

Greenlink Interconnector Limited,
NeuConnect Britain Limited,
electricity interconnector
licensees, cap and floor
applicants and other interested
parties

Direct Dial: 0207 901 7017
Email: cap.floor@ofgem.gov.uk

Date: 18 June 2021

Dear stakeholders,

Decision on proposed changes to the electricity interconnector licences held by Greenlink Interconnector Limited and NeuConnect Britain Limited

In February 2021, we conducted a statutory consultation on proposed changes to the electricity interconnector licences held by Greenlink Interconnector Limited (GIL) and NeuConnect Britain Limited (NBL).¹ These changes were required in order to implement the cap and floor regime and variations to the regime that apply to GIL and NBL. More detail on our regime variations is available in our May 2020 policy decision.²

Following consideration of consultation responses, we have implemented the proposed licence modifications with further minor amendments. These amendments reflect some of the consultation responses and are set out in this letter. Notices of the licence modifications are published as Schedule 1 – GIL and Schedule 2 - NBL alongside this decision. The licence texts, including the specific regime elements, are set out in Schedule 1A for GIL and Schedule 2A for NBL. These Schedules are published alongside this decision.

These licence modifications will take effect as follows:

- For GIL - from the date of our Decision on the Final Project Assessment of the Greenlink interconnector to Ireland (and 56 days must have passed from when the changes are published); and
- For NBL - from the date of our Decision on the Final Project Assessment of the NeuConnect interconnector to Germany (and 56 days must have passed from when the changes are published).

¹ Proposed new special conditions for the electricity interconnector licence held by GIL and NBL (Feb 2021): <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-our-proposal-insert-new-special-conditions-electricity-interconnector-licences-held-greenlink-interconnector-limited-and-neuconnect-britain-limited-implement-cap-and-floor-regime>

² Decision on proposed changes to our electricity interconnector cap and floor regime to enable project finance solutions (May 2020): <https://www.ofgem.gov.uk/publications-and-updates/decision-proposed-changes-our-electricity-interconnector-cap-and-floor-regime-enable-project-finance-solutions>

Consultation responses

We received four responses to our consultation. Three responses were non-confidential and have been published alongside this letter. We have not published the confidential response. A summary of the points raised by the four respondents, together with our views on those points, is set out in Appendix 1 to this letter.

We have made some changes to the licence drafting as a result of our consideration of consultation responses and to correct typographical errors, as summarised below.

Special Condition 1 (Definitions and Interpretations): We have amended the definitions of Actual Floor Level, Cap Level and Notional Floor Level to make them clearer but their respective meanings have not changed. We have moved the definition of "Interconnector Outage" from Special Condition 4 (Interconnector Availability Incentive), Part G, to Special Condition 1 to increase clarity. The definition of "Allowed Outage" in Special Condition 1 refers to "Interconnector Outage" for which no definition was given in Special Condition 1. This also meant moving the definition of "Maximum Possible Availability" – a term referred to in the definition of "Interconnector Outage", from Special Condition 4 to Special Condition 1. We have amended the definition of Regime Start Date to correct a typographical error and to add reference to the new Standard Licence Condition 26A. This follows from our June 2021 decision on pre-operational force majeure arrangements.³ The decision inserts a new Standard Licence Condition 26A (Delay to Regime Start Date caused by Pre-Operational Force Majeure) into Section G of the electricity interconnector licence.

Special Condition 2 (Cap Level and Floor Level): With the completion of the cap and floor financial models that will apply for GIL and NBL, we have updated the placeholder cell references in paragraph 12 of Special Condition 2 to reflect the correct cells in the respective models. We have also amended paragraph 12(d) to clarify that the Preliminary Cap Level, the Preliminary Notional Floor Level and/or Preliminary Actual Floor Level would remain unchanged for the remainder of the regime duration once they have been determined by the Authority (and subject to any adjustment following our Post Construction Review decision). With the update of the RPI index for the financial year ending March 2021 by the Office of National Statistics (ONS), we have replaced the placeholder value of UK RPI_{2020/21} index with the updated ONS figure in paragraph 19.

Special Condition 4 (Interconnector Availability Incentive): We have amended paragraph 5 to correct a typographical error and paragraphs 16 and 17 to increase clarity. This has also addressed a potential circularity around the approach to determining the values for the "Availability Incentive Adjustment At Notional Floor" (AINF) term and the "Availability Incentive Adjustment At Notional Floor" (AIAF) term in paragraph 16.

Special Condition 5 (Assessed Revenue): We have amended the definition of Receipt from Insurance term (RI_t) to increase clarity but its meaning has not changed.

Special Condition 10 (Calculation of adjustments to the Interconnector Revenue): We have amended the definition of Equity Distribution in Part I and the drafting in paragraph 28(c) to increase clarity.

