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Dear Andrew

**Interconnector policy review: Working Paper 1 – Review of the cap and floor regime**

We welcome an opportunity to provide our views on the analysis, proposed conclusions, and proposed recommendations from workstream 1 of Ofgem's interconnector policy review.

We agree that the cap and floor regime has been successful in incentivising the development of additional GB electricity interconnection capacity and continues to provide a good combination of commercial incentives and regulatory certainty to bring further interconnection online. Given the ongoing offshore network development review by BEIS and Ofgem and ambitious net zero targets set to be achieved by 2030 and 2050, we support Ofgem's proposal to align future interconnection application windows, and respective connection dates of the upcoming interconnector projects, to the wider network planning process due to be undertaken by NGENSO as part of the holistic network design. Overall, we are supportive of Ofgem's intention to review elements of the cap and floor regime to ensure that it continues to be fit for future, including for projects with different financing approaches and requirements.

*Eligibility criteria and CBA methodology*

We consider that the existing eligibility criteria, i.e. a GB connection agreement for the relevant date, a licence and relevant submission information for the IPA stage, could be complemented by appropriate correspondence from the relevant authorities in the connecting country to confirm that the project is being actively considered in that country. In respect of Ofgem's CBA assessment carried out at the IPA stage, we would welcome bilateral engagement with the relevant Ofgem team to further understand Ofgem's approach taken in this area and factors taken into account to determine the benefits of a particular project.

*Key regime timelines*

We support Ofgem's position that the connection date and the Regime Start Date represent the key elements in the CBA assessment underpinning the cap and floor levels with the first and second application windows linked to the anticipated connected dates of the projects. Given that any delays to the connection date would mean a respective reduction to the 25-year cap and floor period with consumers benefits of the project potentially reducing as a result, we are supportive of a force majeure

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provision<sup>1</sup> proposed by Ofgem in March 2021 but do not consider that any further delays to the projects' connection dates should be allowed without a respective revision of the cap and floor levels.

#### *Regime design*

We support a proposal to review the methodologies used to calculate IDC, cap and floor rates, and the current benchmark parameters. In particular, we agree that there is merit in reviewing the differences and rationale for the approach to setting the cap, which tends to have static parameters and results in very similar return rates for different projects, and the floor which is linked to bond yields leading up to the FID date of the projects and hence is more project-specific and reflective of current market conditions.

#### **Long-duration storage**

Separately, we continue to advocate that the cap and floor has successfully facilitated high capex long-lead time infrastructure development in the GB market to date and can deliver further benefits by bringing online additional flexibility technologies to deliver Net Zero targets. As we noted in our initial response to Ofgem's WS1 consultation, a range of technologies will be required to provide flexibility services to help manage a more complex energy system with a high penetration of renewables efficiently. It is also our view that securing a place for long-duration storage within a range of flexibility providers will provide clear benefits to the energy system and savings to consumers going forward. As we noted previously, to unlock substantial benefits that new long-duration storage assets can bring to the system, given higher upfront capital costs and longer lead times to develop these projects, further consideration should be given to how existing market mechanisms and incentives, such as a cap and floor regime, subject to any required changes, can facilitate investment into these projects. We would urge Ofgem to ensure that any future assessment of system needs explicitly considers whether long-duration storage might offer an equivalent or greater system and societal benefit at lower cost to the consumer compared to potential interconnector projects.

To conclude, as noted earlier in the response, we would welcome bilateral engagement with Ofgem to discuss the assessment carried out by Ofgem at the IPA stage to determine the benefits of a particular project, analysis and evidence provided by the projects to inform Ofgem's assessment and any other information that Ofgem takes into account to agree the grant of the cap and floor in principle.

Yours sincerely,

Polina Ruthven  
Regulation Manager

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<sup>1</sup> [Consultation on our proposed approach in circumstances where an interconnector projects' cap and floor regime start date has been delayed due to force majeure events in the pre-operational period](#)