

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

Dear Ikbal,

Consultation on Post Construction Review of the Nemo Link interconnector to Belgium

NeuConnect welcomes the opportunity to respond to the above consultation.

Nemo Link is the first interconnector project to progress through the full cap and floor assessment process. Consequently, it is inevitable that decisions made here could have an impact on future projects which are regulated under the cap and floor regime.

Certain information provided during the assessment process is commercially sensitive and must remain confidential. However, NeuConnect notes that there is little detail available in the documentation on which to provide an opinion as to whether Ofgem's proposed decisions are sensible and balanced.

NeuConnect is certain that the development and assessment process followed by Nemo Link and Ofgem would have resulted in considerable learning by both parties and NeuConnect believes these learning points should be shared with the community to avoid any potential repetition which would not be in consumers (or a project's) interest. Sharing any learning will ensure future projects are developed more efficiently.

In addition to the above general comments, NeuConnect provides the following responses to the specific questions raised by Ofgem in the consultation document where NeuConnect is able to offer a considered response.

Where no response to a question is given this is not to be interpreted as agreement but is simply no comment can be made.

Question 1 – Do you agree with our proposed cost allowances

In relation to the project management costs incurred during construction, NeuConnect notes these out-turned at €23.8m (or 3.9% of project capex) which we believe compares to an original Nemo Link forecast of €15m (as per the BPI report) and that Ofgem is minded to accept the updated costs.

NeuConnect believes, this level of cost is reasonable (and compares well against similar offshore projects). However, it is concerning that at the FPA stage the expected costs adjusted by BPI were suggested to be c30% lower than Nemo Link's FPA submission. This suggests there is little confidence or

validity of the cost assessment process deployed at the FPA stage by Ofgem and this can lead to serious consequences for financial investment decisions and hence the delivery of consumer benefits outlined in the decision to award a cap and floor regime in principle.

NeuConnect is raising this now since had Nemo Link been proposed to be funded using Project Finance such an approach to cost assessments at the FPA stage could lead to the project not being developed. It is fundamentally important that any cost assessment is rigorous and sets realistic levels of development costs.

In relation to unexploded ordinance (UXO) costs, NeuConnect notes JPS encountered a much higher level of potential UXO's than originally estimated, resulting in the need for additional surveys and UXO removal works costing a total of €28.9m (and Ofgem is minded to accept these costs as economic and efficient).

In line with the general comments made above, NeuConnect would like to better understand if there are any learning points here that can be shared so as to ensure the process adopted by other projects moving forwards with regards UXO identification and removal is as efficient as possible (thereby protecting consumers from potential similar cost overruns). Clarifying in advance Ofgem's treatment of such costs will undoubtedly help NeuConnect to finalize its risk sharing principles in the EPC contracts that will be sent to the supply chain as part of the tendering process.

With regards commissioning, and the net cost of the exercise to the project of €0.9m, we note Ofgem is minded to allow €0.5m of the additional costs but disallow the remaining €0.4m of service costs that Nemo Link incurred through using the National Grid Ventures trading desk service for imbalance management during the pre-operations phase. Whilst it is unclear from the information provided why the €0.4m was incurred in the first place, it seems reasonable that there could have been some 'setting-up' costs incurred to establish such a trading solution ahead of the commissioning exercise commencing and that proactively managing imbalance exposure should be encouraged and is a legitimate cost.

In relation with Ofgem's minded to position to disallow the costs of placing Delay in start-up (DSU) insurance, we note this is consistent with other TSO funded projects where Ofgem have disallowed such costs on the basis they see developers as the only beneficiary. However, for projects funded via project finance, placement of DSU insurance reduces lenders risk and hence premiums which consumers directly benefit from. As a result, Ofgem may wish to consider this point further for projects funded via project finance.

Finally, and with regards the €43.7m current disallowance of repex, and again in line with the general comments above, more information is required to better understand why there is such a large increase from the original repex forecast of €16.1m and whether there is any learning that could be shared as to how repex forecasts, which are inherently uncertain 15 – 25 years out, are to be assessed as efficient; perhaps there should be a provision included in the regime to allow for adjustments to repex allowance in the future similar to the projected opex costs process?

Question 2 Question 2: Do you agree with our proposed changes to the CFM?

NeuConnect has no comments on the changes proposed to the CFFM.

Question 3: Do you agree with our proposed modifications to Nemo Link's licence?

NeuConnect has no comments on the proposed modifications to Nemo Link's licence.

Question 4: Do you agree with our proposed modifications to SLC 25?

NeuConnect has no comment.

If you require any further information about any aspect of this response, then please do not hesitate to contact me.

Yours sincerely

Christophe Vanhove
Chief Executive Officer
NeuConnect Britain Ltd.