

Monsieur Jean-François Carencu
President
Commission De Regulation De l'Energie
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France

Submitted on line: <https://consultations.cre.fr/>

22nd July 2021

Dear Mr Carencu,

Consultation paper on the Investment Request of GridLink Interconnector

We are writing with regard to CRE's consultation on GridLink's Investment Request published on CRE's website on 29th June 2021 (Public Consultation No 2021-07).

We have identified information in the consultation paper which appears to be wrong or incomplete. These errors and omissions materially affect the conclusions reached as well as the framing of the questions raised in the consultation. We are therefore concerned these may taint the accuracy and the objectivity of the consultation process.

General comments

Firstly, the consultation paper contains multiple, manifest errors on the costs and benefits of the GridLink project. These errors are set out in detail below. The paper then ranks competing projects and invites comments on the GridLink Investment Request based on these fundamental errors of fact.

Secondly, in preparing its analysis CRE have relied on economic data and evaluations prepared by RTE. RTE however holds an interest in FAB Link Interconnector - one of the proposed interconnector projects to France. CRE have clearly put RTE in position of a potential conflict of interest. CRE could have, and should have, used an independent consultant to provide the analysis it required. No reliance should be put on this analysis.

Thirdly, CRE has introduced a new metric to rank competing projects. Project costs are normally benchmarked on a €/kw basis when considering total project costs or on a €/km basis when considering cable costs only. CRE has itself used these metrics when evaluating investment requests for other projects e.g. Celtic, Biscay and IFA2. The same metrics have also been used by other national regulatory authorities e.g. Ofgem, Elia, CRU and CNMC, when they have evaluated investment requests. In GridLink's case CRE have devised an entirely new metric which lacks clear reasoning and does not appear to have basis in any relevant European and French law.. CRE's new metric takes total project costs (cable and converters), divides this by the offshore cable length and then divides again by the rated capacity of the converter stations.

The construction of this formula is such that it automatically allocates a higher score to interconnector projects which have a longer offshore cable length. By way of example a 1400 MW interconnector with a cable length of 200km would score twice the marks of an identical project having a cable length of 100km. Put another way the formula has an inbuilt bias which unjustifiably penalises interconnectors which have short cable lengths, such as GridLink. We therefore request and recommend that CRE reverts to using internationally accepted benchmarking metrics of €/kw and €/km. If it does so CRE will see that GridLink ranks among the lowest, if not the lowest cost interconnectors in Europe.



Fourthly, the consultation paper claims that the Investment Request "*comes at a time when the interest of an additional interconnection between France and the United Kingdom is being questioned*". This statement contrasts with the 2020 ENTSO-E system needs study, published in January 2021¹, which specifically identifies a need for an additional 1.4GW of capacity on the UK/FR border by 2030. Similar assessments on the need for additional interconnection capacity on the UK/FR border were confirmed by Ofgem in their latest consultation paper on interconnectors dated 23 July 2021². Furthermore we have consulted broadly with European Union and United Kingdom market participants, throughout the development of the project, the results of which disprove this statement.

Even more recently, on the 28th June 2021 the EU Commission and ENTSO-E confirmed at a meeting of the Electricity Regional Group (attended by CRE), that GridLink is beneficial for the EU and meets all the technical and economic criteria necessary to be considered eligible for status as a Project of Common Interest. The assessment criteria include an economic test in which the socio-economic benefits of a project must outweigh its costs in the TYNDP base case scenario (National Trends). GridLink passed that economic test.

In conclusion, CRE's consultation document makes a number of statements unsupported by evidence, which means that the basis for the public consultation is neither transparent nor fairly presented. These errors were highlighted in relation to the draft consultation document and should have been corrected before public consultation was issued, as they significantly misrepresent the GridLink project, both in respect of the project itself and in comparison to competing projects. As a result, there is a material risk the results of the consultation will be tainted and contestable.

Procedural concerns

Whilst CRE is not required under law to publish our or any other commentators' responses to the consultation, we are concerned that the publication of incorrect data, the use of data provided by RTE in a position of conflict, and arbitrary use of a novel and non-market comparison metric will materially taint the consultation process.

