

FAB Link Limited and  
stakeholders

Email: [cap.floor@ofgem.gov.uk](mailto:cap.floor@ofgem.gov.uk)

Date: 4 November 2022

Dear stakeholders,

**Confirmation of FAB Link interconnector's retention of the cap and floor regime in principle**

The purpose of this letter is to inform FAB Link Limited (FLL), the licensee authorised to participate in the operation of the FAB Link interconnector (FAB Link), and wider stakeholders, of our decision to confirm FAB Link's retention of the cap and floor regime in principle.

As stated in our publication dated 4 March 2022 titled "Decision on our needs case review of the FAB Link interconnector", we concluded that FAB Link is likely still in the interests of current and future GB consumers.<sup>1</sup> FAB Link, therefore, retained its cap and floor regime in principle. This decision was conditional on FLL presenting evidence to Ofgem, by the end of July 2022, of a clear pathway to progress regulatory approvals in France.

In early July 2022, Ofgem joined four-party discussions with our regulatory counterparts in France, Commission de régulation de l'énergie (CRE), FLL, and their development partners Réseau de Transport d'Électricité (RTE). At this meeting, a clear pathway to regulatory assessment was outlined and agreed, and a further written narrative summary was provided by FLL thereafter. In light of this information, we are satisfied that FLL have met the conditionality laid out in the needs case reassessment letter of 4 March 2022. Therefore, we confirm that FAB Link will retain the cap and floor regime in principle.

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<sup>1</sup> <https://www.ofgem.gov.uk/sites/default/files/2022-03/FAB%20Link%20needs%20case%20decision.pdf>

## Background and context

The cap and floor regime for electricity interconnectors provides interconnector developers with consumer underwriting at the floor and a return of excess revenues to consumers above the cap. It is therefore important that we ensure that those projects awarded a cap and floor regime are likely to provide benefits for current and future GB consumers.

At the IPA stage for cap and floor Window 1 interconnectors in 2015,<sup>2</sup> we assessed the potential impacts of FAB Link, amongst other applicants, on electricity markets and cross-border trade, on the GB electricity network, and in line with long-term strategic and sustainability indicators. We determined that FAB Link was likely in the interests of GB consumers and the project was subsequently awarded a cap and floor regime in principle.

As outlined in our March 2022 letter, our decision to revisit the needs case for FAB Link was made in light of a delayed connection date of 2025, communicated by FLL, therefore exceeding the IPA deadline of the end of 2023.

Using our discretion under the IPA conditions, we revisited aspects of the needs case for FAB Link to confirm whether the project continued to be in consumers' interests and should continue to be granted a cap and floor regime in principle. Specifically, we decided to update our socio-economic welfare (SEW) modelling analysis, as this was the aspect of the needs case most directly impacted by project delays.

### *Needs case decision and conditionality of approval*

In our 4 March 2022 letter, we approved the needs case for FAB Link based on the SEW modelling results and consideration of wider benefits from interconnection. The decision was therefore taken for FAB Link to retain the cap and floor regime in principle. In the letter, we stated that:

*"This decision is therefore conditional on FLL presenting to us, by the end of July 2022, a clear pathway to progress regulatory approvals in France. As a minimum, we expect to see evidence of direct engagement between the FAB project developers and CRE, and of next steps towards seeking the necessary regulatory approvals in France."*

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<sup>2</sup> Decision on the Initial Project Assessment of the FAB Link, IFA2 and Viking Link interconnectors (July 2015) - [https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/ipa\\_decision\\_july\\_2015\\_0.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2015/07/ipa_decision_july_2015_0.pdf)

### *Evidence of progress*

In June 2022, Ofgem received updated project plans and timelines for the FAB Link interconnector, with accompanying confirmation from FLL that this information had also been shared with CRE earlier in that same month.

In July 2022, Ofgem joined a four-party discussion with FLL, their partners RTE, and CRE. At this meeting, a clear pathway to regulatory approval was outlined and agreed, and a further written narrative summary was provided thereafter. This summary outlined the regulatory pathway, as well as the updated project plan and associated timelines.

### *Decision to extend the connection date requirement*

IPA conditions were created, in part, to incentivise the timely delivery, and therefore the realisation of benefits, of interconnectors under the cap and floor regime. We explained in our 4 March publication that we consider such incentives to remain appropriate. As FLL is unable to satisfy the existing IPA condition, we deemed it appropriate to amend this condition related to the duration of delay to the project's connection date that we would deem material. With updated timelines now presented to Ofgem, we are in a position to amend this conditionality.

### **Decision and next steps**

In light of the information provided by FLL and evidence that we have observed, we are satisfied that FLL have met the conditionality laid out in the needs case reassessment letter of 4 March 2022, which confirmed that FAB Link remains in the interests of consumers over the 25-year regime duration. Therefore, we confirm that they will retain the cap and floor regime in principle.

It is important to note that whilst we believe that the project is likely still in the interests of current and future GB consumers, we cannot, at this stage, confirm that FLL will retain the full 25-year regime, as it has not met the IPA conditionality for the project. We understand from bilateral engagement with FLL that they intend to submit a request for force majeure (FM request), but we cannot comment on a future request. We will assess any FM request on its merits and make an informed decision at the time such a request is made.

In our 4 March letter, we also introduced the possibility of amending FAB Link's IPA condition related to the duration of delay to the project's connection date that we would deem material. Updated timelines presented to Ofgem, have enabled us to make a more informed decision on the deliverability of the project and the future conditions that may warrant a revisit of the project's needs case.

The updated connection date for FAB Link, as presented to Ofgem in July 2022, is the end of 2030. Based on expected project timelines, we deem it appropriate to revisit the project's needs case should FAB Link fail to achieve final investment decision (FID) by the end of 2026, therefore taking them off course for project delivery by the updated target connection date.

We believe that this amendment of the IPA conditionality provides the correct incentive for the project to provide accurate and achievable project timelines, and provides incentive for FLL to adhere to the revised dates presented to us.

Our view is that FAB Link would likely still be in consumers' interest if the project is delivered around 2030, as currently indicated. This view is an extension of the positive needs case reassessment published in March 2022, alongside analysis of the wider need for further interconnection performed for Ofgem's interconnector policy review,<sup>3</sup> and in line with the Government's ambition for at least 18 GW of electricity interconnection by 2030.<sup>4</sup>

If you have any questions on the content of this letter, please contact Alexander Graham at [cap.floor@ofgem.gov.uk](mailto:cap.floor@ofgem.gov.uk).

Kind regards,



**Stuart Borland**  
**Deputy Director, Offshore Network Regulation**

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<sup>3</sup> [Interconnector Policy Review - Decision | Ofgem](#)

<sup>4</sup> Energy white paper: Powering our net zero future [Energy white paper: Powering our net zero future - GOV.UK \(www.gov.uk\)](#)