



# FAB PROJECT

An interconnector to provide electricity  
between France and Britain via Alderney

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03 January 2017

Dear Sir/Madam,

***Consultation by CRE regarding the interconnector “IFA2” between France and Great Britain***

FAB Link Ltd (FAB Link), in partnership with the French national grid company RTE, is leading on the development of the FAB interconnector, a 1400MW electricity interconnector between France and Britain via Alderney (the “FAB” project). FAB Link was granted an Initial Project Assessment (IPA) by the British regulator, Ofgem, in July 2015 and is scheduled to submit its Final Project Assessment (FPA) application in mid-2017.

It is unusual for FAB Link to respond on the specifics of other projects and therefore please forgive us for not responding in accordance with the structured set of 11 questions. However, as there may be some consistency in treatment between the outcome of this consultation and the similar incentive regulation process for RTE in respect of the FAB project, we offer the following observations on the consultation document, dated 1 December 2016. These are made based upon the English version of the document posted on the CRE website.

## **1. Impact of Brexit on Interconnectors**

FAB Link is of the view that whilst Brexit is an unprecedented situation and does raise uncertainties, that these are generally not in the field of electricity transmission between Britain and France.

It seems unlikely that either the EU or the UK will want the UK to withdraw from the Internal Electricity Market (IEM). However, in a scenario where this does happen, the UK would at a minimum trade electricity on World Trade Organisation terms, for which the tariffs on electricity are zero.

In addition, there is no expectation here that Brexit would lead to amendments to the rules that apply to the operation of electricity interconnectors with the EU. The UK, through the Great Repeal Act, is expected to enshrine into UK national legislation the requirement to comply with the existing EU network codes, including those aspects that set out the technical and market interface requirements for interconnectors.

Moreover, the fundamentals of the respective electricity markets in GB and the EU that lead to the positive business case for interconnection remain unchanged.

## **2. Parameter to inform the “usage” variable bonus**

The proposal by the CRE to incentivise RTE to operate the interconnector efficiently is to base this upon the realized volume of flows on the link. The detail of the calculation methodology is not presented in the consultation and would be welcome. However, this approach appears to neither align with incentivising RTE based upon elements within its control (i.e. interconnector availability), nor does it align with incentivising RTE to maximise revenue generated (i.e. both price and volume), which would more closely match consumers exposure and the socio-economic welfare generated by the interconnector.

We would argue that incentives to make the link available are important to protect the French and British consumers and if this provides an alignment of incentives between partners then this encourages positive reinforcement of what the regulators are seeking to achieve. The GB cap and floor regime exposes the project to market revenue risk (within the cap and floor). This is to encourage developers to only bring forward projects that will not place undue risks on consumers (who are providing the revenue floor). Once operational, the incentive on the interconnector owner is to maximise interconnector availability in order to maximise revenue.

We believe an availability incentive to be a more appropriate measure for the incentive regulation for RTE, and more commensurate with the allowed rate of return. Should the CRE agree, we would be grateful for more clarity from the CRE as to how this would be measured.

## **3. Amending Incentive Regulation in France**

The FAB project has a target financial investment decision at the end of 2017. In advance of that FAB Link will raise finance for the UK and Alderney portion of the interconnector through a non-recourse project finance process which is made possible by clear and stable regulatory regimes on both sides of the interconnector.

A project finance process requires that all elements of the project are drawn together in advance of a final investment decision by equity investors and lenders. These elements include consents, land rights, construction contracts and regulatory certainty. Where there is uncertainty in one element the project financing process will be delayed and cannot complete. Where there is a delay to the investment decision, the other elements of the project have the potential to ‘degrade’ over time (e.g. a construction contract validity period may expire), and development costs will continue to be incurred.

FAB Link is concerned that the incentive regulation consultation process for RTE in respect of the FAB project could undermine the regulatory certainty required to allow the FAB project to reach financial investment decision. However we are encouraged by your concluding sentence in the consultation: “... CRE considers that the contemplated regulatory framework,

*whichever is the chosen scenario, is not prone to induce a cautious and efficient TSO to delay or give up the project.”<sup>1</sup>*

Should the decision be taken to amend the regulatory framework at a critical time in the FAB project, we would request that this is done in such a way so as not to cause delay to the process of putting in place the regulatory treatment on the French side of the FAB Project.

Should the CRE wish to discuss any of the points raised above, we remain at your disposal.

Yours sincerely,



James Dickson

Project Director – FAB Link

Sent by email to: [dr.cp3@cre.fr](mailto:dr.cp3@cre.fr)

cc: Gro de Saint Martin, Project Director – Project FAB, RTE

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<sup>1</sup> CRE Consultation Document, Section 5.3, page 16