

DELIBERATION NO. 2022-12

Deliberation of the French Energy Regulatory Commission of 19 January 2022 deciding on the investment request submitted by GridLink Interconnector Limited

Translated from the French: only the original in French is authentic

Present: Catherine EDWIGE, Jean-Laurent LASTELLE, Ivan FAUCHEUX and Valérie PLAGNOL, commissioners.

On 17 March 2021, GridLink Interconnector Limited ("GridLink") submitted to CRE an investment request for a 1400 MW interconnector project between France and the United Kingdom, pursuant to Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure¹ ("TEN-E Regulation"). This investment request includes a request for a cross-border cost allocation. GridLink also provided CRE with new estimates of its costs on 27 May 2021 and of project benefits on 16 November 2021.

The present deliberation is taken in application of the TEN-E Regulation and is intended to respond to the request of GridLink.

1. CONTEXT

1.1 The TEN-E Regulation

The TEN-E Regulation aims to promote the interconnection of European networks. It introduces the notion of project of common interest (PCI) which, in the field of electricity, may concern transmission, storage or smart grid infrastructures. These projects are considered by the European Commission as contributing to the implementation of priority corridors for the construction of the internal energy market.

Among the measures designed to promote the development of PCIs, the TEN-E Regulation introduces financing mechanisms to address problems of commercial viability of projects where these are an obstacle to investment decisions. Article 12 of the TEN-E Regulation provides that, at the request of project promoters and based on an analysis of the costs and benefits for the countries involved, the competent national regulatory authorities shall decide, in a coordinated manner, on an allocation of the investment costs within six months of the receipt of the last investment request. This decision opens the possibility to apply for financial support from the European Union (EU) under Article 14 of the TEN-E Regulation.

The TEN-E Regulation also requires project developers to include in their investment application a cost-benefit analysis in line with the methodology developed by the European Network of Transmission System Operators ("ENTSO-E"). The third version of this methodology ("the CBA 3.0 methodology") is currently used for these analyses.

The PCI list is adopted by the European Commission on the proposal of the regional groups attached to each priority corridor. It is renewed every two years. The GridLink project has been granted PCI status in 2017 and 2019 (PCI n° 1.7.5). However, the GridLink project is not included in the PCI list published on 19 November 2021, which is expected to be effective in the first quarter of 2022.

1.2 Timeline and feedback from market players on the public consultation

In November 2020, GridLink had submitted an initial investment request to CRE and Ofgem on the basis of the TEN-E Regulation and its PCI status. However, since the end of the transition period of the United Kingdom's (UK) exit

¹ Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R0347>

from the European Union (Brexit) on 31 December 2020, the TEN-E Regulation has ceased to apply in the UK. CRE and Ofgem then considered that it was no longer possible to make a joint decision on GridLink's request.

Consequently, GridLink submitted a similar investment request on 17 March 2021, but addressed only to CRE. GridLink also provided CRE with a new cost estimate on 27 May 2021.

CRE launched a public consultation in June 2021 on the relevance of a new interconnection project between France and the UK. In this consultation, CRE expressed reservations on the relevance of an additional interconnector in the short term due to uncertainties on the benefits of the project compared to its costs, and on the impact of the implementation of Brexit. Respondents were divided on the CRE position, with some considering that the benefits are uncertain and do not outweigh the costs; while for other respondents, the uncertainties related to Brexit are limited and the benefits sufficient. In addition, some respondents expressed reservations about the legal environment of the project in the context of the approval of the 5th PCI list. The non-confidential parts of these answers are published on the CRE website together with the present deliberation.

Following this consultation, GridLink carried out, with the consultant Afry, additional analyses on the benefits of the project. GridLink communicated the results of these analyses to the CRE on 16 November 2021.

1.3 Project description

GridLink is a direct current 1400 MW interconnection project between France and the United Kingdom (2 x 700 MW wires, 525 kV). It seeks to connect Kingsnorth in the United Kingdom to Warande in France, on a total distance of 160 km (108 km in the UK and 52 km in France, 146 km underwater in total). Its planned commissioning date is December 2024, it would then increase the already existing or under construction interconnection capacity of 4 GW at this border (including ElecLink).

GridLink Interconnector Ltd, the company behind the interconnection project, is wholly owned by iCON Infrastructure Partners III LP, an infrastructure fund exclusively managed and advised by iCON Infrastructure LLP ("iCON"). iCON's investors include pension funds, asset managers and insurance companies from the UK, Europe, the US, Canada, the Middle East, and Asia. In particular, iCON invests in wind farms in the United States and Europe, and in cogeneration plants in the United Kingdom.

