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Via email

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Dear Iqra,

Response to the statutory consultation on the Post Construction Review of the IFA2 interconnector to France

National Grid IFA2 Limited (NGIFA2) welcomes the opportunity to respond to Ofgem's statutory consultation on the Post Construction Review (PCR) of the IFA2 interconnector, and notes that National Grid Interconnector Holdings Limited (NGIH) has responded separately.

The Post Construction Review is a significant milestone in Ofgem's cap and floor regime (C&F). IFA2 is the first interconnector among those in Ofgem's C&F Window 1 to reach this stage, with Nemo Link being the pilot C&F project that predated Window 1.

NGIFA2 has worked closely with Ofgem on the PCR of IFA2, and it is pleased to see that Ofgem has deemed most of its costs to be efficient. Ofgem is proposing to make disallowances totalling £5.8m (in 2016/17 prices), of which £2.7m for delay in start-up (DSU) insurance were disallowed at a previous stage and have been carried into the PCR. NGIFA2 is of the view that the disallowances are not justified on efficiency considerations, and has set out its justification in Appendix 1.

Ofgem is also consulting on proposed licence modifications and updates to NGIFA2's C&F financial parameters. NGIFA2 suggests that the final cap and floor levels (or alternatively the post construction adjustment terms) are included in the licence for clarity and transparency reasons. NGIFA2 is pleased to read that Ofgem intends to publish the IFA2 C&F Financial Model 2 (IFA2CFFM2) as part of its consultation decision, as the model is relevant for operational matters. NGIFA2 also welcomes the update to corporation tax rate to reflect the year that the project entered into operations.

If you would like to discuss the contents of this response do not hesitate to contact me.

Yours sincerely,

Ruben Pastor-Vicedo
Commercial and Regulation Manager

Appendix 1 – NGIFA2’s position on Ofgem’s minded-to disallowances

The NGIFA2 position on the proposed construction disallowances is as follows:

- Covid 19 – converter station mitigation (£0.2m): NGIFA2, as part of the wider National Grid group, operates as a purpose led organisation guided by its values. One of those values is ‘doing the right thing’. NGIFA2 considers that providing food to converter station personnel during the covid-19 pandemic in order to reduce contact with the local community was the right thing to do both for staff and the local residents. It also supported the wellbeing of the staff, who were staying on site away from their families. In addition, NGIFA2 considers that it was also efficient, as any outbreak at the converter station could have caused a significant delay in the commissioning of IFA2. NGIFA2 is therefore disappointed to see this cost disallowed.
- DSU insurance (£2.7m): NGIFA2 continues to consider that DSU insurance provides significant benefits to consumers, however NGIFA2 understands that Ofgem has previously decided that neither the cost of this insurance nor any insurance proceeds from it are in scope of the cap and floor regime.
- Commissioning power (£8k): the process of commissioning a new interconnector is subject to significant technical and commercial risks. New assets can sometimes fail commissioning tests, resulting in imbalance costs. In addition, it is sometimes necessary to undertake tests that have commercial costs, as the alternative of delaying the tests would be more disadvantageous from a cost and time perspective. In this context, NGIFA2 considers it has achieved an efficient result by completing the commissioning of IFA2 at a net cost of only £8k. NGIFA2 notes that the benefits to consumers of the IFA2 commissioning were highlighted in BEIS’ Smart Systems and Flexibility Plan 2021.¹

The NGIFA2 position on the proposed operational cost disallowances is as follows:

- Marketing and website costs (£0.9m): NGIFA2 welcomes Ofgem’s view that it is taking an efficient approach towards its marketing costs by sharing costs across the wider NGV portfolio where possible. However, NGIFA2 disagrees with Ofgem on the point that NGIFA2 does not require NGIFA2 specific marketing. NGIFA2 notes that the Joint Allocation Office runs auctions on 84 allocation borders, so competition for consumers is quite intense. NGIFA2 would be at a significant competitive disadvantage if it did not have specific marketing and website material, particularly given the upcoming launch of a new interconnector between Great Britain and France. The NGIFA2 annual cost of IFA2 specific marketing is only £20k, which NGIFA2 consider efficient.
- Repex (£2.0m): as noted in the Ofgem PCR consultation, the NGIFA2 repex estimates were based on detailed engagement with the IFA2 equipment manufacturers. Where those estimates included a range of costs, NGIFA2 took a balanced view and used the middle of the range. Ofgem accepted this approach in general, however proposed to make an adjustment for control and protection specifically. NGIFA2 notes that this specific repex item receive no less attention than any other repex items, and would expect that the general approach of allowing the middle range is adopted, instead of the lowest part of the range.

¹https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1003778/smart-systems-and-flexibility-plan-2021.pdf