



# FAB PROJECT

An interconnector to provide electricity  
between France and Britain via Alderney

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Dear Ikbal, Gethin

## **FAB Link Limited response to the “Post Construction Review of the Nemo Link Interconnector to Belgium” consultation**

The FAB project is a proposed 1,400MW electrical interconnector between France and Britain via the channel island of Alderney. The project has been under development by FAB Link Limited (“FAB Link”) in the UK and Réseau de transport d’électricité (RTE) in France since 2013.

We welcome the opportunity to provide our views on Post Construction Review of the Nemo Link interconnector project as well as the proposed changes to the related standard and special licence conditions.

### PCR Cost Assessment

Generally, we support Ofgem’s position on Nemo Link’s cost allowances, however we would like to highlight the following:

- *Commission for Electricity and Gas Regulation (CREG) position* – it is not clear what level of influence the Belgium regulator, CREG has on Nemo Link’s GB licence. It is clear from the document that consultations taken place between Ofgem and CREG but the resulting licence changes are not set out. Further information on the interaction between CREG and Ofgem and the agreements for amendments prior to public consultation would improve the transparency of this process.
- *Cost variations within the EPC contracts* – Nemo Link agreed settlement of €5.8m with JPS for items such as remedial burial works and weather delays which have been accepted as economic by Ofgem. A further €0.8m claim was made by Siemens for unspecified reason which also seems to be have been deemed economic by Ofgem. On both of these sets of

variations it is not clear which means were used by Ofgem to assess their economic justification. Were these costs pre-identified as risks by Nemo Link and therefore considered within the risk/contingency allowance set in 2014. However, Table 1 of the PCR consultation document does not show any use of the CAPEX Risk allowance. It is therefore difficult to form an opinion from the consultation on how these additional costs variations were deemed economic. It would be beneficial for future developers if Ofgem provided more information on the economic assessment for cost variations on firm cost allowances.

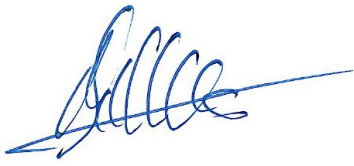
- *Imbalance costs* – We support the minded to position of Ofgem to allow costs for energy for the commissioning phase of construction. Given the prescriptive requirement for commissioning power it is highly improbable for the power market to provide conditions where costs are not incurred. It therefore cannot be assumed that an interconnector developer will be cost neutral during this period. Furthermore, as the commissioning period is the primary testing phase it cannot be assumed the HVDC system will be fault free and therefore the owners may be exposed to potentially high market-based imbalance costs. We welcome Ofgem’s position to allow these costs. However, the basis for disallowance of the service charge is not clear. It cannot be efficient for an interconnector developer to implement in-house trading capability when compared to outsourcing to a 3<sup>rd</sup> party expert. Utilising a 3<sup>rd</sup> party will bring benefits of experience and established systems and processes for this requirement. Any trading agreement will be on commercial terms and so will incur an uplift or service charge. Given the methodology used by Nemo Link seems optimal, we would support Ofgem being clearer on the reasons for disallowance of the service charge and stating whether it was done on economic grounds (i.e. this service was not competitively procured) or otherwise. If the former, we would still expect a proportion to be included within the allowance.
- *Delay to Start Up (DSU) Insurance* – DSU insurance is considered to be a reasonable risk mitigation measure for infrastructure projects and the rationale for disallowing this expenditure for IFA2 and Nemo Link is not provided in sufficient detail to appreciate Ofgem’s position on this. Based upon the information provided it seems that this disallowance is inappropriate. This position should also be considered in light of any precedent it may set for those projects not funded on balance sheet where DSU will be expected to be mandatory.
- *Repex* – Ofgem may disallow a significant element of costs associated with Repex if the placeholder value were to be maintained. It is our understanding that this cost covers repair of the primary asset and replacement of systems with a shorter life expectancy than the regulatory period. In order to ensure the availability (and therefore societal benefits) of the interconnector, proactive maintenance of these parts and systems is essential. Expected repair/replacement requirements would normally be set out by the HVDC converter/cable supplier and in line with industry standards or norms. Assuming these have been provided by Nemo Link we do not see any reason why the allowance would be set at a level well below that required to ensure the asset and associated systems are maintained adequately. We would urge Ofgem to provide further information to justify this significant reduction in allowance possibly with a further consultation or published letter of clarification once the allowance has become firmer.

### C&F Financial Model and Licence Modifications

We are generally supportive of the proposed changes to Nemo Link’s licence. However, we would like to have seen the improvements made to the NGNSL licence, following consultation, included within the Nemo Link licence. We understand that some of these changes relate to elements of the licence for phases which Nemo Link has already completed (such as Trial Operations). However, licence updates set precedent for future projects which will now be required to refer to both Nemo Link and NGNSL licences to identify the latest text.

If you would like to discuss any aspect of the response please don't hesitate to contact me directly.

Yours sincerely,



Richard Sidley  
Commercial and Regulatory Manager – FAB Link