GridLink is seeking to build and operate an interconnector under the regulated regime, as provided for in Article 12 of the TEN-E Regulation. Contrary to an exempted regime, this regime protects the investor against the risk of insufficient profitability by ensuring the recovery of the investment costs through the tariff for the use of public electricity transmission grids. Conversely, if the revenue from the interconnector exceeds the allowed revenue associated with the project, the surplus is deducted from the charges to be recovered from the network users, resulting in lower grid access tariffs.

GridLink requests for the French share of the project costs and revenues to be treated in the same way as the 'Cap and Floor' regime proposed in the UK, or in a similar way to the RTE regime on its interconnectors.

2. CRE ANALYSIS

After having analysed all the elements and information provided by GridLink, CRE came to the following conclusions:

1. The cost-benefit analysis of the project does not show with sufficient certainty, on average based on the available contrasted scenarios, that the project brings a net benefit to the community

CRE has mainly relied on the TYNDP 2020 scenarios as well as on the complementary analyses provided by GridLink to assess the economic benefit of an additional interconnection project. The TYNDP 2020 results are a reference for the analysis of the benefits of interconnection projects as they are built on diversified scenarios, subject to consultation, and use several recognised modelling tools to confirm the results. GridLink's complementary analyses provide a specific insight taking into account some more recent studies on carbon neutrality in 2050.

CRE has considered different sensitivities, notably on the CO₂ price, the evolution of the energy mix or the consequences of the market decoupling.

To estimate the costs of GridLink, CRE relied on the latest investment and operating expenses communicated by the project developer, on the estimate of the variation in the cost of network losses carried out by ENTSO-E in the TYNDP 2020, as well as on the RTE estimate of the variation in congestion costs. CRE notes that:

- in the scenarios with higher profits due to higher energy prices, the costs of losses and congestion would also be higher;
- the costs associated with submarine high voltage direct current interconnection (HVDC) projects, in particular cables and converter stations, are subject to increasing uncertainty due to the dynamic development of this type of interconnector in Europe, the increase in the number of connections of offshore wind farms and the rise in equipment prices observed on the markets.

On average over the different scenarios considered, including or excluding the new scenario presented by GridLink in November 2021, the benefits are today lower than the costs of the GridLink project. This finding is reinforced when considering (i) the decoupling of the UK from the EU internal market, (ii) a reduced availability rate or (iii) a delay in achieving the energy mix targets. Benefits exceed costs only in scenarios with very high CO₂ prices or exceeding national energy mix targets by 2030.

In addition, the GridLink project plans to connect at the Warande substation on the French side. This substation, located near Calais in the north of France, is very close to the connection point of the IFA2000 (2 GW) and ElecLink (1 GW) interconnectors. This grid area is particularly dense with the proximity of the Gravelines nuclear power plant and the Belgian border. The transmission system operators in the Channel region have worked on a methodology for calculating joint interconnection capacities by applying European network codes. Indeed, without even considering the GridLink integration, RTE might not be able to guarantee the full capacity of the interconnections (including ElecLink) on the border between France and the United Kingdom in case of maintenance on some network structures. The connection of the GridLink project could reinforce these constraints and therefore increase the unavailability of certain interconnectors on the border.

2. The Brexit, despite the Trade and Cooperation Agreement², questions the reliability of the benefits presented by GridLink and could reduce these benefits

CRE conducted in 2017³ a study to estimate the potential consequences of Brexit on the relevance of any new interconnection project between France and the UK.

Different Brexit scenarios were modelled. The study showed that Brexit could have a significant impact on the benefits of interconnection projects. For example, in the best-case scenario, where the United Kingdom remained in the internal energy market, but where Brexit had an impact on electricity demand and the development of renewable energy capacities, the value of a new interconnector could fall by up to 10%. In the case of decoupled electricity markets, the value of a new interconnector could fall by more than 30%.

Following the exit of United Kingdom from the EU that led to the decoupling of the daily electricity markets, electricity exchanges at the UK-France interconnection have become less efficient: the interconnection is no longer always used at 100% of its capacity in the economic direction and can even be used in the wrong direction⁴. This reduces the benefits allowed by a new interconnector. Under the Trade and Cooperation Agreement, the UK and the EU have committed to implement a *Loose Volume Coupling methodology*. However, there are uncertainties around the implementation of such a methodology: the only experience dates from September 2008 between Germany and Denmark. Yet this coupling had to be stopped after ten days because of repeated inefficiencies⁵. In this context, ENTSO-E has for now issued a reserved opinion⁶ on this methodology, and highlighted the conditions needed for an efficient implementation.

