

Ikbal Hussain,
Interconnectors, Networks
Ofgem,
9 Millbank,
London,
SW1P 3GE



Cap.Floor@ofgem.gov.uk

Date: 11th August 2017

Dear Ikbal,

Cap and floor regime – Initial Project Assessment Consultation

National Grid Ventures (NGV) welcomes the opportunity to respond to this consultation. NGV is a new ring-fenced division of National Grid plc, responsible for developing new business opportunities in our UK and US territories. We are responding to this consultation as a developer, investor, and long term operator of interconnectors.

NGV, as a developer experienced in interfacing with complex European transmission networks, understands the development cycle and associated risks of interconnector projects. We have a world class safety record, a robust approach to handling risk and manage projects in a way that ensures they are delivered in-line with expectations. We are keen to continue to apply our capabilities to the market to help facilitate the development of the most efficient and effective solutions.

We believe that the cap and floor regime has been a success, bringing forward projects from a range of developers – these projects unlock substantial benefit for UK consumers. Our analysis shows that there is consumer benefit to be gained from significantly more interconnection with Europe. We believe that the regulatory regime should be optimised to ensure that this benefit is delivered in the most efficient and timely manner, including by creating further cap and floor opportunities for developers. Overall, we welcome an open dialogue around how we in the UK can deliver the interconnection needed to support our transition to a low-carbon, flexible energy system.

Primarily, we would like to understand why the decision has been taken not to open an application window this year, and what the nature of the review in 2018/19 may be.

Our understanding is that Ofgem's approach to interconnection is to seek to ensure that it maximises the welfare of UK consumers. We assume that Ofgem will have a view on the optimum level of interconnection. The European Commission have adopted the view that the optimum level would be 15% of installed capacity, although there are other approaches to calculating the optimum level.

Whatever view one takes of the optimum level of interconnection, there must be a credible plan and approach to ensure it is achieved. Our experience of interconnection construction demonstrates that these projects are complex, intricate, and dependent on multiple competing factors.

Importantly, we want to reiterate our confidence that interconnection between the UK and Europe will continue to offer a benefit to all parties. We have considerable experience of interconnector

operations and trading that pre-dates the Internal Energy Market. We are confident that in any reasonable and foreseeable scenario interconnectors will continue to play a vital role in the UK's energy mix.

To manage the complexity and uncertainty around interconnector development across borders it is vital that Ofgem's regulatory framework is geared up for dealing with potential interconnector development shortfalls in the near term so to maximise consumer benefits in the short to longer term. We strongly suggest that Ofgem create the opportunity for developers to apply for the cap & floor regime on a case-by-case basis and for these projects to be assessed on their own merits.

If you have any questions on the issues raised in this letter, please contact Katelijn Van Hende (Katelijn.vanhende@nationalgrid.com).

Yours sincerely,

Hannah Kruimer
Regulation and Government Team Leader
National Grid Ventures