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Stuart Borland,  
Electricity Transmission  
9 Millbank  
London  
SW1P 3GE

30<sup>th</sup> April 2015

Dear Stuart,

**NGIH response to “Cap and floor regime: Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink interconnectors” [consultation published 6 March 2016]**

Thank you for the opportunity to respond to the above consultation.

We, National Grid Interconnector Holdings, are the ring-fenced division within National Grid responsible for the development of new interconnectors. We are responding to the consultation as the GB promoter of a portfolio of jointly owned interconnector projects. We have experience operating interconnectors, Brit-Ned and IFA. We have recently secured a cap and floor regime for two interconnectors, Nemo and NSN. And, we have two interconnectors currently under IPA consideration in this consultation, IFA2 and Viking Link.

Overall we strongly agree that the IFA2 and Viking Link interconnectors will deliver significant benefits to GB consumers, and support Ofgem’s minded-to position to award a cap and floor regime to these projects. We see confirmation of this in the IPA decision as a necessary ingredient in bringing interconnection investment forward. This will, in turn, help GB achieve the European Commission’s interconnection target of 15% by 2030.

There are a few areas where we would like to provide further clarity on our position; we have set these out in the appendix below.

Engagement on the IPA process with Ofgem has been positive. The multi-lateral meetings between regulators, Governments and project developers across the relevant jurisdictions have been particularly beneficial in keeping everyone engaged and informed. It is important that this continues as we work towards the IPA decision in May and the FPA process, consultation and decision thereafter. For both IFA2 and Viking Link a clear route to a FPA regulatory settlement is vital.

The multi-lateral meetings also help to solve the challenges posed by split regulation. Challenges such as regulation of joint project (management) costs, and associated structures, are ones that multi-lateral meetings can help solve.

We are happy to discuss our views contained within this letter further should that be helpful. For further details, please contact Hannah Kruimer [Hannah.kruimer@nationalgrid.com].

This response is not considered confidential. We are therefore happy for it to be published on the Ofgem website and shared for the purpose of the consultation.

Yours sincerely,

A handwritten signature in blue ink that reads "Alan Foster". The signature is written in a cursive style with a large, sweeping initial 'A'.

Alan Foster

Director  
National Grid Interconnector Holdings Limited

## **Appendix A: Consultation Questions**

This appendix sets out our detailed answers to Ofgem's consultation questions.

### **Question 1: Do you agree with our minded-to positions on the four projects considered in this consultation?**

Yes, from our NGIH portfolio perspective we agree with the decisions for IFA2 and Viking Link. We agree that these projects are in the interest of GB consumers and make a significant contribution to GB achieving its commitment of 15% interconnection by 2030.

### **Question 2: Is there any additional information that you think we should take into account when reaching our decision on the IPA of the projects?**

No.

### **Question 3: What are your views on the approach Pöyry has taken to modelling the impact of cross-border interconnector flows?**

We agree that there are a range of scenarios that could impact on the level of benefit delivered by interconnectors and that overall they are likely to deliver a positive net benefit to GB welfare, and specifically to GB consumers.

Our modelling returns slightly higher positive figures than Ofgem's. This is particularly important in the low scenario for both projects where our modelling suggests lower floor payments than stated in the consultation. However, we welcome the fact that Ofgem recognises the unlikelihood of their low scenario, and the extremity of the assumptions used.

We welcome the conclusion that both IFA2 and Viking Link consistently produce a positive impact for consumers across all scenarios (low, base and high cases).

### **Question 4: Do you have any additional evidence in this area that we should take into account?**

Ofgem has stated that, for both IFA2 and Viking Link, the 50:50 split of GB Capacity Mechanism (CM) revenue reduces GB welfare. We have a different interpretation of how the CM functions. The CM artificially reduces the maximum arbitrage revenue that an interconnector can make. Thus, the 50:50 split of CM revenue is not reducing net welfare any differently to arbitrage revenue; it is simply taking the place of, and is split the same way as, the arbitrage revenue. We are happy to discuss this issue further.

### **Question 5: Do you have any views on the information presented in this chapter?**

We would like to understand how Ofgem has interpreted the costs of wider works; we note that IFA2 is the only project to which wider works costs are attributed. Wider works costs are determined by NGET, through scenarios and the impacts of multiple projects on the transmission area. Therefore, wider works are not directly attributable to any specific project and, thus, no one project should have these allocated against their costs.

We would like to specifically understand how Ofgem came to determine the £57m allocated against the IFA2 project given the information above. We do not agree that these costs should be directly attributable to the IFA2 project. The south coast has multiple projects, including other interconnectors, which contribute to the need for wider works. It is

inappropriate to allocate the costs of these works, required due to the cumulative impact of multiple projects, to IFA2 alone.

**Question 6: Are there any additional factors that you think we should have considered?**

No.

**Question 7: Have we appropriately assessed the hard-to-monetise impacts of the interconnectors?**

Yes.

**Question 8: Are there any additional impacts of the interconnectors that we should consider qualitatively?**

No.

**Question 9: Do you have any views on the information presented in this chapter?**

No.

**Question 10: Do you have any comments on our assessment of the project plans?**

**IFA2**

Ofgem has raised concerns that the time allowed for the French DUP process is not sufficient. Our allowed timescales for this process are achievable. We received approval from the French Energy Ministry of our least impact cable route on 15th January 2015, subsequent to a public consultation compliant to the EC no 347/2013 regulation. A draft environmental impact assessment (EIA) for onshore works in France has also been submitted to the French Government (DREAL in Caen). Therefore, we are on track to achieve the required timescales before the IFA2 FID.

**Viking Link**

The consultation raises concerns that a change in capacity could delay the project (section 3.18). It is worth noting that any change in capacity would only be undertaken if it enhanced the benefit accruing to GB consumers. Our modelling shows that a higher capacity of 1.4 MW would deliver more than €4 billion of benefit to the GB consumers. It is clear that the interests of the Interconnector Developer and the consumer are aligned.

Ofgem has concerns that the timescales for cable laying are too tight, comparing Viking Link to NSN (section 8.6). It is true that the lengths of the cables are similar; however, NSN's route is more difficult to traverse than Viking Link's. We expect the market to further confirm this during the procurement of the link and we will provide further information at the FPA stage.

We would like to draw attention to the amber rating for Viking's risk assessment, which suggested that we had not provided a risk breakdown. We note that this was provided at Section 38 and was equivalent to that provided for IFA2, which was given a green rating.