



**Energia Response to Utility Regulator
Consultation on Proposed Electricity
Transmission Licence for Transmission
Investment LirIC Limited**

25th July 2024

Executive Summary

Energia strongly disagrees with the Utility Regulator's (UR) proposed two-step approach. It is not in the interests of Northern Ireland consumers for the UR to grant a transmission licence to the LirIC interconnector prior to the detailed needs case assessment for interconnection being completed. Undertaking the necessary analysis prior to deciding on whether to grant an interconnector licence is the only option consistent with the UR's principal objective.

The impact of 700MW of additional interconnection into Northern Ireland (NI) from the early 2030s would be highly significant. Additional interconnector imports, particularly without the necessary upgrades to the NI grid, would increase the dispatch down of NI-based renewables, leading to increased balancing costs for consumers and jeopardising NI's ability to reach its legally binding renewable targets. The UR cannot be confident that granting a licence to LirIC would be in the interests of NI consumers without first completing a detailed needs case assessment. Therefore, the proposed two-step approach is not consistent with the UR's principal objective.

The UR is basing its intention to grant LirIC a transmission licence on its objective to promote effective competition, wherever appropriate. The current context of NI's constraints crisis, with dispatch down of wind assets averaging over 25% for the last 12 months, and the highly constrained nature of the NI grid, are grounds to consider whether additional interconnection as planned is appropriate. The UR's current approach of assuming that approving LirIC would be appropriately facilitating competition in the interests of consumers is misguided.

Interconnection is distinct from sources of generation that seek a grid licence. While increased deployment of onshore wind, offshore wind, and solar is explicitly supported by DfE policy direction in the form of the 2021 Energy Strategy and the 2022 Climate Change Act, no such policy direction yet exists in NI for interconnection (energy being a devolved matter). Therefore, and having not had to review an application for a new interconnection transmission licence for over twenty years, the UR does not have a basis to assume that additional interconnection is in the interests of NI consumers.

While the UR has stated that the benefit of the proposed two-step approach is that it would not unduly delay the LirIC project, it is not clear why this benefit outweighs the risk to consumers, identified by UR in the consultation paper, of granting a licence prior to establishing the needs case assessment for interconnection. If the needs case assessment found net welfare losses from additional interconnection, the anticipated benefit of granting LirIC a licence would not be of benefit to NI consumers.

As per our detailed response to DfE's 2024 Smart Systems and Flexibility Plan consultation, Energia is strongly in favour of a needs assessment for additional interconnection being carried out, and of DfE developing an interconnector policy at the earliest opportunity. The UR's consultation paper estimates that the work on a needs assessment could be completed by March 2025.

Given that under the proposed two-stage approach the UR estimates a decision date on the licence for LirIC by Q4 2024, if the UR opted to decide on LirIC's licence after the needs assessment had been completed, this would only delay the decision by a matter of months. The perceived benefit of granting a licence quicker does not outweigh the risk to consumers of granting a licence without assessing whether additional interconnection is in the interests of NI consumers.

1 Do respondents have any objections to the UR's proposal to grant a transmission licence (which includes the terms and conditions set out in a draft of the proposed licence) to TI? If so, please set out the basis and reasons for any such objection.

Energia strongly objects to the proposal to grant a transmission licence to TI at this stage on the basis that a needs assessment has not been carried out to confirm that additional interconnection would be of benefit to NI consumers.

The introduction of a 700MW interconnector would have a profound impact on NI's constrained electricity system, over and above the impact that it would have on the SEM as a whole. NI is currently experiencing a constraints crisis, with constraints on the NI grid and imports across the Moyle interconnector leading to unsustainable levels of dispatch down for renewable assets. Average dispatch down for windfarms in NI has been well above 25% since the middle of 2023¹ and has reached over 40% at some sites in NI in recent months.

Not only does the current crisis put the viability of existing renewable assets at risk, it also completely undermines the case for the inward investment that is required to power NI's renewable transition and reach the legally binding target of 80% renewable energy by 2030. Furthermore, once Article 13(7) of the Clean Energy Package has been implemented, consumers will face the costs of increased rescheduling and rebalancing by the TSO.

The introduction of the LirlC interconnector could further exacerbate the issue of constraints on the NI network, particularly without the necessary grid reinforcement and build-out. External modelling has shown that SEM-GB interconnectors are predicted to continue to import into Ireland well into the 2040s.² It would be reckless for the UR to approve the transmission licence for LirlC without having completed a needs assessment, and without an interconnection policy from the Department for the Economy. Nor would it be in the interests of NI consumers, which is the principal objective of the UR.

