



To

ACM
Postbus 16326
2500 BH Den Haag
The Netherlands

BritNed Development Limited

P.O. Box 718
NL-6800 AS Arnhem
Utrechtseweg 310, Building M01
NL-6812 AR Arnhem
The Netherlands

Telephone: +31 26 202 01 30
Fax: +31 26 202 01 39
Website: www.britned.com

Date 22 July 2021
Your reference
Our reference BN 21-007
Enclosure(s)
Subject Exemption – submission of 10 year review

Dear [REDACTED]

With this letter we write to you regarding the 10 year review submission as a condition to the exemption that was granted to BritNed in 2007 by the Authority.

Background

In July 2007 the UK Authority granted to BritNed an electricity interconnector licence (the "licence") under Electricity Act 1989 and issued an exemption order: (a) providing that standard licence conditions 9, 10 and 11 are not in effect or are suspended from operation; and (b) exempting BritNed from the provisions of Article 6(6) of Regulation (EC) No 1228/2003 ("the Regulation"), for a period of 25 years from the date on which the BritNed interconnector commences commercial operation.

An amendment to the exemption order was requested by the European Commission to include the following conditions:

- A. BritNed has to present to the national regulators within ten years after start of operations (as defined in the exemption decisions) a report that contains all the details necessary to scrutinise the total costs and revenues of the project and the rate of return on the investment with 2007 as the base year allowing for comparison with the data provided for the exemption request.
- B. If, calculated on the basis of the first 10 years, the estimated internal rate of return for the entire project is more than one percentage point above the Internal rate of return estimated when filing the exemption request, BritNed shall have two options:
 - i. it shall either increase the interconnector capacity to such an extent that the

initially estimated rate of return is met. The additional capacity would not automatically be covered by the scope of the present exemption; or

- ii. Alternatively, BritNed shall accept that the profits (discounted to 2007 figures) exceeding the initially estimated rate of return by more than one percentage point are capped and used, at equal parts, to finance the regulated asset base in the UK and in the Netherlands."

To meet these conditions BritNed has undertaken a 10 year review and prepared a financial report that meets all the conditions covering the full 25 year time horizon. This includes:

- a) the actual costs and revenues in the first 10 years of operation
- b) a revised forecast of the costs and revenues for the subsequent 15 years
- c) a revised forecast of the internal rate of return
- d) a comparison of all the data used
- e) a statement in which BritNed demonstrates that it has taken account of all relevant material factors known to it in making any revised forecast

Results of the 10 year review

Our revised forecast of the internal rate of return (IRR) which is derived from the information set out in the financial model for the joint venture is below. This includes the three revenue scenarios described in the financial report and the forecast returns to the end of the 25 year exemption are as follows:

Post tax nominal IRR	%
BritNed exemption cap	
High case	
Reference case	
Low case	

The result of the 10 year review is that in **all three revenue scenarios the forecast return is well below the cap of** [REDACTED]

Our conclusions

Based on the amendments set by the European Commission on the Exemption, conditions A and B, we draw the following conclusions.

Conclusion 1

With this submission of the financial report BritNed fulfils condition A of amended to the exemption set by the European Commission.

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Conclusion 2

Based on the result of the financial report as demonstrated above, we conclude that the criteria in condition B (one percentage point above the submitted IRR) is not triggered, and therefore the options provided are no longer relevant.

Therefore, it is our conclusion that BritNed can continue to operate the Interconnector until the end of 25 year period.

Our request

We request an acknowledgement of our conclusions based on the result of this 10 year review and provide us with a response in writing.

Specifically, we ask you to confirm that:

- a) BritNed has fulfilled condition A of the exemption.
- b) This review demonstrates that the forecast for 25 years is below the cap of [REDACTED] (for all three scenarios) and therefore, that condition B of the exemption is no longer relevant.

Please find attached to this letter the financial report of the 10 year review and the statement of completeness.

If you have any questions, please let me know.

Yours faithfully,

BRITNED DEVELOPMENT LIMITED

[REDACTED]

Regulatory Manager