

▶ **Request for Exemption: AQUIND Interconnector**

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1 Executive Summary

AQUIND Interconnector is a proposed 2000MW electricity interconnector promoted by AQUIND SAS and AQUIND Limited¹ (“AQUIND”) that will connect the GB and French electricity markets. Pursuant to Article 63 of Regulation 2019/943 (“the Regulation”), AQUIND seeks a partial exemption for AQUIND Interconnector in France from Articles 19(2) and 19(3) of the Regulation. Without an exemption the AQUIND Interconnector cannot and will not progress through construction and to commercial operation. This Request for Exemption explains the benefits of the project, the rationale for the exemption, and the specifics of the exemption requested under the Regulation.

Demand for interconnector capacity

Existing interconnector capacity on the GB-France border is currently limited to Interconnexion France-Angleterre (IFA) – although other projects are under construction, including IFA2 and ElecLink. Structural differences in the wholesale electricity prices between the electricity markets in GB and France clearly demonstrate the need for more capacity. Our analysis shows that there is a need for additional capacity between France and GB over and above the three projects listed above.

AQUIND is a private investment that can be delivered without relying on network tariffs in France

AQUIND is developing a privately funded 2000MW interconnector between GB and France. The exempt portion will be wholly funded by investors who are independent from RTE. The full project benefits will therefore be delivered without any funding from French network users and represents further private sector investment in essential infrastructure. This sets AQUIND apart from other possible RTE-led GB-French interconnector projects.

We have already invested nearly €40m in developing the project to the current stage which represents our commitment to this Project and delivering the benefits of AQUIND Interconnector.

AQUIND project benefits

AQUIND will significantly increase the cross-border capacity between GB and France. AQUIND’s welfare analysis shows a **total benefit to Europe of over €1.3bn** in the central scenario, including a total benefit to France of approximately €1bn².

The structural difference between the GB and French wholesale electricity prices means that AQUIND is projected to flow predominantly from the lower priced French market to GB. In France, **power producers gain** from the export of power to the higher priced GB market. In total, the net welfare benefit of France is positive with the introduction of AQUIND.

All of AQUIND’s capacity will be allocated through competitive auctions. Interconnector users will be charged based on the results of the auctions, in line with the prevailing regulations. AQUIND will increase the opportunity for market participants to access the GB and French markets, increasing **competitive pressure** on incumbent market participants.

¹ AQUIND SAS is a company created under the laws of France, R.C.S 808 503 940, registered at: 72 rue de Lessard 76100 Rouen.

AQUIND Limited is a limited liability company under the laws of England and Wales with company number 06681477 and the registered address at OGN House, Hadrian Way, Wallsend, NE28 6HL.

² Excluding any benefit from AQUIND

In addition to these benefits, AQUIND is expected to improve the overall **efficiency of generation dispatch** across GB and France, increase security and diversity of supply for both countries, and contribute to a **reduction in overall carbon emissions**.

AQUIND will be developed using HVDC Voltage Source Converter (VSC) technology. Working with the national TSOs, AQUIND will be in a position to offer **system services** to the benefit of both networks.

As an exempt project developer, AQUIND will deliver these benefits without any financial underpinning from French network users for the Exempt Portion. This means that **no French consumer money** will be used to pay for the Exempt Portion of the interconnector.

AQUIND needs an exemption to deliver these benefits

AQUIND is developing the interconnector independently, without partnering with the national TSO, RTE, in France.

AQUIND's Request for Exemption on the Use of Revenues in France follows extensive regulatory engagement with CRE, as well as Ofgem and ACER to consider and test the viability of different investment and regulatory routes for AQUIND Interconnector. The conclusion of these regulatory tests, extensive analysis and formal regulatory decisions is that the only investment route available to AQUIND in France is through an exemption under Article 63.

In particular, we emphasise that there is no other regulated regime for non-RTE interconnection in France. AQUIND has thoroughly examined and tested the option to apply for a regulated regime as defined in the TEN-E Regulation, but this investment route is no longer available to AQUIND. Therefore, the only investment route that will permit AQUIND to continue to develop to project is through an exemption in France.

This means that a regulated regime with financial underpinning is not available to AQUIND in France. The exempt investment route is therefore the only way to deliver the project, and deliver the benefits identified in our analysis and set out in this Request for Exemption.

AQUIND's Request for Exemption is proportionate

AQUIND is requesting an exemption for the portion of the Project that is located in the French territory. This is proportionate, given that the rationale for this Request for Exemption is driven by the inability to progress the Project in France without an exemption.