³ Decision on pre-operational force majeure arrangements (Jun 2021): <https://www.ofgem.gov.uk/publications-and-updates/cap-and-floor-interconnectors-decision-pre-operational-force-majeure-arrangements>.

Special Condition 11 (NeuConnect Cap And Floor Financial Model Governance): We have amended paragraph 2(b) to correct a typographical error.

All changes to licence drafting since consultation are detailed in Appendix 1 to this letter and highlighted in Schedule 1A (GIL) and Schedule 2A (NBL) published alongside this letter.⁴

Licence modification decisions

We are now proceeding to make the licence changes. A modification decision together with other relevant schedules have been published alongside this letter as follows:

- Schedule 1 - Notice of licence modification (GIL)
- Schedule 2 - Notice of licence modification (NBL)
- Schedule 1A - Special conditions for the electricity interconnector licence held by GIL
- Schedule 2A - Special conditions for the electricity interconnector licence held by NBL
- Guidance to the cap and floor conditions in GIL's licence and NBL's licence⁵
- GCFFM1 – Greenlink Cap and Floor Financial Model 1
- NCCFFM1 – NeuConnect Cap and Floor Financial Model 1
- Cap and Floor Financial Model 1 handbook (CFFMH1)

If you have any questions in relation to this decision please contact Okon Enyenihi by email at cap.floor@ofgem.gov.uk.

Yours sincerely,



Stuart Borland

Head of Interconnectors

⁴ We note that we have modified our numbering for the NBL Schedules published at consultation to avoid any confusion – NBL Schedule 1 and Schedule 1A are now Schedule 2 and Schedule 2A.

⁵ We previously published the same version of the guidance as part of our 25 February 2021 statutory consultation on the proposed licence changes.

Appendix 1: Summary of consultation responses

Condition / Section name / Page / Paragraph Ref	Comments	Our views	New licence drafting
<p>Special Condition 1</p> <p>Definitions – Actual Floor Level (AFLt)</p> <p>Page 1</p>	<p>A respondent noted that the proposed definition is circular as the intent is to compare Assessed Revenue to the Actual Floor Level. Therefore defining the Actual Floor Level as the level of Assessed Revenue seems incorrect.</p>	<p><u>Proposal accepted</u></p> <p>The proposed drafting is clearer and does not change the intended meaning.</p>	<p>AFL_t means the level of Assessed Revenue value for any Relevant Year that:</p> <ul style="list-style-type: none"> (a) is determined in accordance with the formula in paragraph 4(c) of special condition 2 (Cap Level and Floor Level) of this licence; and (b) below which level the licensee is eligible for a top up of Assessed Revenue from the GB System Operator
<p>Special Condition 1</p> <p>Definitions – Allowed Outage</p> <p>Page 2</p>	<p>A respondent noted that the definition of Interconnector Outage is referred to in more than one special condition. To be consistent with how other defined terms that appear in several special conditions are treated, the definition of Interconnector Outage should be located in Special Condition 1 (Definitions and Interpretations)</p>	<p><u>Proposal accepted</u></p> <p>We agree with the proposal and have made amendments to that effect.</p> <p>We note that our amendment is consistent with Special Condition 1 paragraph 2(a) which indicates that “where words and expressions are used in only one special condition, their definitions are set out in that condition”. This implies that if a definition is used in more than one special condition, such definition should be set out in Special Condition 1.</p> <p>For the same reason, we have moved the definition of Maximum Possible Availability (MPA) from Special Condition 4 to Special Condition 1.</p>	<p>The licence drafting has not changed. We have moved the definitions of “Interconnector Outage” and “Maximum Possible Availability” from Special Condition 4 to Special Condition 1.</p>

<p>Special Condition 1 Definitions – Assessed Revenue Page 2</p>	<p>A respondent noted that the proposed definition is unclear and may suggest that Assessed Revenue is the actual gross revenue generated by the Licensee’s Interconnector.</p>	<p><u>Proposal not accepted</u></p> <p>Our view is that our proposed drafting is clear and consistent with prior licence implementation.</p> <p>We are keen to maintain a balance between making changes to our drafting that are necessary to provide clarity on the one hand, and maintaining consistent wordings across licences, on the other hand. Where improved clarity can be achieved by implementing a change in one area of the licence, we are more likely to accept a proposed change as long as it does not change the intended meaning. Where this would require changes in related areas of the licence, we are less likely to accept the change, unless it is absolutely necessary.</p>	<p>N/A</p>
<p>Special Condition 1 Definitions – Cap Level (CLt) Page 2</p>	<p>A respondent noted that the proposed definition is circular as the intent is to compare Assessed Revenue to the Cap Level, therefore defining the Cap Level as the level of Assessed Revenue is circular.</p>	<p><u>Proposal accepted</u></p> <p>The proposed drafting is clearer and does not change the intended meaning.</p>	<p>CLt means the value <u>level of Assessed Revenue</u> for any Relevant Year that:</p> <ul style="list-style-type: none"> (a) is determined in accordance with the formula in paragraph 4(a) of special condition 2 (Cap Level and Floor Level) of this licence; and (b) above which, at the end of each Relevant Year, the difference between the Cap Level and the Assessed Revenue is paid to the GB System Operator
<p>Special Condition 1 Definitions – Cap Start Date Pages 2 and 10</p>	<p>A respondent proposed that the definition should be modified to ensure that Revenues earned in the trial operations period is subject to the cap.</p>	<p><u>Proposal not accepted</u></p> <p>Our view is that revenues are capped from day one of commercial operation in our proposed drafting. The Cap Start Date is linked to paragraph 7(a) of Special Condition 2 of the licence. This paragraph sets out conditions to confirm when the Licensee’s Interconnector is available for the use of conveyance of electricity.</p>	<p>N/A</p>
<p>Special Condition 1</p>	<p>A respondent considers that the proposed definition is unclear. The proposal notes that the words “below the Minimum Availability Target (MAT)” are not needed to clarify that the exceptional event</p>	<p><u>Proposal not accepted</u></p> <p>We consider that our proposed drafting is clear and have decided to keep the words highlighted by the respondent.</p>	<p>N/A</p>

