

IFA2

Stakeholder briefing

January 2017



This document provides National Grid's current position on key questions raised about the IFA2 project. The majority of issues concern matters relating to the vote to leave the EU and national energy policy, and are not related to planning matters.

Need case for greater interconnection

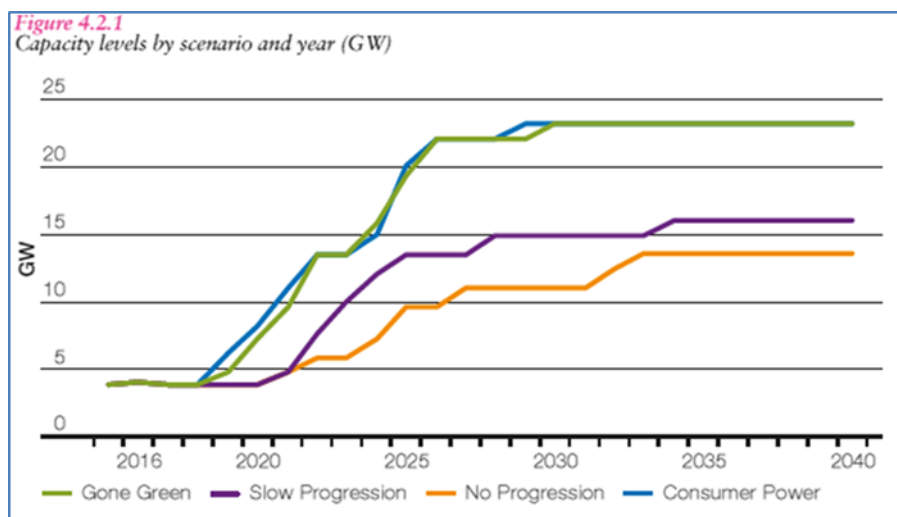
Interconnectors allow Great Britain to link to power networks and energy markets in other countries. They play an important role in helping to reduce the cost of electricity for homes and businesses, provide opportunities for shared use of more diverse sources of generation and help to improve security of electricity supplies.

National Grid published "*Future Energy Scenarios*" in July 2016, setting out the possible future energy landscape in the UK, and the context for policy on interconnectors. It points to an ever increasing role for electricity interconnectors as traditional sources of energy are either taken offline (all coal-fired power stations are expected to be offline by 2025) or reach the end of their operational life.

Although new gas-fired, nuclear and alternative renewable sources of energy are being developed, interconnectors will help bridge the gap in capacity by bringing in extra supplies from neighbouring countries when not enough is generated to meet our needs.

Reflecting the importance of interconnection, Ofgem has introduced the 'cap and floor' providing a more stable framework for investment and helping to reduce risks associated with operating electricity interconnectors. This has contributed to the growth of interconnection capacity, as well as delivering more electricity generation to the benefit of consumers. To find out more about the 'cap and floor' regime, please visit the Ofgem website: https://www.ofgem.gov.uk/system/files/docs/2016/05/cap_and_floor_brochure.pdf

In all of the scenarios modelled by National Grid they show an ever increasing role for interconnection to 2020 and beyond. This is captured in the line graph taken from *Future Energy Scenarios* below. To view the full report, please visit the website <http://fes.nationalgrid.com/>.

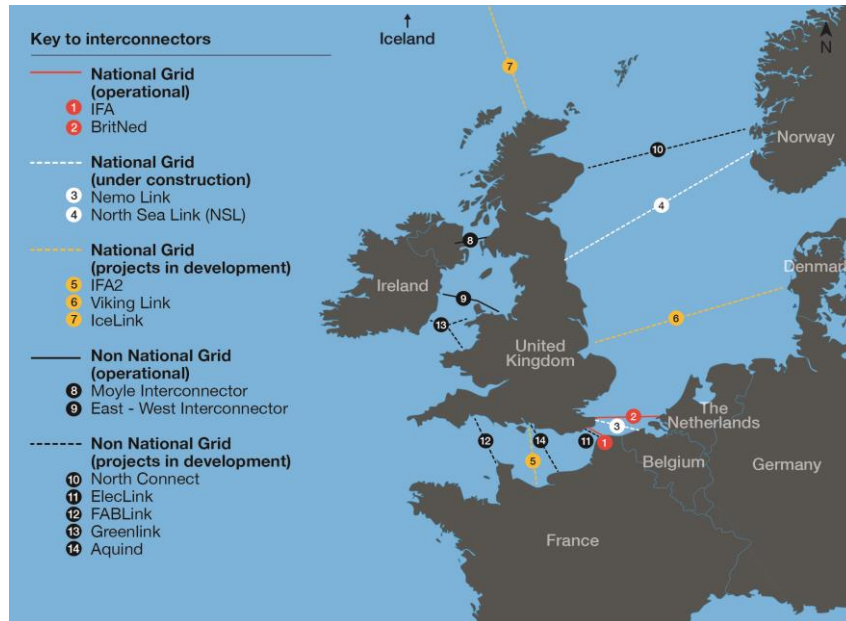


Britain is one of the least interconnected countries in Europe with interconnectors currently representing only 4% of electricity generation. In 2015 net imports accounted for 6% of electricity supplied in the UK via interconnectors linked to neighbouring countries demonstrating the important role they have in helping to provide access to reliable, secure and clean energy. (Source: *Better Connected 2016*, National Grid).

Recognising the important role interconnection plays alongside offshore wind and nuclear, the Government is looking to increase this figure to 10% by 2020. To achieve this, the Secretary of State for Business, Energy

and Industrial Strategy, The Rt Hon Greg Clark MP, reinforced the Governments' support for greater interconnection and the need to bring new interconnectors online to help deliver clean, reliable and affordable energy to consumers (*Source: Energy UK's Annual Conference, 11 November 2016*).