2 Do respondents agree with the UR's proposed two-step approach? Please provide any supporting information.

Energia strongly disagrees with the proposed two-step approach. Particularly given the size of NI's grid, the lack of a policy direction from DfE, and the impact of the constraints crisis on developers and consumers, it is counter-intuitive to approve the transmission licence for an interconnector, and then subsequently to assess the need for further interconnection. An approach that assessed the impact of additional

¹ [Wind DD Historical.pdf \(eirgrid.ie\)](#)

² See Page 51 of AFRY's Economic Analyst WS1 for DECC's Offshore Future Framework - [gov - Future Framework for Offshore Renewable Energy \(www.gov.ie\)](#). In addition, OFGEM's March 2024 Initial Project Assessment of the Third Cap and Floor Window for Electricity Interconnectors shows net imports across LirlC until at least 2042.

interconnection prior to deciding whether to grant a transmission licence would far more effectively protect the interests of consumers.

As per the consultation paper, the work required for a needs-based assessment for further interconnection, and a government interconnector policy as exists in the Republic of Ireland, could be completed within twelve months, whereas the earliest that a transmission licence could be granted to LirIC under the two-step approach is in Q4 2024. A clear case has not been made as to why a decision on a transmission licence cannot wait until after the necessary cost-benefit analysis and policy work has been completed.

Furthermore, were the needs-based assessment to show that there was no further need at this point for additional interconnection into NI, the two-step approach adopted would manifestly not have been in the interests of consumers. This risk is expressly identified in the consultation paper itself.

3 What are respondents' views pertaining to consumer impact, or any other impact, in granting a licence without a specified operational revenue regime licence conditions? Please provide further information which lends support to the views expressed.

The consultation paper states in paragraph 2.15 that there is no identified adverse or direct financial impact to NI consumers given the proposed conditions of the proposed licence.

One of the reasons that there are no identified adverse impacts on NI consumers may be because the potential impact to NI consumers has not yet been fully considered, as stated in paragraph 2.23 of the consultation. It is not in keeping with the UR's principal objective (referenced in 2.18 of the paper) to decide on a transmission licence for the LirIC interconnector without having fully considered the potential adverse impacts on NI consumers.

While not committing to a Cap and Floor regime means that there is no direct financial commitment to be underwritten by NI consumers, the potential impacts of granting a transmission licence are much wider than that. Article 13(7) of the EU's 2019 Clean Energy Package, applicable in NI via the Windsor Framework, requires renewable generators with firm access to be compensated for the full costs of constraints (including lost support payments).³ Increased imports via the LirIC interconnector from Scotland are likely to increase levels of dispatch down of renewable assets in NI, and therefore the costs to consumers.

The costs of dispatch down have a direct financial impact on consumers, and therefore it is not the case that there will be no financial impact on consumers from a decision to grant a transmission licence to LirIC. The impact of increased congestion into the NI grid on NI consumers from additional interconnection needs to be fully considered prior to a decision being made on the transmission licence for the LirIC interconnector.

³ EU Regulation 2019/943 Article 13(7).

4 What are respondents' views on the risks and benefits of the proposed approach?

The key risk of the proposed approach is that there are adverse impacts to NI consumers of approving additional interconnection that are not fully considered in advance of a decision to grant a transmission licence. This risk could easily be avoided by adopting an approach of producing a needs case assessment and interconnector policy in advance of deciding on whether or not to grant a licence.

The risk of unforeseen adverse impacts to NI consumers is high for several reasons. In the first instance, at 700MW the introduction of a new Largest Single Infeed into the NI grid will by definition have a significant impact on the market for electricity in NI, and therefore it is vital that the ramifications of such a decision are fully considered prior to that decision being taken. This is a highly material proposal that needs to be fully assessed.

Secondly, NI's electricity landscape is already undergoing significant change, raising the possibility of unintended consequences of granting additional interconnection. The implementation of Article 13(7) will change the financial implications of congestion on the NI system. The legally binding target of 80% renewable electricity by 2030, introduced in the 2022 NI Climate Change Act, sets a new level of ambition for renewable generation in NI itself.

Thirdly, for the past year we have experienced consistent imports across the existing Moyle interconnector and record levels of dispatch down of NI renewables. Multiple external forecasts suggest that interconnectors between GB and Ireland will continue to import into Ireland for the foreseeable future. In addition, regulatory and policy developments that impact trading across interconnectors – such as multi-regional loose volume coupling, the potential for zonal pricing in GB, and the EU's Carbon Border Adjustment Mechanism - add more uncertainty to the impact of interconnection in the SEM, and in NI in particular.

Given the scale of the changes taking place, it is imperative that the UR has fully considered the implications of further interconnection for NI consumers prior to deciding on a transmission licence for the LirlC interconnector.

By contrast, the consultation paper does not set out clear benefits from the proposed approach. Paragraph 2.17 notes that the licence will be conducive to facilitating TI in progressing its commercial proposals. However, this can only reliably be seen as a benefit once it has been concluded that additional interconnection is of benefit to NI consumers, which it has not been.