<p>Definitions – Exceptional Event</p> <p>Page 3</p>	<p>alone must be the last in the sequence of events (exceptional or non-Exceptional) causing the Actual Availability to fall below the MAT.</p>	<p>We also note that more detail is available in our “Guidance on the cap and floor conditions in the electricity interconnector licence for projects seeking project finance funding solutions”. In footnote 8 on page 18 of the Guidance, we note that “Unless the Authority determines that the cause of the outage resulting in availability falling below the MAT was an Exceptional Event and that when that outage is discounted the interconnector has in fact met the MAT”. This clarifies that the sequence of exceptional events may not be important.</p>	
<p>Special Condition 1</p> <p>Definitions – Notional Floor Level (NFLt)</p> <p>Page 5</p>	<p>A respondent noted that the proposed definition is circular as the intent is to compare Assessed Revenue to the Notional Floor Level, therefore defining the Notional Floor Level as the level of Assessed Revenue is circular.</p>	<p><u>Proposal accepted</u></p> <p>The proposed drafting is clearer and does not change the intended meaning.</p>	<p>NFLt means the value level of Assessed Revenue -for any Relevant Year that:</p> <p>(a) is determined in accordance with the formula in paragraph 4(b) of special condition 2 (Cap Level and Floor Level) of this licence; and</p> <p>(b) below which level the licensee is eligible for a top up of Assessed Revenue from the GB System Operator</p>
<p>Special Condition 1</p> <p>Definitions - Regime Start Date</p> <p>Page 6</p>	<p>Two respondents proposed modifications to Regime Start Date to ensure that the regime starts on earlier of Full Commissioning Date or the back stop date for a project, subject to the applicable relief mechanism to reflect delays.</p> <p>The respondents noted that the proposed definition is different from the definition set out in Annex 1 of our “<i>cap and floor regime summary for the second window</i>”⁶ and Appendix 1 of our “<i>consultation on proposed changes to our electricity interconnector cap and floor regime to enable project finance solutions</i>”.⁷</p>	<p><u>Proposal not accepted</u></p> <p>We note that the following four key dates will align if a project is progressed in a timely manner to: (i) achieve a project’s target completion date (including any grace period); and (ii) complete the 60 days continuous operation test successfully (including any permitted disruptions):</p> <ol style="list-style-type: none"> 1. Regime Start Date; 2. Cap Start Date; 3. Full Commissioning Date; and 4. Floor Start Date. 	<p>Regime Start Date means the earlier of:</p> <p>(a) the successful completion of such procedures and tests in relation to the Licensee’s Interconnector as set out in Paragraph 7(a) of special condition 2 of this licence; and</p> <p>(b) 1st January 2024, or such later date as the Authority may specify in athe direction issued pursuant to Standard Licence Condition 26AXXX Delay to Regime Start Date</p>

⁶ Cap and floor regime summary for the second window (May 2016):

https://www.ofgem.gov.uk/system/files/docs/2016/05/cap_and_floor_regime_summary_for_the_second_window.pdf

⁷ Consultation on proposed changes to our electricity interconnector cap and floor regime to enable project finance solutions (Oct 2019):

https://www.ofgem.gov.uk/system/files/docs/2019/10/regime_variation_condoc_-_031019_1.pdf