Furthermore, as a result of Brexit, work on the implementation of a methodology for common capacity calculation within the Channel region, and in particular with the United Kingdom, has been suspended. The reduced coordination resulting from the Brexit could have a negative impact on the effectiveness of the method, and thus on the benefits of new interconnections. In addition, there is considerable uncertainty about the macro-economic impacts of Brexit on commercial relations between EU and the UK or on the evolution of economic, energy or environmental policies in the UK.

Thus, in spite of the Trade and Cooperation Agreement, the Brexit is a source of uncertainty on the benefits of a new interconnector. Some of these uncertainties could be resolved in 2022 with the effective implementation of the Trade and Cooperation Agreement.

3. GridLink's request occurs in an uncertain legal environment

GridLink's request is based on the provisions of Article 12 of the TEN-E Regulation. As a result of Brexit, the TEN-E Regulation no longer applies in the United Kingdom and Ofgem no longer has jurisdiction under this article, forcing CRE to take a decision on this request without coordination with Ofgem. The absence of a common framework thus raises questions of applicability and coordination between the actors on both side of the border when the cost-sharing decision is taken, but also for any subsequent decisions that may be necessary for the regulatory framework of the project⁷.

² Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part:

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2021.149.01.0010.01.ENG&toc=OJ%3AL%3A2021%3A149%3ATOC

³ [Review of the value of interconnections between France and Great Britain \(French\)](#)

⁴ The sign of the electricity price differential between two countries indicates the economic direction of the flows. The country with a higher electricity price than its neighbour has an interest in importing as much electricity as possible from its neighbour.

⁵ [HoumollerConsulting's analysis of the Loose Volume Coupling methodology](#)

⁶ [ENTSO-E's cost benefit analysis of Loose Volume Coupling methodology](#)

⁷ Coordinated decisions may be needed on the allocation of costs for maintenance, renewal, decommissioning, losses, etc. In addition, revenues related to the project are not clearly defined, and there should also be coordination on their allocation.



19 January 2022

In addition, CRE notes that the applicability of the provisions of Article 12 of the TEN-E Regulation, which form the basis of GridLink's request and CRE's jurisdiction, is conditioned by the fact that GridLink has PCI status.

However, under the 5th PCI list⁸ published by the European Commission and notified under Article 16 of the TEN-E Regulation to the Council and to the European Parliament, the GridLink project is listed in Annex VII(C) which identifies projects that are no longer considered as PCIs. This list should come into force in the first quarter of 2022.

In this way, GridLink's request and this deliberation from CRE are taking place in an uncertain legal environment. However, the current revision of the TEN-E Regulation, whose final adoption should take place during the first quarter of 2022, includes specific provisions aimed at defining a framework for interconnection projects between a member country of the European Union and a third country.

⁸ Fifth PCI list published by the European Commission on 19 November 2021

DECISION

In application of Article 12 of Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure, GridLink submitted an investment request to CRE on 17 March 2021 for a 1400 MW interconnection project between France and the United Kingdom. GridLink submitted additional elements on 27 May 2021 and 16 November 2021.

Following its assessment of the elements presented by GridLink and the analysis of the available scenarios, CRE considers that the GridLink project is today marked by a lack of reasonable certainty about the costs and benefits attached to this project, in a particular context where the uncertainties linked to the United Kingdom's exit from the European Union remain strong despite the Trade and Cooperation Agreement between the European Union and the European Atomic Energy Community, of the one part, and the United Kingdom of Great Britain and Northern Ireland, of the other part. CRE therefore considers that the project is not, at this stage, sufficiently mature for a favourable decision and, consequently, for a decision on cross-border cost allocation in accordance with Article 12(3) of the above-mentioned regulation. Consequently, CRE rejects GridLink's investment request submitted under Article 12 of Regulation (EU) No 347/2013.

This decision will be published on CRE's website and in the *Journal officiel* of the French Republic. It will be forwarded to the minister of the ecological transition and to ACER and notified to GridLink.

Paris, 19 January 2022.

For the Energy Regulatory Commission,

A commissioner,

Catherine EDWIGE