Iqra Latif
Interconnectors
Ofgem
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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 Interconnector Holdings Limited (NGIH) 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 IFA2 Limited (NGIFA2) has responded separately.

NGIH is the legal entity within the National Grid group responsible for interconnector development and the management of existing operational interconnector businesses; comprising a 100% investment in NGIFA2, National Grid North Sea Link Limited (NGNSL) and National Grid Viking Link Limited (NGVL); together with a 50% interest in BritNed Development Limited and Nemo Link Limited.

There is significant overlap between the NGIH and NGIFA2 consultation responses. NGIH is submitting a separate consultation response on the basis that:

- NGIH represents not only NGIFA2 but also NGNSL and NGVL, which are also regulated under the cap and floor (C&F) regime.
- NGIH has experience in the development of the C&F regime and associated licence drafting through engagement with Ofgem on NGIFA2, NGNSL and NGVL.
- NGIH is working with Ofgem on the development of the regulatory regime for multi-purpose interconnectors, taking the C&F regime as the starting point.

NGIH believes that the C&F regime represents a significant and positive regulatory innovation. The regime seeks to promote efficient investment in interconnectors, which benefits consumers through lower electricity prices and enhanced security of supply. In addition, interconnectors provide a vital tool to decarbonise the energy system, by allowing renewable energy to move from where it is produced to where it is most needed. In this context, the successful implementation of the C&F regime is critical to allowing those benefits to GB consumers to be realised.

NGIH is pleased to see the first interconnector in Ofgem's Window 1 reach the PCR statutory consultation stage. NGIH now looks forward to working with Ofgem on how the C&F regime works during operation, including in relation to the assessment of operational revenues.

NGIH echoes the points raised in the NIGFA2 consultation regarding the minded-to allowances set by Ofgem. NGIH has added wider considerations taking into consideration its portfolio of interconnectors, which are covered in Appendix 1.

NGIH is also of the view that the final cap and floor levels (or alternatively the post construction adjustment terms) should be included in the licence conditions of every cap and floor interconnector for clarity and transparency reasons.

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 – NGIH's position on Ofgem's minded-to disallowances

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

- Covid 19 – converter station mitigation (£0.2m): NGIH, 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'. NGIH considers that the actions taken by NGIFA2 and its partner Rte in relation to converter station mitigation measures during the covid-19 pandemic were entirely consistent with doing the right thing, as well as efficient in terms of project costs and timelines.
- DSU insurance (£2.7m): NGIH continues to consider that DSU insurance provides significant benefits to consumers, however NGIH 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 additions, 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, NGIH considers that NGIFA2 achieved an efficient result by completing the commissioning of IFA2 at a net cost of only £8k. If the Ofgem position is that this cost should always be disallowed then NGIH expects that any revenue from commissioning is excluded from the cap and floor regime. This would apply to NGNSL, NGVL and any non-NGIH interconnectors on an equal basis.

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

- Marketing and website costs (£0.9m): NGIH welcomes Ofgem's view that NGIFA2 is taking an efficient approach towards its marketing costs by sharing costs across the wider NGV portfolio when possible. However NGIH disagrees with Ofgem on the point that its interconnectors do not require specific marketing. NGIH notes that the Joint Allocation Office runs auctions on 84 allocation borders, so competition for consumers is quite intense. NGIH would be at a significant competitive disadvantage if they 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. NGIH would expect that the general approach of allowing the middle range is consistently adopted, instead of the lowest part of the range.