	<p>One of the respondent also suggested that the Regime Start Date should be delayed if the delay is in the interest of consumers.</p> <p>A further suggestion was made to correct a typographical error.</p>	<p>Otherwise, any failure to deliver the project on time or delays in completing the 60 days continuous operation test successfully will lead to the dates being different.</p> <p>The target completion date (including any grace period) for Window 1 projects is 1 January 2021 and for Window 2 projects is 1 January 2024.</p> <p>We note the confusion that our May 2016 Window 2 summary document and October 2019 consultation paper may have created. In both documents, we have set out that regime start date will be the earlier of the following:</p> <ul style="list-style-type: none"> • the actual 'full commissioning date'; and • 12 months after the target (ie expected) completion date. <p>The document also notes that the cap level will come into effect automatically on the regime start date and the floor level will come into effect on the <u>full commissioning date</u>.</p> <p>The above definition works if a project is delivered in a timely manner and the 60-day continuous test is passed in one go (with allowance for any interruptions for reasons permitted in the licence).</p> <p>We encourage developers to make use of the process set out in our decision on pre-operational force majeure arrangements where project delays are unavoidable.⁸</p> <p><u>Proposal accepted</u></p> <p>We welcome the proposal to correct a typographical error and have replace “the” with “a” in limb b of the definition, as well as updating our placeholder [XX] to refer to the new SLC 26A..</p>	<p>caused by Pre-Operational Force Majeure</p>
<p>Special Condition 2</p> <p>Part A: Calculation and entry into force of the Cap Level</p>	<p>A respondent proposed that the trial operation period be aligned to that available from manufacturers to prevent any potential perverse incentive. As owners could potentially run the interconnector at risk to meet the 60-day</p>	<p><u>Proposal not accepted</u></p> <p>The purpose of the 60-day continuous operation provision is to demonstrate the ability of the interconnector to flow power continuously and deliver consumer benefit and was introduced as a core aspect of the regime design.</p>	<p>N/A</p>

⁸ Decision on pre-operational force majeure arrangements (Jun 2021): <https://www.ofgem.gov.uk/publications-and-updates/cap-and-floor-interconnectors-decision-pre-operational-force-majeure-arrangements>

<p>term (CLt) and Notional Floor Level term (NFLt) and/or Actual Floor Level term (AFLt)</p> <p>Paragraphs 7 and 9</p>	<p>continuous reliability proving period and then take an outage shortly after in day 61.</p>		
<p>Special Condition 2</p> <p>Part B: Preliminary Cap Level and Preliminary Notional Floor Level and/or Preliminary Actual Floor Level</p> <p>Paragraph 12</p>	<p>A respondent noted that the proposed drafting does not clearly address the cells in the relevant financial model where values will be picked up from.</p>	<p><u>Proposal accepted</u></p> <p>We have completed our development of the financial models (GCFFM1 for Greenlink and NCFFM1 for NeuConnect) and have updated the licence with the correct cell references.</p>	<p>The Preliminary Cap Level and Preliminary Notional Floor Level and/or Preliminary Actual Floor level (as applicable) set by the Authority for the Licensee's Interconnector shall be determined and published by the Authority following Financial Close after updating all the relevant parameters in the GCFFM1 in accordance with the terms set out in it such that:</p> <ul style="list-style-type: none"> (a) the Preliminary Cap Level is set to the value in cell J20 of sheet "Cap Floor Levels" of the GCFFM1 (NCFFM1) expressed in million per year real 2020/21 Sterling prices; and (b) the Preliminary Notional Floor Level is set to the value in cell J21 of sheet "Cap Floor Levels" of the GCFFM1 (NCFFM1) expressed in million per year real 2020/21 Sterling prices; and/or (c) the Preliminary Actual Floor Level is set to the value in cell J36 of sheet "Cap Floor Levels" of the GCFFM1 (NCFFM1) expressed in million per year real 2020/21 Sterling prices; and...

<p>Special Condition 2</p> <p>Part B: Preliminary Cap Level and Preliminary Notional Floor Level and/or Preliminary Actual Floor Level</p> <p>Paragraph 12(d); Part F</p>	<p>A respondent proposed amendment to the paragraph to reflect that the defined terms are fixed for the duration of the regime.</p>	<p><u>Proposal accepted</u></p> <p>The proposed drafting is clearer and does not change the regime intent.</p> <p>We note that we have also updated the UK RPI index 2020/21 following publication by ONS.</p>	<p>12(d) from the date on which they are so determined and published, the Preliminary Cap Level, the Preliminary Notional Floor Level and/or Preliminary Actual Floor Level shall remain fixed for the remainder of the Regime Duration until any amendments made by the Authority in accordance with the process set out in special condition 8 (Process for determining the value of the Post Construction Adjustment terms) of this licence.</p> <p>Part F UK RPI index 2020/21: means, with respect to each of the 12 months from 1 April 2020 to 31 March 2021, the 12 month arithmetic average of the monthly index number of retail prices, as identified by the Office of National Statistics in the CHAW series, where the index on 13 January 1987 equals 100, and has the value of 294.2 {0}.</p>
<p>Special Condition 4</p> <p>Part A: Obligations in the event of an Interconnector Outage</p> <p>Paragraph 5</p>	<p>Typographical error in paragraph 5.</p>	<p><u>Proposal accepted</u></p> <p>We have corrected the typographical error.</p>	<p>All availability related calculations are applied to the Rated Capacity of the Licensee's Interconnector, which is equal to 1,400 megawatts (MW).</p>
<p>Special Condition 4</p> <p>Part A: Obligations in the event of an Interconnector Outage</p>	<p>A respondent noted that the words “to achieve a specific megawatt hours (MWh) of Interconnector Availability in any Relevant Year” may cause confusion in that paragraph and should be deleted.</p>	<p><u>Proposal not accepted</u></p> <p>We consider that keeping our drafting of paragraph 6 allows for a clear link to a time period that the calculation applies – which is a Relevant Year.</p>	<p>N/A</p>

