

Stuart Borland
Electricity Transmission
Ofgem
9 Millbank
London
SW1P 3GE

28 April 2015

Dear Stuart,

Cap and floor regime: Initial Project Assessment of the FAB interconnector

Transmission Investment, in partnership with the French national grid company RTE, is leading on the development of the FAB interconnector, an up to 1400MW electricity interconnector between France and Britain via Alderney (the “FAB” project).

We are responding in respect of the FAB project only to your consultation on your minded-to positions on the Initial Project Assessment (IPA) of four interconnector projects. We have provided our responses to the specific consultation questions in Annex 1, but we would also highlight the following:

The FAB project is expected to be overwhelmingly beneficial to the GB consumer

Ofgem’s quantitative analysis shows that the FAB project is beneficial to the GB consumer under every scenario, every sensitivity and even if all the four IPA projects to which this consultation relates are built. This agrees with our analysis and so we support the findings. We also note that Ofgem’s qualitative analysis concludes that the FAB project would further enhance security of supply, again we agree.

Ofgem’s analysis also shows that under Base and High Cases, payments would be made by the FAB project’s owners to the GB consumer as revenues would be expected to be above the cap in every year – in the High Case this would amount to £1.1bn being paid to the GB consumer. In the Low Case the revenues are not below the floor and so the GB consumer is not expected to have to make any payments to the FAB project.

Our capital and operating cost estimates

We have submitted central case, rather than high case cost estimates and so whilst we note that the mind to position is subject to no material escalation in costs, we strongly support the qualification of this (footnote 24) that this escalation is “*relative to the estimates submitted to us by project developers, or in line with those for comparable projects.*”

Anticipatory Investment

The FAB project requires a small amount of anticipatory investment in routing the cables across the island of Alderney. This small investment provides a potentially large benefit in facilitating the exploitation of large-scale renewable energy resources in the waters around Alderney. If these resources can be exploited then they will provide another the secure and carbon-free source of energy in northwest Europe.

Diversity of interconnector owners

We are pleased that Ofgem recognises that, in comparison with all the other interconnector projects for which Ofgem has so far given positive minded-to or full IPA or FPA consent, the FAB project stands out as one that brings diversity to the development, construction and ownership of interconnectors in the UK. We believe that this diversity is essential if the UK is to procure, finance and operate its much needed interconnection capacity at lowest cost.

As always we would be happy to talk through any of the points we make in our consultation response.

Yours sincerely,



Chris Veal

Managing Director

Annex 1 - Responses to the specific consultation questions

Chapter Three	
Question 1: Do you agree with our minded-to positions on the four projects considered in this consultation?	Yes in respect of FAB
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
Chapter Four	
Question 3: What are your views on the approach Pöyry has taken to modelling the impact of cross-border interconnector flows?	Seems reasonable – we have nothing to add
Question 4: Do you have any additional evidence in this area that we should take into account?	No
Chapter Five	
Question 5: Do you have any views on the information presented in this chapter?	No, except that it is always hard to estimate operational costs with any degree of accuracy, particularly far into the future. We support the view that greater interconnection (which is essentially transmission capacity) should reduce operational costs and would note that if they don't then there is probably something wrong with the market.
Question 6: Are there any additional factors that you think we should have considered?	No
Chapter Six	
Question 7: Have we appropriately assessed the hard-to-monetise impacts of the interconnectors?	<p>We support the following points:</p> <ul style="list-style-type: none"> - The consultation document notes the option for the FAB project to become a Multi-Purpose Project (MPP). - It also notes that FAB will increase the diversity of IC owners but we would add that it also increases the diversity of interconnector developers, constructors and operators which is just as important. <p>We would also note that government policy coupled with the cap & floor commissioning target of 2020 may result in increased costs for interconnector developers – a more flexible approach on timetabling would be sensible</p>

Question 8: Are there any additional impacts of the interconnectors that we should consider qualitatively?	We assume that the additional benefit that the FAB project has of facilitating the development of and integration of renewables (specifically marine renewables in the waters around Alderney) has been incorporated into the qualitative assessment.
Chapter Seven	
Question 9: Do you have any views on the information presented in this chapter?	We think it is a fair and balanced analysis.
Chapter Eight	
Question 10: Do you have any comments on our assessment of the project plans?	We acknowledge that our construction stage plan does not include any milestones. Whilst these can be provided it has to be noted that at this stage the construction stage timetable is subject to manufacturing capacity and so can only be indicative.

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