The consultation paper does not actually acknowledge that GridLink has already submitted a valid Investment Request, upon which CRE is obliged to decide within 6 months pursuant to Regulation (EU) No 347/2013. The consultation paper should therefore:

- a. confirm that GridLink has submitted an Investment Request pursuant to Article 12 of the Regulation;
- b. confirm that CRE deems the Investment Request to be to be valid and complete;
- c. identify the date by CRE is required to decide the Investment Request; and
- d. confirm that CRE has forwarded a copy of GridLink's Investment Request to ACER as required by the Regulation.

We are therefore of the opinion that in this regard the consultation paper is misleading and that the approach taken by CRE is inconsistent with the consultation process it has undertaken on other comparable projects.

¹ <https://eepublicdownloads.blob.core.windows.net/public-cdn-container/tyndp-documents/TYNDP2020/Foropinion/loSN2020MainReport.pdf>

² <https://www.ofgem.gov.uk/publications/interconnector-policy-review-working-paper-workstream-2-socio-economic-modelling>



Response to questions raised in the consultation paper

1. Do you consider the use the TYNDP 2020 National Trends scenario as a baseline, and the Global Ambition and Current Trends scenarios as upward and downward sensitivities, to be relevant in assessing the economic value of a new interconnector at the France-UK border?

Article 12 of Regulation 347/2013 states that an Investment Request should contain “a project-specific cost-benefit analysis consistent with the methodology drawn up pursuant to Article 11”. The methodology referred to in article 11 is the ENTSO-E TYNDP.

ACER Recommendation No 5/2015 entitled “Good practices on the treatment of investments requests, including cross border cost allocation requests”, recommends that project promoters include in their Investment Request “A project-specific CBA for the various ENTSO-E TYNDP scenarios”. It goes on to say that project promoters may provide additional plausible scenarios which they deem to be robust.

It is clear from both the Regulation and the ACER Recommendation that National Regulatory Authorities should use the TYNDP scenarios as the framework for evaluating an Investment Request.

Consistent with the ACER recommendation, GridLink also submitted as part of its Investment Request a CBA produced by independent management consultants Afry which sets out alternative, plausible scenarios which the project promoter and Afry deem to be robust.

We note that the consultation paper compares the results of the CBA presented by GridLink to a CBA that was produced by an unrelated third party (Artelys). It is surely the case that an Investment Request should be decided on the CBA provided by the project promoter and not the CBA produced by an unrelated third party. Indeed Regulation 347/2013 is specific on this point. The only relevant CBA upon which an Investment Request is to be decided is the CBA provided by the project promoter in its Investment Request. This is precisely why ACER has recommended project promoters should include the CBA results from the ENTSO-E TYNDP scenarios in their Investment Request. We therefore believe the CBA prepared by Artelys for CRE in 2019 should not be considered as relevant in the evaluation of GridLink’s Investment Request.

Figure 1 of the consultation paper misrepresents the economic benefits of the project as reported in the TYNDP 2020. It shows GridLink’s costs are higher than its benefits in the base case “National Trends” scenario. In fact the TYNDP 2020 shows the opposite to be true

CRE will be aware that following Brexit the EU Commission introduced new technical and economic tests for Projects of Common Interest between the EU and Third Countries which must be passed for a project to be eligible to apply for PCI status. One of those tests is that the benefits of a project must outweigh its costs under the TYNDP National Trends scenario.

At a meeting of the Electricity Regional Group on 28th June 2021 ENTSO-E and the EU Commission confirmed that **GridLink passed these economic tests** and is eligible to be included in the next union list of Projects of Common Interest. CRE was present at that meeting.

CRE has misrepresented the TYNDP figures in the consultation paper and must correct this error by referring to the official figures published in the TYNDP.

2. Do you share CRE’s analysis on the limits of the methodology proposed in the TYNDP 2020 to assess the benefit of an interconnector in terms of security of supply and the value of projects in terms of avoided greenhouse gas emissions?

We do not share CRE’s analysis on the limitations of the TYNDP methodology for monetizing the benefits of CO₂ emission reductions. Furthermore, as stated above, Article 12 of Regulation 347/2013 states that an Investment Request should adopt the methodology proposed in the ENTSO-E TYNDP.



