

About National Grid Ventures

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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 Interconnector Holdings Limited (NGIH¹) welcomes this opportunity to engage Ofgem on its plans for 2019-21. As the industry continues its transition to a smarter and more flexible future GB energy system, regulatory clarity is especially welcome.

NGIH is encouraged by Ofgem's commitment to continuing its work with government and the industry to prepare for Britain's withdrawal from the European Union. Though the future relationship is unknown, significant programmes of work will be required. Engaging with a broad range of industry stakeholders, Ofgem and government will need to establish the shape of that future relationship irrespective of the withdrawal agreement and so allocate the necessary additional anticipatory resources. Ofgem has a key coordination role to play – ensuring that whatever the outcome requires, it is achieved in the most orderly fashion possible.

Our main interest is the FWP section on 'Bringing new interconnectors into operation' – we welcome Ofgem's continued commitment to conduct a review of interconnector regulation and future interconnection. It is an opportunity to both manage the pipeline of projects for the near term, and re-evaluate regulatory regimes like Cap and Floor as its first interconnectors go live. This will help ensure that the UK maximises the benefits of interconnection.

Though these considerations are linked we propose that Ofgem deal with each separately, giving priority to pipeline management. There is substantial progress on which to build, but more is required to maximise the consumer benefit of interconnection. Recent experience indicates both that market demand for interconnection continues to rise but so too are barriers to development – more active queue management is necessary. We recommend then that Ofgem evaluate new projects individually on an ongoing basis, rather than consider a 3rd application window.

¹ NGIH is the holding company for managing National Grid's GB interconnector business interests including IFA, IFA2, BritNed Nemo Link, NSL, Viking Link and any future interconnector developments.

While there is an urgency to the queue management we advise that Ofgem separate that work from a broader review. This will allow for the wide and deep scope necessary to address the relevant areas, and the time to do so once greater policy certainty has been achieved.

Please find attached to this letter a more detailed response to your FWP on bringing new interconnectors into operation.

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

Kind regards,



John Greasley
Regulation and Stakeholder Manager, Interconnectors
National Grid Ventures

1. Bringing new interconnectors into operation – managing the pipeline of projects

As a leading commercial developer and operator of British electricity interconnectors we continue to support the cap and floor regulatory regime. As a hybrid regime, cap and floor balances risk and opportunity for both consumers and developers. It has been core to unlocking the flow of investment into new interconnection with continental Europe, providing more certainty to European TSO joint venture partners and the regulators of partner countries.

We welcome the continued support and recognition of interconnector benefits by government, including the additional 9.5GW capacity proposed in the Clean Growth Strategy. Our analysis indicates this is an opportunity to provide at least £11bn more consumer benefit over 25 years. The market for interconnection continues to grow, additional projects being added to the interconnector register. The 2019 Network Options Assessment further reinforces this, analysis showing significant further opportunities beyond the current pipeline – optimal capacity as high as 21.4 GW. Continued support post-Brexit will be essential to materialising benefit.

And there are growing challenges, both to those pursuing the cap and floor route and merchant exemption developers. On 16 November 2017, the French regulator CRE withheld approval of FAB Link and Gridlink due to Brexit uncertainty and requested ACER rule on Aquind's exemptions request. As of 28 June 2018, after appeal it was confirmed that Aquind would not receive its exemptions because as a PCI project a regulated development route was possible. This could be achieved via submitting an investment request per Article 12 of Regulation 347/2013 (the TEN-E Regulation). This route is already being pursued by other projects. Effectively then, a case-by-case approach is becoming the new default.

We encourage Ofgem to continue this, to move away from considerations of a third application window and instead evaluate future projects case by case on their merits. This would ensure that viable interconnector projects that will bring future consumer benefit to the UK are able to progress in a timely manner.

2. Bringing new interconnectors into operation – interconnector policy review

Over the longer term, we encourage Ofgem to again conduct a comprehensive review of the market for GB interconnection and application in practice of its regulatory frameworks. This should be decoupled from the work outlined above, queue management is an urgent matter but a review should not be rushed.

We encourage a forward-looking view. This should encompass issues such as the settled future relationship of the United Kingdom to the EU and the experience of cap and floor regulation once its interconnectors become operational. On an even longer term basis, we encourage the regulator to consider unanswered questions from the Integrated Transmission Planning and Regulation (ITPR) project such as on the regulatory basis for multi-purpose projects and the future of an offshore electricity grid more broadly.