Paragraph 6			
<p>Special Condition 4</p> <p>Part A: Obligations in the event of an Interconnector Outage</p> <p>Paragraph 16</p>	<p>A respondent noted that the definition of CAPOTS_{Nt} and CAPOTS_{At} are circular because they are a function of TS_{Nt} and TS_{At}, which in turn depend on AIN_{Ft} and AIA_{Ft} and in some situations AIN_{Ft} and AIA_{Ft} depend on CAPOTS_{Nt} and CAPOTS_{At}.</p>	<p><u>Proposal accepted</u></p> <p>We have accepted the proposal to improve clarity but the meaning remains as intended.</p>	<p>16(b)i subject to the value of the CAPOTS_{Nt} term not exceeding four times the value of the NFL_t term, with the CAPOTS_{Nt} and NFL_t terms being calculated as if the AIN_{Ft} was equal to 1.00, in the Relevant Year t in which the assessment is being carried out, the licensee may elect for the AIN_{Ft} term to have a value of 1.00 or a fraction of 1.00 (as specified by the licensee); or</p> <p>16(c)i. subject to the value of the CAPOTS_{At} term not exceeding four times the value of the AFL_t term, with the CAPOTS_{At} and AFL_t terms being calculated as if the AIA_{Ft} was equal to 1.00, in the Relevant Year t in which the assessment is being carried out, the licensee may elect for the AIA_{Ft} term to have a value of 1.00 or a fraction of 1.00 (as specified by the licensee); or</p>
<p>Special Condition 4</p> <p>Part C: Minimum Availability Target and calculation of the Availability Incentive Adjustment At Notional Floor term (AIN_{Ft}) and/or the Availability Incentive Adjustment At Actual Floor term (AIA_{Ft})</p>	<p>A respondent noted that the purpose of paragraph 17 is unclear.</p>	<p><u>Proposal accepted</u></p> <p>We have accepted the proposal in principle but have amended the paragraph rather than deleting it.</p>	<p>17. For the avoidance of doubt, t The licensee's Assessed Revenue is assessed against the Cap Level, Notional Floor Level as adjusted by the AIN_{Ft} term and/or against the Actual Floor Level as adjusted by the AIA_{Ft} term (as applicable) for each Relevant Year over the Regime Duration in accordance with special condition 3 (Cap and Floor Assessment) of this licence.</p> <p>MPA means the Maximum Possible Availability term and is defined in special condition 1 (Definitions and Interpretations) has the value 12,272,400 MWh (calculated from RC × 8766) except where it has been adjusted to account for</p>

Paragraph 17 and Part D			Partial Years in accordance with Part F of this condition, in which case it shall have an alternative value determined in accordance with the said Part F
Special Condition 5 Part B: Calculation of the Gross Revenue term (GRt) Paragraph 6	A respondent noted that definition of Receipt from Insurance (RI _t) term does not appear to work, as: <ul style="list-style-type: none"> it is unclear in what sense “lost revenue” can be considered to have been “received” by the licensee. This can be fixed by changing the order where the word “received” is used so it is clear it relates to insurance receipts; amounts received under insurances may relate to previous Relevant Years as well as the current Relevant Year (and it is not clear what is meant by “for” Relevant Year t); and receipts from insurance should be considered to constitute revenue only insofar as they are kept by the licensee and not paid to a third party. 	<u>Proposal accepted in part</u> We have replaced the word “of” with “received for” to increase clarity. <u>Proposal not accepted</u> We consider that our proposed drafting is adequate and consistent with our prior licence implementation. We note the concern around delay in receipt of insurance payments and the proposal on how this could be addressed in the licence. We are open to consider it in the future if our drafting is deemed to be insufficient at that time.	means the Receipts from Insurance term for insurance claims related to the compensation received for lost revenue (such as business interruption insurance) received , in respect of the Licensee’s Interconnector, for Relevant Year t and is: <p>(a) equal to the sum of any payments received, as a result of such insurance claim(s) for Relevant Year t; and</p> <p>(b) reported by the licensee in its Annual Cap and Floor RIGs Submission for Relevant Year t</p>
Special Condition 5 Part C: Calculation of the Market Related Costs term (MRCt) Paragraph 12	One respondent noted that the drafting was unclear regarding what criteria the licensee should consider to identify Additional Revenue Source. The respondent also noted that as this source of revenue is the subject of a direction by the Authority, the drafting seems to be circular.	<u>Proposal not accepted</u> We agree that there may be some circularity in the process but consider that this should not be a problem in practice. We note that all sources of Interconnector Revenue are considered at all times during our assessment of revenues against the Cap and Floor levels. A potential scenario where Additional Revenue is relevant is when a licensee might want to deduct a revenue development expense from revenue with the claim that the expense was used to develop that particular revenue source. In this instance, we would expect the licensee to get the Authority’s approval first before commencing any development of the new revenue source.	N/A
Special Condition 7 Part C: Calculation of the Baseline	Three respondents proposed amending the definition of “Non-Controllable Operational Cost Items” to include Transmission Use of System Charges (TNUoS) and Balancing Use of System	<u>Proposal not accepted</u> Whilst we agree that paragraph 4.15 of our 2014 decision lists “Grid costs or networks rates” as non-controllable costs, we do not agree that this includes GB network charges (e.g. TNUoS)	N/A