The methodology for monetizing reductions in CO₂ emissions in the TYNDP 2020 has been developed by ENTSO-E following extensive public consultations over several months. The methodology has also been approved by ACER.

In addition, the carbon prices used in the TYNDP 2020 have been recommended by the European Commission DG MOVE following an extensive literature review on carbon pricing. The prices are published in the “Handbook on the external costs of transport – January 2019 – V1.1” and are reproduced in Table 2 below.

The TYNDP 2020 uses the Central scenario for calculating SEW benefits and the short run prices rather than the long run prices which are much higher.

Given the above we are of the view that the ENTSO-E methodology is robust and they have taken a conservative approach to CO₂ pricing.

Table 2: Climate Change avoidance costs in €/tCO₂ equivalent (€₂₀₁₆)

	Low	Central	High
Short and medium run (up to 2030)	60	100	189
Long Run (from 2040 to 2060)	156	269	498

3. Do you share CRE’s analysis of the benefits of an interconnection project between France and the United Kingdom? Do you have any additional remarks?

We do not share CRE’s analysis of costs and benefits, as the analysis contains multiple manifest errors and omissions. On the contrary we are of the view that GridLink will bring the following key benefits:

- A €1bn inward investment
- 450 jobs in construction / 45 full time jobs
- €13bn in sales revenue for French electricity producers
- 500,000 tonnes/year reduction in CO₂ emissions
- Supporting the development of renewable energy technologies in France and contributing to the delivery of climate change targets
- An anchor tenant contributing to the economic transformation of Dunkirk Port
- Fostering innovation and technical development – the world’s first 1400 MW monopole converter



4. Do you have any comments on the CAPEX and OPEX presented by GridLink?

Incorrect statement of costs

The consultation paper defines GridLink's costs to be capex plus opex plus losses, and determines these to be €1,726m (i.e. €870m+€416m+€440m). The paper goes on to specify the revenues in the "most likely" NT scenario of the TYDNP 2020 are €1,415m. In order for GridLink's benefits to outweigh its costs in the NT scenario, benefits therefore need to increase, or costs need to be reduced by €311m in order to pass the threshold.

With respect to individual claims made:

- a. GridLink's maximum transport capacity is 12TWh/yr. The consultation paper assumes network losses to be 1.1TWh from 2030 onwards. Those losses represent nearly 10% of GridLink's annual throughput capacity. In most European networks, network losses run at between 1.5% and 2.5%. The level of losses CRE assumes for GridLink is thus 5 times higher than the norm. We note that in the first 5 years of operation losses are deemed to be 3% of throughput before rising to 10% from 2030 onwards. The value CRE places on GridLink's losses is €440m. Using an industry norm of 2.0% loss figure would reduce these losses from €440m to €103m (i.e. it would lead to an increase in SEW of €337m).
- b. CRE has discounted the losses incorrectly. Discounting the losses shown in the project sheet at 4% to 1 January 2020 should give a value of €350m. CRE's incorrect figure is €440m – a material difference of €90m.
- c. GridLink's annual operating costs (as notified to CRE) are £22.19m/yr (€25.96m/yr). Discounting these at the 4% rate used by CRE to 1 January 2020 gives an NPV value of €333m. CRE has miscalculated this and states GridLink operating costs to be €416m. Correcting this error reduces costs by a further €83m.
- d. The consultation paper states GridLink's costs to be a total of €1,726m comprising capex (€870m), opex (€416m) and losses (€440m). However GridLink's costs shown in the chart are higher at €1,738m. No explanation is given for the difference.
- e. Having stated GridLink costs are €1,726m, page 11 of the report assigns congestion costs of €80m to the project and in Figure 3 adds these figures together to show total project costs. Adding these figures together should give a total of €1,806m, however the chart in Figure 3 shows a different figure of €1,860m. No explanation is given for the difference.

