

NorthConnect Limited
and other relevant stakeholders

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Dear colleagues,

NorthConnect Limited – withdrawal of cap and floor regime

This letter sets out our intention to withdraw the cap and floor regime awarded in principle to NorthConnect Limited in January 2018 with respect to the NorthConnect interconnector project.

Background

NorthConnect Limited is the developer of a proposed 1.4GW electricity interconnector project between Norway and Great Britain. NorthConnect Limited applied for our cap and floor regime for the NorthConnect interconnector project through our second application window (Window 2). In January 2018, following our Initial Project Assessment (IPA), we awarded NorthConnect Limited a cap and floor regime in principle.¹

Our decision to award a cap and floor regime to the NorthConnect interconnector project was contingent upon NorthConnect Limited meeting the IPA conditions set out in Annex 1 to the IPA decision and contained, for ease of reference, in Annex 1 to this letter.

The IPA conditions are intended to incentivise timely delivery of projects and to ensure that consumers start to realise some of the anticipated benefits that informed our decision on the needs case for the interconnector project at the IPA stage.

Significant project delays

We note that the developer has encountered significant delays in progressing the NorthConnect project. In particular, this includes delays with respect to reaching agreement with the relevant regulatory authorities in Norway on the approval and regulatory treatment for the non-GB portion of its interconnector. We also note that the current Norwegian government has announced that it will not approve new international connections during the current parliamentary term (until at least 2025²). The resulting

¹ Decision on the Initial Project Assessment of the GridLink, NeuConnect and NorthConnect interconnectors:
https://www.ofgem.gov.uk/sites/default/files/docs/2018/01/window_2_ipa_final_decision.pdf

² As stated on page 28 of the cooperation agreement between the two coalition partners (Labour Party and Centre Party) of the current Norwegian government:
<https://www.regjeringen.no/contentassets/cb0adb6c6fee428caa81bd5b339501b0/no/pdfs/hurdalsplattformen.pdf>

delays would take the earliest possible connection date for the NorthConnect project significantly beyond the latest connection date of January 2024 for Window 2 projects.³

Withdrawal of cap and floor regime

The delays outlined above have led to NorthConnect Limited not being able to meet a number of the IPA conditions.⁴ Based on our engagement with the developer, we have concluded that, given the significance of these delays, there is no realistic prospect of the project being delivered in the coming years in the form assessed at the IPA stage.

We therefore consider it necessary **to withdraw the cap and floor regime awarded to NorthConnect Limited**. The withdrawal of the regime is effective from the date of this letter. This decision does not affect any future applications from the developer and the developers remain able to submit a proposed interconnector project for assessment in any potential future application windows if desired.

We have also recently received a Multi-Purpose Interconnector (MPI) pilot project application from the NorthConnect consortium through our MPI pilot scheme and will be discussing this application with the developers in due course.

Yours faithfully,



Stuart Borland

Deputy Director, Offshore Network Regulation

³ We note that other projects with a cap and floor regime in principle have also been delayed for various reasons. We will continue to monitor the progress of these projects against their IPA decision conditions.

⁴ IPA conditions 1, 3 and 4a

Annex 1 – The IPA conditions

Our decision to award a cap and floor regime in principle is contingent upon the following conditions:

- 1. If any information given to us before making our Final Project Assessment (FPA) decision leads us to consider that the basis of our IPA decision has materially changed, then we may choose to require a new IPA stage.**
Material changes would include any prospective delays in project delivery of more than 3 years.
- 2. We will also reconfirm at the FPA stage that the assumptions regarding connected country energy market access and electricity trading rules on which the IPA decision was based remain broadly correct at the time of the FPA.** Should this position change, Ofgem reserves the right to revisit the needs case in order to confirm whether or not the project continues to be in consumers' interests and should continue to be granted a cap and floor arrangement.
- 3. Project progress is generally in line with the timelines, cost estimates and commercial arrangements provided in the project IPA submissions.** For cost estimates, the condition is that the costs submitted by the project developers do not materially rise.⁵ For the avoidance of doubt, this condition also includes developers reaching agreement with the relevant NRA in the connecting country, on the regulatory treatment for the non-GB portion of its interconnector, by the FPA submission date.
- 4. Developers must also:**
 - (a) Submit sufficiently detailed information for our FPA to start within three years of an IPA decision.** This information will need to be informed by detailed discussions with the supply chain and tender returns to support cost estimates;
 - (b) Submit quarterly written reports on progress against a number of key development milestones,** including (but not limited to) development work, consenting and permitting, procurement, financing, operational management plans and costs, project management and other factors that had an impact on our IPA welfare assessment;
 - (c) Confirm the timing of FPA submission in writing to Ofgem at least two months before the expected submission date;** and
 - (d) Give formal written notice of any material changes to the project's design, such as changes in capacity, connection location or connection date.** Following any such change, developers must explain the rationale for the change and the implications for project costs and delivery timescales.

It should be noted that, in reaching our decision, we have assumed project costs will be shared on a 50:50 basis as per the default cap and floor regime.⁶

⁵ We will consider the threshold for materiality of any cost escalation against the potential impact on the needs case and consumer benefits, the original estimates provided, and comparable costs for similar projects.

⁶ Subject to any variation request that is approved and specifies otherwise