The approach appears to provide, additionally, for compensation for the opportunity-cost for unallocated capacity. This serves to increase the incentives on the TSO to maximise capacity availability, hence improving market efficiency by avoiding sterilisation of unallocated capacity (appearing as a zero-cost option for TSO under other methodologies). This methodology would appear to deliver best on the principle of neutrality for interconnector parties against the impact of capacity reductions.

Further, adopting the GB approach on the border with SEM provides greater consistency across all boundaries between GB and market regions falling within the EU internal energy market (which includes SEM). This reduces the risk of market distortions due to differing capacity calculations, and compensation arrangements, between GB and each region falling within the EU internal energy market.

In conclusion, whatever compensation arrangements are decided upon, they should be: transparent, predictable and applied consistently to all interconnectors competing on a border between markets. They should apply equally to all competing interconnectors from the time the revised compensation methodology is implemented and be: compatible with the wider regulatory arrangements; secure neutrality while avoiding over-compensating; and ensure causer pays, to maximise incentives to avoid capacity reductions.

I would be happy to discuss any of the points made in this letter.

Yours faithfully,

Mark Fitch

Corporate Development Director, Transmission Investment, on behalf of TI LirIC Limited