Table 1 below corrects all of these errors and shows that when corrected GridLink benefits exceed costs in three of the four scenarios, including the most likely National Trends scenario. We note that the fourth scenario "Current Trends" was developed by ENTSO-E at the request of ACER following a review of the previous TYNDP (2018) scenarios and is intended to represent "a low economic growth / slow progress" scenario in which energy transition takes place at a much slower rate than mandated by European policy. In its opinion³ on the Current Trends scenario ACER noted that:

"ACER regrets to note that the Current Trends scenario is not available in the draft Scenario Report, was not made available in any format for public consultation, and that its dataset was not published or made available for public consultation." and "For the reasons above, ACER cannot evaluate whether the Current Trends scenario constructed by ENTSO-E is consistent with the request set out in ACER Opinion No 10/2018 recalled here above."

The consultation paper does not refer to ACER's opinion on the Current Trends scenario. For the reasons stated by ACER we do not believe any reliance should be placed on, or conclusions drawn from, the Current Trends scenario.

3

https://documents.acer.europa.eu/Official_documents/Acts_of_the_Agency/Opinions/Opinions/ACER%20Opinion%2006-2020%20on%20ENTSO-E%20and%20ENTSO%20draft%20TYNDP%202020%20Scenario%20Report.pdf



Table 1: SEW Benefits after corrections

		A	B	C	D	E	F	G
	TYNDP Scenario	CRE SEW Estimates	CRE Project Cost Estimates	Difference between Costs & Benefits (A-B)	CRE Project Costs Estimates corrected for discounting errors	Difference between Costs & Benefits (A-D)	CRE Project Cost Estimates corrected for discounting errors and with Transmission Losses set at 2.0%	Difference between Costs & Benefits (A-F)
	National Trends	€ 1,415	€ 1,726	-€ 311	€ 1,554	-€ 139	€ 1,307	€ 108
	Global Ambition	€ 1,784	€ 1,726	€ 58	€ 1,554	€ 230	€ 1,307	€ 477
	Distributed Energy	€ 3,375	€ 1,726	€ 1,649	€ 1,554	€ 1,821	€ 1,307	€ 2,068
	Current Trends	€ 677	€ 1,726	-€ 1,049	€ 1,554	-€ 877	€ 1,307	-€ 630

	CRE SEW Benefits €m	Project Costs (Capex + Opex + Losses) €m	Benefit Surplus or (Defecit) €m
National Trends	€ 1,415	€ 1,307	€ 108
Global Ambition	€ 1,784	€ 1,307	€ 477
Distributed Energy	€ 3,375	€ 1,307	€ 2,068
Current Trends	€ 677	€ 1,307	-€ 630

Table 1 of the consultation paper states that GridLink's operating costs are twice that of Aquind (€416m versus €227m). This is despite GridLink being a 1,400MW interconnector and Aquind being a 2,000MW interconnector. CRE issued a joint consultation paper with Ofgem on Aquind in January 2021 and in the associated documents Aquind states its annual operating costs to be €27.3m/year.

GridLink's annual operating costs are €26m/yr, i.e. €1.3m/yr less than Aquind. CRE has thus materially understated Aquind's operating costs. Similarly, the consultation paper states capital costs to be €1,400m whereas the CRE consultation paper on Aquind's exemption request states them to be €1,426m. As CRE uses operating costs and capital costs as a metric for comparing projects, these numbers should be corrected and the calculation of the metric reperformed and the conclusion restated.

Given the above errors and omissions are of the opinion that the consultation paper is factually incorrect and therefore misleading.

FAB Capital Costs are not current or correct

The capital costs shown for FAB in Table 1 of the consultation are neither current nor correct. CRE will be aware that the FAB cost estimate originates from its original TYNDP2016 project sheet, are not derived from a tender process, and have not been updated for more than 5 years for indexing, EPC price escalation, commodities prices, exchange rate or other factors, all of which will cause a significant cost increase.

FAB Link and GridLink are both 1,400 MW interconnectors. FAB Link has 4 cables and a cable length of 217km, GridLink has only 2 cables and a cable length of just 160km. It follows that FAB's cable costs will be significantly higher than those for GridLink.

The cable costs for FAB are indeed published on the RTE website and clearly demonstrate they are higher than GridLink's. Moreover copper prices have doubled in the last 18 months. As FAB's capital costs estimates are five years old they cannot possibly reflect this cost increase.

