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Jon Parker,
Future Networks, Electricity Transmission
Ofgem
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18 July 2014

Dear Jon,

“The regulation of future electricity interconnection: Proposal to roll out a cap and floor to near-term projects”

National Grid and Réseau de transport d'électricité (“RTE”) are co-developers of a 1000MW HVDC electricity interconnector from Tourbe in France to Chilling in England - a project colloquially known as “IFA2”. The interconnector is expected to be energised in October 2019, and reach full commercial operations during 2020.

This interconnector is expected to be owned and operated by National Grid and RTE with split regulation based on 50:50 asset ownership. The RTE-owned assets are assumed to be regulated by the French Energy Regulatory Commission (CRE) in accordance with existing TURPE regulation. The National Grid-owned assets are assumed to be licenced and regulated by Ofgem with the proposed cap & floor regulation.

We welcome and support Ofgem’s proposal to apply a cap and floor regulatory framework to “near term” interconnector projects that are capable of being delivered by 2020. We are confident that the IFA2 project will be delivered in these timescales to the benefit of French and British consumers. National Grid and RTE are committed to achieving this.

We believe that it is important to recognise project-specific timing in the ex-ante cap and floor determination. We agree with Ofgem that the final project assessment (FPA) process would be most efficient if delivered between final offers from manufacturers and signature of contracts. However, this will require precise coordination between regulatory and procurement processes, given that vendor offerings will have a limited validity period and, importantly, to ensure that the FPA process does not cause delay (NB : major tenders will be common to RTE and National Grid). For IFA2, such an FPA could feasibly commence at the end of 2015 based on expected project timescales. The final investment decision (FID) would then be made in early 2016 on the basis of regulation parameters.

Although we are proposing split regulation based on asset ownership, we believe it is vital for Ofgem and the CRE to ensure that regulatory processes and timescales are consistent and complementary. We believe this can be achieved through 4-way dialogue with developers and regulators during the initial project assessment (“IPA”) phase.

We look forward to quickly establishing a programme for establishing the cap and floor parameters for the National Grid-owned assets of the IFA2 project in order that activities and resources can be effectively and efficiently planned by all parties involved.

A handwritten signature in black ink, appearing to read 'P. Johnson', with a large, stylized flourish at the end.

Paul Johnson

National Grid

A handwritten signature in blue ink, appearing to read 'M. Dubreuil', with a horizontal line crossing the middle of the signature.

Michel Dubreuil

RTE