However, AQUIND Interconnector faces a number of risks associated with the inherent ex-ante uncertainty of future congestion (and other) revenues that the Project will earn over its lifetime. The revenue uncertainty is a common feature of any investment of this type and is a largely unavoidable risk. We recognise that this is a risk that can result in revenues being higher or lower than currently anticipated. In some instances, project risks could result in upside opportunities for AQUIND. AQUIND's proposed profit sharing mechanism will ensure that any additional welfare attributable to the Exempt Portion is appropriately distributed between investors and French consumers.

The project risk justifies an exemption

With no access to financial underpinning in France, AQUIND has to fully manage its own project risk related to the Exempt Portion of the interconnector. AQUIND has demonstrated that the project risks justify an exemption under Article 63 of the Regulation. The key risk to AQUIND is that there is no alternative regulatory arrangement available in France and accordingly the investment will not take

place without an exemption. AQUIND has demonstrated this extensively through testing the viability of potential investment routes with CRE, ACER and Ofgem.

In addition, AQUIND faces specific risks in earning revenues (and incurring costs) that would adequately compensate finance providers for the risk they take on in financing the Project. AQUIND therefore requires, for the Exempt Portion, to have the flexibility to compensate finance providers commensurately, which in turn requires that AQUIND is exempted from the Use of Revenues provisions of Regulation 943/2019. The key revenue and cost risks include: revenue risk, the risk of a reduced or uncertain demand for capacity, GB network curtailment risks, construction and operating risks and policy and macroeconomic risks.

Formal Request for Exemption

AQUIND therefore requests a partial exemption, pursuant to Article 63 of the Regulation, from Articles 19(2) and 19(3) of Regulation 2019/943 (regarding the Use of Revenues) for a period of 25 years from the start of commercial operations. The partial exemption would apply to a fixed share of AQUIND's revenues that corresponds to the proportion of AQUIND Interconnector capital and operational costs related to French territory (onshore and French territorial waters).

In accordance with French national law, an exemption granted under Article 63 of Regulation 2019/943 would also have the effect of permitting AQUIND to operate AQUIND Interconnector in France.

For the avoidance of doubt, AQUIND does not seek an exemption for Unbundling (Article 43, Directive 2019/944), Third Party Access (Article 6, Directive 2019/944) or the approval of charging and access rules (Article 59(7) and 60(1) of Directive 2019/944).

We set out in this document how we meet all of the criteria required for an exemption.

2 Document overview

The details of the exemption are set out in this document, the “Request for Exemption: AQUIND Interconnector”.

- ▶ **Section 3** sets out the benefits of AQUIND Interconnector
- ▶ **Section 4** provides a description of AQUIND Interconnector
- ▶ **Section 5** explains the Request for Exemption and rationale
- ▶ **Section 6** explains how AQUIND fulfils the relevant exemption criteria set out in Article 63
- ▶ **Appendix A** includes a list of definitions

Further detail to support the AQUIND exemption application is provided in the following separate Exhibits:

- ▶ **Exhibit 1:** AQUIND revenue and social welfare analysis
- ▶ **Exhibit 2:** AQUIND competition analysis
- ▶ **Exhibit 3:** AQUIND financial model and sensitivities data file
- ▶ **Exhibit 4:** AQUIND CBA data file
- ▶ **Exhibit 5:** The Connection and Use of System Code Bilateral Connection Agreement for an interconnector owner at Lovedean 400kV substation Ref: A/AQUIND/15/6306-EN(0) dated 01 June 2016 (the “UK Connection Agreement”)
- ▶ **Exhibit 6:** CION and CION information note
- ▶ **Exhibit 7:** Proposition Technique et Financière (PTF) No 2016-075 Pour Le Raccordement au Réseau Public de Transport D’Electricite de la Nouvelle Interconnexion Derogatoire AQUIND Limited, Conditions Particulieres
- ▶ **Exhibit 8:** Technical Feasibility Opinion
- ▶ **Exhibit 9:** Summary of project consents and licences
- ▶ **Exhibit 10:** Consentec report on the impact of AQUIND on the French transmission system
- ▶ **Exhibit 11:** Programme plan and programme risks
- ▶ **Exhibit 12:** GB Connection agreement
- ▶ **Exhibit 13:** Summary of local taxation in France
- ▶ **Exhibit 14:** Tractebel report