We are therefore of the view that the capital costs for FAB presented in the consultation paper are factually incorrect and therefore misleading.

CRE have devised a new metric for comparing projects

In Table 1 of the consultation, CRE introduces a new metric for comparing and ranking projects "Project cost (k€/km/MW)". The mechanics of the underlying formula will give projects with a longer



cable length a significantly higher ranking than those with shorter cable lengths, and therefore is inherently discriminatory with no technical rationale. This bias can readily be evidenced by assuming identical capex, opex and capacity for two projects and then varying only the cable length.

A widely used metric for comparing such projects is on a €/km basis, where the capital cost of the cable is divided by the cable length. In CRE's formula, the capital cost of the converter is added to the capital cost of the cables and then divided by cable length. The mechanism utilised in the analysis of projects does not serve to differentiate and rank projects fairly but actively builds in a positive bias which favours projects with longer cable lengths.

Instead of this new metric, CRE should compare and rank projects on a standard €/MW basis and a €/km basis. In this respect, we refer to Aquind's exemption request in which Aquind itself states that GridLink has lower unit costs than either Aquind or FAB.

We are therefore of the opinion that in this regard the consultation paper is factually incorrect and therefore misleading, and that the use of this metric is arbitrary and inconsistent with the approach taken with comparable projects.

5. Do you have any comments on the impact of GridLink on European (electricity losses) and French (congestion, reserves) network costs?

Congestion Costs incorrectly assigned

The Consultation paper assigns congestion costs of €200m to the GridLink and Aquind interconnector projects. In CRE's deliberation No 2021-12 dated 21 January 2021⁴ CRE states that RTE's congestion costs were an average of €12m/yr over the TURPE 5 period. Discounting this figure at 4% over 25 years gives a value for congestion costs of €187m.

In assigning congestion costs of €200m to GridLink and Aquind, it would appear that CRE has assigned costs which are more than RTE has incurred across the entire French transmission system.

The deliberation goes on to say that in the TURPE 6 period RTE's annual congestion costs are expected to rise to €44m/yr. This equates to an NPV value of €687m and even at this level this means GridLink and Aquind have been assigned 30% of the congestion charges of the entire French transmission system.

CRE's assignment of such a large portion of congestion costs to GridLink is inequitable, unfair and unreasonable.

Grid Connection point

The consultation paper states that GridLink will connect to a point on the transmission system which is heavily used, close to the connection points of two other interconnectors (IFA2 and ElecLink) and will lead to system constraints and congestion costs.

CRE gave GridLink sight of the consultation paper before it was published. The draft paper stated the connection point of IFA2 and ElecLink to be at Warande, i.e. the same connection point as GridLink. We pointed out that IFA2 and ElecLink do not connect at Warande, they in fact connect to a different substation at Les Mandarins near Calais. However CRE's comments in the published version of the consultation paper remain unchanged.

We point out that the French Transmission System Operator performed a study to identify suitable locations for a grid connection. That study confirmed a connection at Les Mandarins would cause constraints but that a connection at Warande would not. It is precisely for this reason that GridLink has obtained a connection at Warande substation. We refer CRE to the "Prospective Study" performed by the Transmission System Operator and contained in the appendices of our Investment Request.

⁴ <https://www.cre.fr/en/content/download/23336/294303>



6. Do you have any comments on the comparison between the benefits assessed by CRE and the costs of the GridLink project?

Exclusion of benefits

The NT scenario includes B6 (Security of Supply) benefits. These are stated to be €36.6m/yr in the ENTSO-E project sheet. The project sheet for the GA, DE and CT scenarios does not include B6 Security of Supply Benefits. The SEW results presented by CRE for these scenarios are therefore understated, which is a material omission. Assuming these benefits to also be €36.6m/yr, this would increase in the other scenarios SEW by €357m. This change alone would result in benefits outweighing costs in three of the four scenarios.

Incorrect reporting of Socio-economic Welfare benefits

The chart shown at Figure 1 of the consultation, CRE presents the SEW benefits reported in GridLink's Investment Request. These are however not the same numbers which GridLink presented in its Investment Request. The numbers reported are gross SEW figures, however GridLink has never referenced gross figures and has only provided net SEW figures. It is unclear where this data has been sourced and its use risks negatively impacting the evaluation of the GridLink project by market participants.

