



*National Grid Ventures (NGV), part of National Grid plc, is a distinct commercial unit that owns and operates energy businesses in competitive markets in the UK and US. NGV's UK portfolio includes National Grid Interconnector Holdings Limited, Grain LNG, and National Grid Metering.*

## Introduction

National Grid Ventures Interconnectors (NGV<sup>1</sup>) welcomes this opportunity to engage with Ofgem's priorities for the period 2020-22 particularly as the regulator has recently published its Decarbonisation programme action plan.

We are responding to discussion in the draft 2020-22 Forward Work Programme of electricity interconnectors and the need for a coordinated framework for developing offshore networks.

### **Maintaining and Extending Interconnection**

In the draft FWP, interconnectors are most directly addressed in the context of 'Ensuring System Stability and Security'. As the leading commercial developer and operator of electricity interconnectors in the UK, we are encouraged by Ofgem's continued commitment to interconnection which provides significant consumer benefit by supporting the decarbonisation of the UK energy mix while contributing to security of supply and lowering energy prices.

NGV also reiterates its support for Ofgem's Cap and Floor regulatory regime whose founding principles included the balancing of risks and rewards between developers and consumers. In our response to the draft 2019-21 FWP we argued for more active management of the pipeline of projects and we again encourage Ofgem to develop a process for evaluating future projects case by case on their merits.

Cap and Floor was key to unlocking investment by European partners being a regulatory framework in line with the EU 3<sup>rd</sup> package regulations and recognised by national regulators and developers.

With the future trading relationship between the UK and the EU being uncertain and continuing to develop, it is vital this be maintained. We therefore urge Ofgem to continue its engagement and cooperation with EU institutions and other national regulators, to promote efficient cross-border trading and competitive markets for the benefit of all UK and EU consumers.

A key principle underpinning this regime that is particularly important to NGV and other stakeholders is having a level playing field. Regulatory treatment should be impartial and unbiased between

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<sup>1</sup> NGV manages National Grid's GB interconnector business interests including its share of IFA, IFA2, BritNed, Nemo Link, NSL, Viking Link and any future interconnector developments.

developers/operators irrespective of their location, ownership or stage in the project lifecycle. As market and other conditions evolve over time the Cap and Floor regime risks creating a timing lottery under which certain licensees may be disadvantaged, especially in areas of policy uncertainty.

Interconnector owners are at risk from changes in legislation which generate cost changes with differential impacts, such as those arising from the UK's future trading arrangements with the EU. Throughout the UK's membership of the European Union, Ofgem and other EU regulators have sought to break down direct and indirect tariffs on trade between Member States to realise the maximum benefits of cross border trade for all consumers. NGV is concerned that Brexit may be used as an opportunity to raise the costs of cross-border trade.

Transmission charges on cross border trade is one such area that has come into greater focus since the UK left the EU on 31 January 2020. The consumer benefits of removing transmission charges from cross-border trade was clearly captured in the CUSC and Charging Methodology amendments approved by Ofgem in 2012 and 2010 respectively. NGV continues to believe that these economic arguments remain valid going forward, perhaps even more so as the UK looks to integrate unprecedented volumes of renewables in the coming years. Such integration being ever more heavily reliant on efficient cross-border trade in energy.

Network charges, if applied to an interconnector would leave a multi-million-pound annual funding gap which, if operating at the floor, would leave a Licensee unable to finance its investment. The resulting timing lottery could disadvantage early licensees with those interconnectors already well into construction or operation having minimal recourse. Those still in development however, would be able to apply for a final cost assessment with the new costs incorporated into operational cost allowances.

We therefore encourage Ofgem to continue implementing the Cap and Floor regime in line with the level playing field principle as the future UK-EU relationship is established.

### **More effective coordination to deliver low cost offshore networks**

The UK government has committed to rolling out 40GW of offshore wind generation by 2030. We are encouraged by Ofgem's commitment in both the draft 2020-22 FWP and Decarbonisation programme action plan to develop more coordinated offshore networks at the lowest cost to the consumer.

As a leading HVDC developer, NGV recognise the opportunity for meshed and hybrid projects to deliver government objectives and we highlight the relative success of the Cap and Floor regime in having facilitated a pipeline of projects. Given the cross-border nature of the largest potential offshore networks and hybrid projects, we encourage Ofgem to incorporate the Cap and Floor regime's principles into any new regulatory framework.

We would welcome the opportunity to further engage on this subject and attend any industry workshops to further explore coordinated offshore networks.

We are happy to discuss the views contained within this response, should that be helpful. For further details, please contact Miles Ten Brinke ([miles.tenbrinke@nationalgrid.com](mailto:miles.tenbrinke@nationalgrid.com)).