<p>Non-Controllable Operational Costs term (BNCOct) Paragraphs 13 - 15</p>	<p>Charges (BSUoS) if these costs were to be payable by the licensee in the future.</p> <p>One developer noted further that this would be consistent with paragraph 4.15 of our decision on the Nemo Link cap and floor regime on 2 December 2014, which refers to “grid costs or network rates” as non-controllable costs.⁹</p> <p>One respondent also noted that our proposed drafting is inconsistent with the position set out in our October 2019 document setting out our policy for Window 2 projects which referred to network rates (see Appendix 1, Table A1), as well as our May 2016 document that set out the default regime that will apply to such projects (Annex 1, Table 1).</p> <p>One respondent sought confirmation that the intention is for 100% of any difference between the baseline costs and the outturn costs to be passed through. In addition, the opex pass-through for non-controllable costs is to be allocated 100% to the jurisdiction where the cost variation arises.</p>	<p>and BSUoS). Part F of Special Condition 7 (Non-Controllable Costs) of the Nemo Link licence is clear that the term “network rates” applies to rates payable specifically in Belgium, not charges in GB.</p> <p>We can clarify that the cap and floor regime provides a route for consideration of all variation between the baseline allowance and the outturn values of GB Non-controllable costs, as set out in the calculation of the DNCOC term.</p>	
<p>Special Condition 7 Part E: Determination of the Decommissioning Cost Adjustment At Cap term (DCCt) and Decommissioning Cost Adjustment At Notional Floor term (DCNFt) and/or Decommissioning</p>	<p>A respondent proposed amendment to the decommissioning provisions in the licence to improve clarity. The respondent noted that the proposed drafting may suggest that the costs of decommissioning the interconnector will be borne by owners of the interconnector in both jurisdictions according to the 50:50 cost and revenue sharing principle of the regime.</p>	<p><u>Proposal not accepted</u></p> <p>We consider that our proposed drafting is adequate and do understand that the practical arrangements may be different.</p> <p>Our view is that the licence recognises the licensee’s obligation in line with the 50:50 sharing principle across the two jurisdictions.</p>	<p>N/A</p>

⁹ Decision on the cap and floor regime for the GB-Belgium interconnector project Nemo (Dec 2014): <https://www.ofgem.gov.uk/publications-and-updates/decision-cap-and-floor-regime-gb-belgium-interconnector-project-nemo>

Cost Adjustment At Actual Floor term (DCAft) Paragraphs 29 - 30			
Special Condition 10 Calculation of adjustments to the Interconnector Revenue Paragraph 2c	A respondent proposed that the definition of the ICF true-up term be amended to include other items which are not errors, but which are adjusting values so they take account of time lags that stem from actual events being different to forecast. The respondent also noted a need to explicitly include other adjustments other than errors in the paragraph and similar edits should be made to paragraphs 5 and (6)(c).	<u>Proposal not accepted</u> We consider that our proposed drafting is adequate and should allow for making the necessary adjustments under the regime. If necessary, we may consider the issue in the future for all cap and floor licensees.	N/A
Special Condition 10 Calculation of adjustments to the Interconnector Revenue Paragraph 5	A respondent noted that the receipt of Insurance (RI) term in Special Condition 5 captures insurance proceeds received <i>during</i> the Relevant Year, rather than <i>for</i> the Relevant Year and proposed an amendment to address any time lag in the receipt of insurance proceeds.	<u>Proposal not accepted</u> We note our response above to “Special Condition 5, Part B: Calculation of the Gross Revenue term (GRt) Paragraph 6”.	N/A
Special Condition 10 Calculation of adjustments to the Interconnector Revenue Paragraph 28	Two respondents noted that the breadth of the proposed drafting could restrict licensees from distributing funds within the corporate structure for the purpose of making debt service payments and that amendment would improve clarity.	<u>Proposal accepted in part</u> We disagree with the respondents. We do not consider that our proposed drafting or the definition of Equity Distribution will prevent debt repayment. We note that the Floor level support is provided to ensure debt repayment and expect licensees to put in place a transparent funding structure that would allow the developer to benefit fully from the Floor support. We accept an additional proposal by a respondent to amend paragraph 28(c). We have also decided to delete the last part of the definition of Equity Distribution to increase clarity. A licensee is by default expected to participate in operation of	28 (c) the need to ensure that the licensee does not make any Equity Distribution related to the licensee’s investment in the Licensee’s Interconnector, until the value of the OTSBEDt term is zero, <u>provided that the amount of taking into account any funds contained in a ring-fenced account for the benefit of the GB System Operator (with the approval of the Authority), such funds to be paid to the GB System Operator at the relevant time as determined in accordance with this condition and the CUSC), shall be</u>

