NGV response to Ofgem's consultation on moving from RPI to CPIH as the inflation index for the Interest During Construction rate for projects under the Offshore Transmission Owner regime and Window 3 electricity interconnectors

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Dear Interconnector Delivery Team,

National Grid Ventures (NGV) welcomes the opportunity to respond to the consultation on moving from RPI to CPIH as the inflation index for the Interest During Construction (IDC) rate for projects under the Offshore Transmission Owner regime and Window 3 electricity interconnectors

NGV, together with our European partners successfully operates six point-to-point (P2P) interconnectors into GB. We are developing a number of Offshore Hybrid Asset (OHA) projects – this includes the Nautilus project connecting to Belgium and Lion Link (formerly Euro Link) connecting to the Netherlands. Both projects passed the initial eligibility requirements and, on 15 December 2022, Ofgem confirmed that both Nautilus and Lion link have been selected as OHA pilot projects.

We note that NGV does not have any projects in Window 3 and that the proposals on moving from RPI to CPIH as the inflation index for IDC rates are limited to the Offshore Transmission Owner regime and Window 3 electricity interconnectors. NGV expects OHA methodology to be subject to a separate consultation, but it is providing views on the Window 3 methodology to the extent that Ofgem considers it a precedent for OHAs.

NGV's response to the questions in the consultation is presented in the section below.

A move from RPI to CPIH as the Inflation index for the IDC rate for projects under the Offshore Transmission Owner Regime and Window 3 Electricity Interconnectors

Ofgem is consulting on the inflation used in the annual decision on Interest During Construction (IDC) rates. The consultation proposes a move from the retail price index (RPI) to consumer prices index including owner occupiers' housing costs (CPIH) as the relevant inflation index used in the annual IDC rate for OFTO projects and Interconnectors. However, in the absence of CPIH-based estimates, Ofgem suggests adopting the consumer prices index (CPI) as a proxy for CPIH, until CPIH-based estimates become readily available.

Question 1: Do you agree with our proposal and reasoning to move from RPI to CPIH as the inflation index for the IDC rate calculation?

We agree in principle with this decision albeit cautious of an immature CPIH-linked corporate bond market.

Question 2: Do you agree with our proposal in Approach 2 to use CPI as a proxy for CPIH, or do you consider that there is a better proxy to use for CPIH than CPI?

NGV agrees with the approach of using CPI as a proxy for CPIH in the absence of sufficient CPIH-based estimates and submit that both these indices i.e., CPI and CPIH can and do differ. Therefore, Ofgem's decision should be to only use CPI until other reliable forecasts of CPIH become available.

Question 3: Do you agree with our proposal to calculate CPIH based on Approach 2 only?

NGV agrees in principle recognising that, as we approach the RPI reform in 2030, the implied RPI-CPIH wedge may change – as the definitions of the two indices will be aligned from this date.

Question 4: Do you have any alternatives to our proposed changes? If so, could you please elaborate on them and present evidence on the potential impact these might have on the IDC rate?

We note that there remains material uncertainty around inflation pricing in the lead up to RPI reform, regardless of the approach adopted. NGV therefore suggests caution is applied to ensure NPV neutrality for investors.

Yours sincerely,

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