



Making a positive difference
for energy consumers

National Grid Viking Link Limited,
electricity interconnector
licensees, cap and floor
applicants, and other interested
parties

Direct Dial: 020 7901 7445

Email: cap.floor@ofgem.gov.uk

Date: 3 November 2023

Dear stakeholders,

**Statutory consultation on proposed changes to the electricity interconnector
licence held by National Grid Viking Link Limited to implement the cap and floor
regime**

We are proposing changes to the electricity interconnector licence held by National Grid Viking Link Limited (**NGVL**). These changes are required in order to implement the cap and floor regime for the Viking Link project. We are seeking views on these proposed changes from interested parties during this consultation.

We are proposing to introduce new special conditions into NGVL's licence that will give effect to its specific cap and floor regime as set out in our Final Project Assessment (**FPA**) decision in September 2020.¹ These special conditions set out the cap and floor levels and assessment processes that apply to NGVL. This consultation is our statutory consultation under section 11A(2) of the Electricity Act 1989 with respect to these proposed licence modifications.

Alongside this consultation, we are also publishing an informal guidance document for NGVL's licence conditions. It may help NGVL and interested stakeholders to better

¹ Our FPA decision on the Viking Link interconnector is available at:
<https://www.ofgem.gov.uk/publications/decision-final-project-assessment-viking-link-interconnector-denmark>

understand the proposed new conditions. We welcome comments on this guidance document as part of this consultation.

Background

The cap and floor regime

The cap and floor regime is the regulated route for new electricity interconnector investment in Great Britain (GB). It sets a framework for GB interconnector investment. This developer-led approach balances incentivising investment through a market-based approach, with appropriate risks and rewards for the project developers.

Each project that is granted a cap and floor regime will have special conditions inserted into its electricity interconnector licence which place specific obligations and incentives upon the licensee with respect to its cap and floor regime. As part of this consultation, we have published the draft special conditions for the Viking Link interconnector, discussed below.

Viking Link interconnector

The Viking Link project is a 1.4 GW electricity interconnector between the Danish and GB transmission systems, jointly developed by NGVL and Energinet, the Danish transmission system operator. The project is currently under construction and is expected to enter commercial operation in 2024.

We published our Viking Link FPA decision in September 2020. The Viking Link cap and floor regime applies to NGVL's 50% share of the costs and revenues of the project.

Viking Link is the third cap and floor project to go through our FPA process and the fourth cap and floor project to require licence changes to implement its cap and floor conditions. There are specific licence provisions that apply to projects being granted a cap and floor regime; these special conditions are tailored for each licensee to reflect provisions specific to that project and the inclusion of project-specific regime parameters.

The proposed special conditions for NGVL specify the preliminary cap level and preliminary floor level (£111.5m and £61.7m respectively, in real 2019-20 prices). These levels are the values we specified in the September 2020 FPA decision.

The proposed special conditions being consulted upon are based on the IFA2 cap and floor special conditions that were implemented in July 2018.

Statutory consultation

We are seeking views on:

- 1) the proposed new special conditions to be inserted into the electricity interconnector licence held by NGVL as required under section 11A(2) of the Electricity Act 1989; and
- 2) the guidance document for the new special conditions (the guidance itself is not subject to statutory consultation, but we welcome your views on the document as part of this consultation).

Our proposed licence changes, together with the reasons and effects of those proposed changes, can be found in Schedules 1A and 1B published alongside this consultation.

For ease of reference, please use the response template (in Microsoft Word format, published as a subsidiary document alongside this consultation) to provide your specific comments on the proposed licence text and to suggest any alternative wording.

Please send responses by 4 December 2023 to:

Dr Alexander Graham
Networks
Commonwealth House,
32 Albion Street
Glasgow
G1 1LH

Or to Cap.Floor@ofgem.gov.uk

Unless marked confidential, all responses will be put in Ofgem's library and on our website, www.ofgem.gov.uk. You can ask for your response to be kept confidential and we will respect this, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you would like your responses to be kept confidential, clearly mark the document/s to that effect and include the reasons for confidentiality.

If you have any questions in relation to this letter, please contact Alexander Graham by email (alexander.graham@ofgem.gov.uk) or on +44 20 7901 7445.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'SB', followed by a long horizontal flourish.

Stuart Borland
Deputy Director, Offshore Network Regulation

Appendix 1: List of subsidiary documents published alongside this consultation

- 1) Notice of proposed insertion of new special conditions into the electricity interconnector licence held by NGVL
- 2) Schedule 1A – Proposed new special conditions for the electricity interconnector licence held by NGVL
- 3) Schedule 1B - Reasons and effects of proposed insertion of new special conditions into the electricity interconnector licence held by NGVL
- 4) Guidance on the cap and floor conditions in NGVL's electricity interconnector licence
- 5) Licence consultation response template