		<p>the full asset. We have inserted the word “costs and revenues” into the definition of Equity Distribution.</p> <p>We note that all the amendments we have made to the definition of Equity Distribution is to improve clarity and not to change its meaning.</p>	<p>deducted from the value of the OTSBEDt term for this purpose.</p> <p>Equity Distribution means the distribution of any return and/or dividend on the equity investment in the Licensee’s Interconnector (without prejudice to the 50% costs and revenues sharing principle of the cap and floor regime) irrespective of the proportion of the Licensee’s Interconnector that is owned by the licensee or that the licensee is authorised to participate in the operation of by virtue of this licence.</p>
<p>Special Condition 11</p> <p>NeuConnect Cap And Floor Financial Model Governance Paragraph 2(b)</p>	N/A	We have modified paragraph 2(b) to reflect the correct abbreviation.	<p>The NCCFFMs are comprised of the following:</p> <ul style="list-style-type: none"> (a) the NeuConnect Cap And Floor Financial Model 1 (NCCFFM1); and (b) the NeuConnect Cap And Floor Financial Model 2 (NCCFFM2).
Wider regime implementation issues			
Issue	Comment	Our response	
Adherence to regime principles	A respondent noted consumer safeguards introduced within our May 2020 regime variations decision such as capping the consumer underwritten debt and the need for repayment of temporary support values. The respondent considers that consumer cost as set out in Ofgem’s updated impact assessment shows that the Risk Reward Balance (RRB) principle has not been implemented.	We consider that the regime variations as implemented maintain a robust Risk Reward Balance as envisaged in the default regime. Our regime variations decision puts licensees ahead of consumers with the responsibility of bearing any extra costs that might result from the regime variations. From our view, the assessed cost of variations represents a worst case scenario where the licensees themselves would have lost their equity investment.	

Cap and Floor Financial Model 1 (CFFM1)	<p>A respondent proposed for the following model issues to be resolved:</p> <ul style="list-style-type: none"> • Inputs sheet, cell I151, “Start of Operations”: Changing date from 1st Jan 2024 to most other dates generates errors in the model; e.g. 2nd Jan 2024 for one type of error; and 1st Jan 2025 for another type of error. • Allowances Floor sheet, cell I51, “Floor return rate”: The rate is calculated as the simple average of the annual actual cost of debt rates; using a simple average is not reflective of the actual cost of debt throughout the repayment period. • Inputs sheet, cell I128, “Flag for deductible interest on 50% gearing”: Need to explain when and why option 1 “50% gearing” would be used in place of option 2 “actual gearing” in the tax deduction calculations underpinning the Actual Floor Level. 	<p>Inputs sheet, cell I151, “Start of Operations”: We have resolved the errors. In the current version of the model, changing the date from 1st January 2024 to other dates does not generate an error.</p> <p>Allowances Floor sheet, former cell I51, now cell I52, “Floor return rate”: We have updated the calculation of discount rate from a simple average to a weighted average (with weights based on financial expenses incurred in each individual year). We would also require licensees to provide a reconciliation document to explain any difference in the cost of debt financing rates in their project finance model and the discount rate we have used in cell I52.</p> <p>Inputs sheet, former cell I128, now removed, “Flag for deductible interest on 50% gearing”: We have removed the 50% actual gearing switch from the Inputs sheet and the associated row in the Tax Deductions sheet (former row 29) that was calculated using this switch, as these were redundant.</p> <p>We have also reviewed the model and added an additional check in the Inputs sheet, cell I157, to compare the length of debt tenor input in cell I85 with the length of the period between start of operations (cell I151) and regime end date (cell I152).</p> <p>We have updated the model handbook to reflect the above amendments.</p>
Cap and Floor Financial Model 2 (CFFM2)	<p>A respondent noted that we have not published the operational period model (CFFM2) or the associated handbook for the projects. The respondent was unable to comment on the licence aspects that relate to the model and the handbook.</p>	<p>We welcome the feedback and can confirm that our intent is to develop and publish the CFFM2 that will apply to both projects at their respective Post Construction Review (PCR) stages. This intent is set out in paragraph 4.11 of our FPA consultation for the Greenlink interconnector.¹⁰</p>
Safeguarding of consumers	<p>A respondent noted that Ofgem should ensure that consumers do not provide financing for low revenue years that follow high-revenue years. This would avoid monies potentially being paid to equity investors before consumers are then required to provide support (even temporarily).</p> <p>The respondent also noted that Ofgem should directly assess a licensee’s future capability to repay any loans prior to them being awarded. i.e. consumers should not underwrite unreliable assets for up to 25 years on an unsecured basis.</p>	<p>We do not consider that an additional requirement on licensees to establish a reserve/buffer in above floor years or use any previous equity distributions to cover their need before consumers are called upon is necessary. Any loan from consumers to licensees is expected to be paid back in NPV neutral terms and before any distribution to the licensees. This extra requirement is operative throughout the regime duration and post regime duration as necessary until consumers are made whole.</p> <p>We approved cap and floor projects on the basis that these projects are expected to generate consumer benefits. We still believe that progressing the projects to operation is in the interest of consumers.</p>

