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Ofgem

Electricity Transmission

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Dear Stuart,

RTE, the French TSO, is quite involved in the evolution of the European transmission system, and particularly in interconnections between European countries. We are currently developing such projects with all of our 6 neighbouring countries, and particularly two with Great Britain: IFA 2 and FAB.

The development of the European transmission system is crucial to enable the energy transitions carried out in all European countries, and facilitate the full use of the future European generation assets, especially the renewables in order to decarbonise the power system. Interconnections with Great Britain are of particular importance in this context due to the current low existing exchange capacity, and the very large potential for renewable energy in UK and Ireland, especially wind energy, both on-shore and off-shore.

RTE is developing future FR-GB interconnections in partnership with different promoters: National Grid Investment Holdings for IFA2, and FABLink for FAB. These interconnectors are expected to be jointly owned and operated by our respective partners and RTE with split regulation based on asset ownership. The RTE-owned assets will be regulated by the French Energy Regulatory Commission (CRE) in accordance with next versions of the revenue and tariff regulation (TURPE). RTE recalls its attachment to stable and incitative regulatory framework for both sides of the interconnector projects, enabling to call for and secure project funding.

To get these projects rapidly developed, it is of prime importance to reduce the risks, since market prices are very volatile and the different energy mixes in the different countries are

subject to changes at a very fast pace, with regards to the lifetime of these projects, which spans over more than 40 years.

Therefore we welcome and support Ofgem's minded-to-position to apply a cap and floor regulatory framework to the GB regulated part of both projects. This confirms our analysis about the interest of these projects, not only for the GB customers but also more generally for the global European power system users. A clear regulatory framework is a cornerstone to make these projects really happen.

Without going into the details of the proposed regulation, our main concern in this context is twofold.

Firstly, 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 any delay to the joint procurement process. The final investment decision (FIQ) should be made in 2016 for IFA 2 and in 2017 for FAB, on the basis of regulation parameters. These projects are now on track with their timetable, and in particular important milestones have been reached with respect to consultation and permitting processes.

Secondly, although a split regulation based on asset ownership is proposed, 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 a continued 4-way dialogue with developers and regulators during the regulatory process, from the Initial Project Assessment ("IPA") phase to the FPA.

We look forward to the assessment of the cap and floor parameters for the GB regulated parts of the IFA2 and FAB projects in order for these projects to deliver on time with a clear regulatory background.

Best regards,

Michel Dubreuil.