Paragraph 2.18 states that the UR considers that granting the licence will further the UR's principal objective. The objective specifically is to:

“protect the interests of consumers of electricity supplied by authorised suppliers, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission, distribution or supply of electricity”.

The principal objective is clear that the UR should make a judgement as to whether promoting competition is appropriate to protecting the interests of consumers of electricity. To assess whether it is appropriate, the UR should undertake a full needs-assessment of additional interconnection prior to coming to that decision. There are

multiple competing factors that the UR needs to fully consider prior to deciding whether LirIC is in the interests of NI consumers. A simple assessment that additional competition will lower wholesale prices and therefore is of benefit to consumers is not appropriate given the factors outlined previously in this response.

5 Are there any additional risks or benefits regarding further interconnection? If so, please provide supporting evidence.

As previously stated, the impact of an additional 700MW of interconnection on NI's constrained system will be highly material. Energia has already expanded on the current constraints crisis in this response, and how 700MW of additional imports may exacerbate the issue of dispatch down of renewable assets in NI. This would have direct financial implications for consumers in the form of compensation payments and would jeopardise NI's ability to meet its legally binding 80% target for renewable electricity.

The UR and DfE should engage in a technical assessment of the impact of further interconnection prior to deciding on whether to grant a transmission licence for LirIC. This is the fundamental reason that Energia disagrees with the proposed two-step approach.

6 Do respondents have any views regarding the anticipated timelines outlined?

The consultation states the intention for the UR to work in partnership with DfE to establish the needs case assessment for interconnection to March 2025. Energia agrees that the undertaking of a needs case assessment, and in addition the establishment of an interconnector policy by the DfE, should be a priority. This is consistent with Energia's response to DfE's Smart Systems and Flexibility Plan back in April 2024.

Energia notes that the LirIC interconnector is not expected to become operational until at least 2032. On this basis, Energia's view is that the needs case assessment and necessary policy analysis could be carried out prior to a decision on a transmission licence, and still allow for enough time for the project to be operational by 2032.

7 Are there other provisions that stakeholders consider should be included in the licence conditions and/or the revocation schedule? Please provide details and supporting rationale.

Energia's primary concern is with the two-step approach, rather than with any of the conditions in the proposed licence or revocation schedule. Energia notes that in the current revocation schedule, there is nothing that would permit the licence to be revoked were it to be found following the needs assessment that the project was not in the interests of NI consumers. This strengthens the case for the needs case assessment to be undertaken prior to deciding on whether to grant the licence.

8 What are the specific issues of further interconnection that are most likely to need specific regulation? Please provide your reasons.

There are several aspects generally of interconnection that are distinct from generation, and that need to be considered from a regulatory perspective, and when it comes to licensing, a view that Energia put forward in our response to DfE's Smarts Systems and Flexibility Plan consultation in April. They are:

- SO-SO trades: Energia and other industry representatives have already called on SONI to provide more transparency as to when SONI offers SO-SO trades over the existing interconnectors, the reasons for the request, and the reasons for whether the requests are accepted or not by the GB TSO.
- Security of Supply: While interconnectors contribute to security of supply, as reflected by their de-rating factor in the capacity market, the conditions under which interconnector flows can be switched off by the TSO during a security of supply crisis need to be fully understood and regulated.
- Congestion Charges and Capacity Allocation: Distinct from electricity generators, interconnectors generate congestion charges as their primary form of revenue. The basis upon which charges are levied may be a matter for regulatory consideration.

9 Do respondents have any views on the proposed approach in relation to a potential regulated Cap and Floor operating revenue regime?

Energia supports a full needs case assessment prior to deciding on any potential Cap and Floor operating revenue regime. Energia's concern is that this needs case assessment should be undertaken prior to granting the licence, rather than only before deciding on whether to grant a Cap and Floor regime.

While Energia notes that OFGEM's two-step approach involves the granting of a licence first, followed by an assessment of the needs-case for a cap-and-floor scheme, there are several key reasons that this approach is not appropriate with regards to the UR's decision on the LirIC interconnector.

In the first instance, the LirIC interconnector is clearly far more material for the NI electricity grid than it is for GB, given the size of the respective grids and peak demand, and therefore the potential impact on the NI system of granting a transmission licence will be far greater. Secondly, OFGEM is supported by clear policy on further interconnection from the Department for Business, Energy and Industrial Strategy, including an Energy White Paper that committed to additional interconnector capacity.⁴ This clear policy direction from government on further interconnection is absent in NI.

Finally, the impact of the constraints crisis in NI (and the associated compensation) presents a different context, and is another reason that the OFGEM approach of

⁴ [Energy white paper: Powering our net zero future - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/white-papers/energy-white-papers)

granting a licence prior to undertaking a needs assessment is not appropriate for the UR.