To demonstrate growing investment in interconnection across the UK and Europe, the following map shows interconnectors that are currently in development, under construction and operational across the UK.



Consumer benefit

The UK's economic regulator of gas and electricity markets (Ofgem) requires National Grid to bring forward IFA2 in a way which delivers national benefits, and in July 2015 granted the project eligibility for the "cap and floor" regulatory regime based on the socioeconomic welfare benefits it could bring for the UK.

Our forecasting shows that due to the timescales for new generation being brought forward, the trend will still be for energy prices to be lower on average in France than in the UK. As such we expect IFA2 to provide access to cheaper electricity than is available in the UK and therefore exert downward pressure on prices overall.

The Government has suggested that a further 9GW of further interconnection could account for almost £12billion savings over 25 years for consumers. (*Source: Speech Amber Rudd, Fmr Secretary of State for Energy and Climate Change, March 2016*).

Project investment

The cost of developing IFA2 is a commercial investment funded jointly by National Grid and our partner RTE. National Grid is a wholly shareholder owned company. National Grid's investment involves National Grid funds, not public money. Both National Grid and RTE will be entirely responsible for financing and managing risk associated with the construction and operation of the project.

This is a significant investment which we have estimated costs to be in the region of €540m to €830m to cover a range of different scenarios a project such as IFA2 could encounter. These are public domain figures used in the 2014 version of the ten year network development plan (TYNDP) that is developed by the European Network of Transmission System Operators for Electricity (ENTSO-E).

The Boards of National Grid and RTE have given their full support for the project to go-ahead and work is being finalised to allow the partners to enter contracts to deliver IFA2, subject to planning permission.

Impact of Brexit on IFA2

We believe our interconnector projects continue to have a strong business case following the UK's decision to leave the EU, and that the fundamental case for greater interconnection remains unchanged. Our focus is to deliver these projects and ensure we have the right trading arrangements in place, so UK bill payers have access to more secure, sustainable and competitively priced electricity.

Whilst the terms of Brexit are established, we can confirm that National Grid and our partners RTE remain strongly committed to increasing electricity interconnection between Great Britain and France. The Boards of both companies have taken into account the outcome of the vote to leave the EU and given their commitment to proceeding with IFA2 subsequent to the outcome of the referendum. We remain focused on bringing the project online by 2020.

Regulatory consultation in France

The Commission de régulation de l'énergie (CRE), or Regulatory Commission of Energy, is the energy regulator in France and equivalent to Ofgem in the UK.

In April 2016, RTE applied to CRE for the incentive element of their regulatory framework for the IFA2 interconnector. This is an incentive that reflects the socio-economic welfare benefits of such cross border infrastructure projects whilst taking into account the investor risks of developing such projects. Consulting with energy market players is a normal part of CRE's deliberation process for the incentive regulation and is similar to the process OFGEM follows for cap and floor in the UK.

RTE submitted their incentive regulation application for IFA2 in early 2016 prior to the UK vote to leave the European Union in June 2016. CRE launched a public consultation into these regulatory incentives for IFA2 in December 2016, which closed in January 2017.

Given its responsibilities, it is reasonable for CRE to consult stakeholders on how Brexit could impact regulatory incentives for the IFA2 project in France over the coming years. CRE is due to make a decision on 24 January 2017.

Value drivers for the project 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.

Compatibility with operations at Solent Airport

National Grid has undertaken a number of assessments into the potential effects of the interconnector on the operation of Solent Airport. These have been submitted in support of our application for planning permission to the planning authority, and separately, in our negotiations with the land owner for use of land at Solent Airport.

In addition to our Environmental Statement which accompanied our application, further detailed independent assessments have been conducted in order to answer specific questions from the planning authority and land owner. This includes a report by independent consultants Arcadis, who were appointed by National Grid in conjunction with landowner Fareham Borough Council and airfield operator Regional & City Airports (RCA) in July 2016 following a competitive procurement process. Peer review work has also been carried out by independent consultants appointed by the local planning authority in respect of both our Environmental Statement and the work carried out for the landowner including the report completed by Arcadis.

The reports can be viewed on Fareham Borough Council's website by clicking on the following link; <http://www.fareham.gov.uk/planning/ifa2.aspx>

The assessments completed over time have considered questions about electric and magnetic fields, electromagnetic compatibility, radio frequency interference, effects on airport systems and aircraft equipment, wind flow effects, aerodrome safeguarding and hazard identification and risk assessment.

We are satisfied that there are no issues in principle that would prevent the interconnector co-existing with the operation of the airfield. The report concludes that our proposals are consistent with the Vision for Daedalus and that plans for a converter station and cables at Solent Airport would be in accordance with aerodrome safeguarding criteria. It also confirms that no further mitigation will be required in addition to what we have submitted in our planning applications.

The airport operator, RCA, in their response to the published airfield assessments, confirmed the report's findings, that the *“current location, size and configuration of the converter station... will not compromise the physical safeguarding of the airfield”*. To view the full response, please follow the link below http://www.fareham.gov.uk/downloadfiles/BPMS_PublicDocument_149740_1424_20170106_114040.pdf.

Working closely with Britten-Norman and the Ministry of Defence (MoD) Defence, Equipment and Support (DE&S) we commissioned further independent assessments to investigate specific concerns raised by them. Having carefully considered the findings, we will take a precautionary approach to our cable installation plans. This will involve complying with MoD Defence Standards for magnetic fields to ensure that their requirements can be met.