

Commission de Regulation de l'Energie  
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National Grid Interconnector Holdings  
Limited

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Dear Sir,

**Response on behalf of National Grid Interconnector Holdings Limited (NGIHL) to the Consultation by CRE (French Energy Regulatory Commission) regarding the interconnector “IFA2” between France and Great Britain**

Thank you for the opportunity to respond to this consultation. This response is on behalf of NGIHL in its capacity as joint partner with RTE in the IFA2 project, and as an experienced developer of numerous other electricity interconnectors between Great Britain and its neighbours. This response is neither confidential nor anonymous. The IFA2 project, through the joint venture construction company and the unincorporated operational vehicle, is developed as an equal collaboration between the parties, whereby the risks and rewards are equally shared (50/50) between the parties.

In this response we do not comment specifically on each individual question posed by CRE, because we feel that the primary interface on French national regulatory issues is best managed on behalf of the project through the direct relationship between CRE and RTE. However, we do wish to comment in relation to cross-border and Brexit issues.

The key points we wish to highlight are summarised in these bullet points and elaborated further below:

- We strongly support CRE's assessment that the current European Union including the United Kingdom derives a positive net benefit from the IFA2 project. This is consistent with our own analysis and that of our regulator Ofgem and its advisors who have studied the project for cap and floor regulation. It is also consistent with IFA2 having been given PCI status by the European Commission;
- We wish to emphasise that IFA2 also brings important security of supply benefits for consumers in both nations – power will flow both ways to where it is needed most. While there may not be a commonly accepted way to monetise the “capacity value” we believe it is important that this is not disregarded;

- IFA2 benefits stem from the underlying structural differences in the host electricity systems on either side of the link and enduring value drivers that are not associated with Brexit. Therefore these benefits hold true irrespective of the detailed trading arrangements that may emerge after the UK leaves the EU;
- The existing IFA interconnector has been in service since 1986 bringing considerable benefits to both nations long before a fully-integrated Internal Energy Market (IEM) and Network Codes were contemplated. Trading arrangements have evolved and adapted over the years to changing regulatory and market arrangements and continue to do so. We expect the same to be the case for IFA2;
- We support CRE's intention to conclude its work with a specific decision on IFA2 in January 2017. It is important to deliver the IFA2 project on schedule to maximise benefits for all nations.

#### Positive net benefits and capacity value

We agree that IFA2 will deliver overall positive net benefit to Europe, and also provides benefits to France and United Kingdom if evaluated on an individual basis for the connecting countries. It is important to recognise that these benefits flow both ways between France and United Kingdom.

We also agree with RTE's submission that IFA2 provides security of supply benefits (a "capacity value"). Although this capacity value may be hard to quantify in socioeconomic terms, it should be recognised as an 'upside' to CRE's reference assessment of the project. The capacity benefit of interconnection is also supported by ENTSO-Es view on adequacy assessment which shows that neighbouring countries can provide positive security of supply contributions to one another more efficiently than if each country attempted to solve adequacy requirements within its own borders.

While there is not a consistent European way to quantify capacity value, and the subject of capacity markets is being explored in the context of the European Commission's Winter Package, we can look to the existing Great Britain Capacity Market which provides a real example of that value. This can be regarded as a barometer for the potential value of IFA2. The prices achieved for capacity for delivery in 2019 and 2020 are respectively £18/kW/annum and £22.50/kW/annum. Assuming an approximate 750MW capacity contribution from the 1000MW IFA2 project would see it provide £15.2million/annum<sup>1</sup> of capacity to the GB market (using an average price of £20.25/kW/annum). While a price for capacity being provided to the French market has yet to be realised, given that French and British peak demands do not occur simultaneously, similar capacity values could also be provided by the same asset to the French capacity market. These benefits of sharing existing capacity via further interconnection and therefore not having to construct additional new generation plant at the ultimate expense of the end consumer should not be underestimated.

#### IFA2 is robust to Brexit uncertainty because of strong underlying value drivers

The outcome of the British referendum on membership of the EU does not change the underlying drivers that create socio-economic value from further interconnection. Value drivers such as differences in plant mix (France dominated by nuclear, with UK dominated by thermal generation), the need to decarbonise our electricity system, facilitate increased renewables and introduce additional sources of flexibility, are unaffected by Brexit. We

<sup>1</sup> Equivalent to approximately €17.8m per annum at a foreign exchange rate of £1 = €1.17

therefore believe IFA2 brings significant benefits for UK and wider Europe irrespective of the detailed trading arrangements that may emerge after the UK leaves the EU.

National Grid teams have made a significant positive contribution to all stages of evolution of the European Integrated Energy Market and wish to continue this engagement in the years to come. While we support future arrangements post-Brexit whereby Great Britain trades electricity in a manner consistent with the IEM and the evolving Network Codes, we note that the IFA interconnector has been in service since 1986 bringing considerable benefits to both nations. The trading arrangements for this link have evolved and adapted over the years to changing regulatory and market arrangements and continue to do so. We would expect the same to be the case for IFA2.

RTE and National Grid will work together to put appropriate arrangements in place to maximise the availability of the IFA2 interconnector in whatever market and regulatory structure prevails during the lifetime of the asset. We believe RTE and National Grid are already strongly incentivised to do this through the cap and floor arrangement.

Given the long term nature of the asset, it is inevitable that regulatory and market arrangements will be changed and adapted during the next 25 or even 45 years. We believe that the planned contracting structure and enduring relationship between the companies, provides a strong framework to equitably manage and seek to mitigate these potential project risks together between the parties and their wider stakeholders. We have given careful thought to the uncertainties arising from Brexit and are satisfied that these are appropriately handled inside the proposed contracting structure.

We support CRE's intention to conclude its work with a specific decision on IFA2 in January 2017. It is important to deliver the IFA2 project on schedule to maximise benefits for all nations.

We are happy to discuss our views contained within this letter, should that be helpful. For further details, please contact Jonny Hosford ([jonny.hosford@nationalgrid.com](mailto:jonny.hosford@nationalgrid.com)).

Yours faithfully,

A handwritten signature in blue ink that reads "Ian R Graves". The signature is fluid and cursive, with a horizontal line drawn underneath the name.

Ian Graves  
Director  
National Grid Interconnector Holdings Limited