De facto imposition of tariffs on interconnectors

On page 11 of the consultation paper, CRE states that the commissioning of a new interconnector between the UK and France could increase the levels of reserves needed in France to ensure the secure operation of the grid. This is a revision of an argument CRE has made previously and effectively means imposing a tariff on interconnectors between the UK and France. Since originally making this argument, CRE has dropped it due to its clear anti-competitive nature.

As CRE has raised the prospect of introducing this scheme again in the consultation paper, CRE should properly state that the same effect would arise on all interconnectors France already has in place (and continues to build) with other countries. This would be required in order to comply with competition regulations, so the same tariffs would be imposed on all interconnectors with France's neighbouring countries, and not just those linking to the UK. Any new demand located anywhere on the French system, such as the addition of an automotive factory, would have the same impact and should also be subject to the same tariff.

7. Do you share CRE's analysis that the resolution of economic and political uncertainties is required before engaging a new interconnection project between France and the UK?

Brexit/Market Coupling

We appreciate that Brexit has caused uncertainty in the trading arrangements between the UK and European community across all sectors of the economy including electricity trading. Much of that uncertainty was removed following the execution of the Trade and Cooperation Agreement in December last year.

With regard to electricity trading arrangements, the treaty places an obligation on the signatories to put in place a new mechanism (Multi Region Loose Volume Market Coupling (MRLVC)) to replace the existing mechanism (Single Day Ahead Coupling (SDAC)) by April 2022.

The new arrangements are not yet in place, and as pointed out by CRE in the consultation paper there is some evidence of inefficient trading across interconnectors between the UK and Europe with not all capacity being used despite price signals suggesting flows would be economic.

Earlier this year Frontier Economics performed a study to quantify these losses. They studied electricity flows over the IFA 1 interconnector in the two months immediately following Brexit. They estimated the value of lost trade across all interconnectors from the UK to Europe over the course of a whole year to be £45m⁵.

⁵ <http://www.frontier-economics.com/uk/en/news-and-articles/articles/article-i8192-brexit-and-interconnectors-a-45m-problem/#>



When the new trading arrangements are put in place in April 2022 we think it reasonable to believe that much if not all of this inefficiency will be removed. The market inefficiency referred to is thus temporary and short lived. This is a view shared by ENTSO-E in their consultation paper dated 4 May 2021 on the new trading arrangements entitled "Day-Ahead Trading between EU and UK following Brexit" which recognises that implementing a workable scheme does pose some challenges but concludes "Nonetheless, volume coupling can in theory still achieve most of the benefits of price coupling."

Given the above we do not share CRE's view that the remaining economic uncertainties following Brexit are material and must be resolved before considering a new interconnector between France and the UK.

Politics

The consultation paper states that "Political uncertainties between the UK and the EU lead to a prioritisation of projects with other EU countries". We are not aware of anything in CRE's mandate, EU law, or ACER recommendations that permits a national regulatory authority to take into account political considerations when making regulatory decisions, including in particular, decisions on an Investment Request.

We respectfully request CRE withdraws these comments and unwinds any consequential decision it has made based on political considerations.

8. Do you share CRE's reservations on GridLink's investment request?

We do not share CRE's reservations for the reasons stated above. We believe that new interconnectors between France and the UK will bring significant mutual benefits. This has been recognised by the European Commission in awarding GridLink status as a Project of Common Interest and investing €15m in the development of the project by way of grant from the Connecting Europe Facility.

We strongly believe the national regulatory authorities in France and the UK should work together to realise the project benefits at the earliest possible opportunity.

The benefits which GridLink will bring are:

- A €1bn inward investment
- 450 jobs in construction / 45 full time jobs
- €13bn in sales revenue for French electricity producers
- 500,000 tonnes/year reduction in CO₂ emissions
- Supporting the development of renewable energy technologies in France and contributing to the delivery of climate policy objectives
- An anchor tenant contributing to the economic transformation of Dunkirk Port
- Fostering innovation and technical development – GridLink will be the world's first 1400 MW monopole converter

Yours sincerely



Gary Eade
Director