¹⁰ Consultation on the Final Project Assessment of the Greenlink interconnector to Ireland (Mar 2021): https://www.ofgem.gov.uk/system/files/docs/2021/03/greenlink_fpa_consultation_document_1.pdf

Transparency and Appeal Rights	A respondent noted that any core regime changes for items such as network costs and Force Majeure events should be provided on a level playing field basis to both balance sheet funded projects and project-finance funded projects.	We are currently not considering any further core regime changes to the default regime. If further changes were to be necessary in the future, we would ensure that all projects are treated fairly.
Use of standard rather than special conditions and regime elements outside of the licence	<p>A respondent noted that many core regime elements have been implemented through special (rather than standard) conditions and much of the end-to-end regime remains outside of the licence. The respondent suggested that Ofgem should consider moving towards a standardised approach that promotes consistency and provides appropriate appeal rights to all licensees.</p> <p>The respondent noted further that specific regime implementation aspects are different across Window 1 and Window 2 projects as well as between individual projects such as the following:</p> <ul style="list-style-type: none"> • Window 2 interconnectors have been granted an additional 12-month grace period in relation to the operational start date; • Cap and floor licence consultation is taking place before our Final Project Assessment decision, which might be viewed as pre-judging the outcome of our FPA assessment; and • A slightly favourable default notional regime has been made available to Greenlink and NeuConnect through the application of iBoxx BBB debt index to the floor (as opposed to an ABB/BBB blend). 	<p>We welcome the respondent's suggestion and will continue to review our approach to implementing the regime to ensure that the regime is working for consumers and licensees. We note that our ongoing interconnector policy review may be a good opportunity for stakeholders to provide feedback on potential future improvements to our cap and floor regime.</p> <p>In our August 2014 decision¹¹ to roll-out the regime we noted that our first application window (Window 1) was specifically for 'near-term' interconnector projects only. The accompanying appendix to that decision sets out the eligibility criteria for Window 1 and clarifies that this means projects seeking to connect by the end of 2020. We also note that the end of 2020 date (with the regime starting from 1 January 2021) already contained inherent and varying grace periods (the difference between the project's target completion date and 1 January 2021) for projects that were granted a cap and floor regime under Window 1.</p> <p>We do not consider that a licence consultation or decision pre-judges the outcome of our FPA decision. The licences that we have published do not set out approved costs or cap floor levels for the projects. The applicable cap and floor levels will be published after our FPA decision for the projects and when projects reach financial close, and these licence changes will only take effect from our FPA decision. We also note that the regime is developer led and the sequencing of our decision may sometime be driven by the process followed by each developer as long as the process is efficient. Our view is that we have not offered a favourable regime to the two developers seeking project finance solutions even with the slight increase in the default cost of debt benchmark.</p>
Documentation provided as part of the consultation	One stakeholder suggested we could do more to improve documentation provided to aid the consultation.	<p>We welcome the feedback on the level and quality of documentation we have provided to aid consultation responses.</p> <p>We agree that we could increase clarity in some sections of the licence guidance document and are considering this for future implementation.</p> <p>As was also noted, we will consider publishing tracked change version of new special conditions to compare them with the most recent special licence implementation for a cap and floor project. Our practice to date has been to consider the consultation version as the</p>

¹¹ Decision to roll out a cap and floor regime to near-term electricity interconnectors (Aug 2014): https://www.ofgem.gov.uk/sites/default/files/docs/2014/08/decision_cap_and_floor_near_term_electricity_interconnectors.pdf

		starting version and to publish tracked changes between the consultation version and final version for each licensee.
--	--	---