

Decision

Decision on the Post Construction Review of the Viking Link Interconnector to Denmark

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Contact:	Jade Li and Andrew Martin
Team:	Interconnector Delivery
Email:	cap.floor@ofgem.gov.uk

This decision document confirms our final position on the Post Construction Review of the Viking Link interconnector project. It sets out our final determination of the values for the Post Construction Adjustment terms submitted by Viking Link and the final cap and floor levels for the project.

Alongside this decision, we have also published licence modification notices making changes to the special conditions of National Grid Viking Link Limited (**NGVL**) electricity interconnector licence, Viking Link's Cap and Floor Financial Models and associated handbooks.

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Executive Summary

Viking Link is a 1.4 GW electricity interconnector between Bicker Fen in Lincolnshire, Great Britain (**GB**) and Revsing in South Jutland, Denmark. The project was jointly developed by National Grid Viking Link Limited (**NGVL**) and by Energinet, the Danish transmission system operator (**TSO**). Viking Link entered commercial operations on 29 December 2023. Our¹ cap and floor regime applies to NGVL's 50% share of the project.²

We granted NGVL a cap and floor regime in principle in July 2015. NGVL's electricity interconnector licence sets out the preliminary cap and floor levels for the project. The licence also includes the process for setting the final cap and floor levels following our determination, at the Post Construction Review (**PCR**) stage, of the values of the Post Construction Adjustment (**PCA**) terms. These terms adjust the preliminary cap and floor levels, calculated at the Final Project Assessment (**FPA**) stage, to take into account our final assessment of the project's costs.

In November 2024, we consulted on our minded-to position on NGVL's PCR, in particular our views on the proposed values for the PCA terms submitted by NGVL and the final cap and floor levels for the project. Alongside this, we also conducted a statutory consultation on related changes to the special conditions in NGVL's electricity interconnector licence.

The consultation closed on 18 December 2024. We received one consultation response, which was published on the consultation page. We have taken this response into account in reaching our decision.

Scope of our decision

This decision provides our final view on NGVL's PCR, in particular our determination of the values of the PCA terms and the final cap and floor levels for the project. Alongside this decision, we have also published:

- A direction determining the values of the PCA terms and final cap and floor levels for NGVL;
- Licence modification notices modifying the special conditions in NGVL's electricity interconnector licence; and

¹ The terms "Ofgem", "the Authority", "we", "our", and "us" are used interchangeably in this document.

² National Grid Viking Link Limited (NGVL) is the licenced entity on the GB side of the interconnector. NGVL is a part of National Grid's interconnector business, National Grid Interconnector Holdings (NGIH).

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- Final versions of the Viking Link Cap and Floor Financial Models and associated handbooks.

Overview of our decision

The cap and floor levels are set using a building blocks approach, based on the project's development costs, capital costs, operating and maintenance costs, replacement costs, decommissioning costs, tax and allowed return. The preliminary cap and floor levels for NGVL, as specified in its licence, are £111.55 million and £61.70 million each year (in real 2019-20 prices), respectively.

In March 2024, NGVL submitted its proposed values for the PCA terms together with supporting project cost information (the **PCR Submission**). We received updated information in June 2024 under the annual reporting requirements in the Cap and Floor Regulatory Instructions and Guidance (**Cap and Floor RIGs**). NGVL's final cost update was provided in September 2024, containing risk costs that had materialised. NGVL proposed upward adjustments to the preliminary cap and floor levels of £16.50 million and £16.71 million (in real 2019-20 prices), respectively.

In our November 2024 consultation, we indicated that our minded-to position was that the proposed PCA values submitted by NGVL should be adjusted downward by £6.91 million and £2.33 million and determined as £9.58 million³ and £14.38 million, respectively. We noted that this would generate a final cap level of £121.13 million and a final floor level of £76.08 million in real 2019-20 prices.

Following consultation close, and after our review of the additional evidence provided by NGVL, we have updated our minded-to position. We have now confirmed our final view on cost allowances and the financial parameters for the project. Based on our analysis, we have decided to set the:

- combined capital expenditure (**capex**) and development expenditure (**devex**) value at £691.9 million in real 2019-20 prices, a decrease of £12.2 million from NGVL's PCR submission; and
- operating expenditure (**opex**) value at £913.6 million in real 2019-20 prices, which remains unchanged from the opex values in NGVL's PCR submission.

Accordingly, we have determined the final PCA values to be:

³ Due to the decision being published after the end of the 2024/25 financial year, the inflationary figure for the 2024/25 financial year has been updated from a forecasted value to the actual value. This in turn has reduced the PCAC term from consultation to decision by £0.01 million. This change has been reflected throughout this document and the Cap and Floor Financial Models.

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- **Post Construction Adjustment At Cap (PCAC) as £9.58 million;** and
- **Post Construction Adjustment At Floor (PCAF) as £14.38 million.**

These PCA values generate a **final cap level of £121.13 million and final floor level of £76.08 million** in real 2019-20 prices.

Details on the preliminary cap and floor levels we had set at the FPA stage, the adjustments proposed by NGVL, and our decision is provided below in **Table 1**.

Table 1 – Overview of the cap and floor levels for Viking Link⁴ (£ million, 2019-20 prices)

Item	Preliminary levels set at FPA	NGVL proposed adjustment at PCR	NGVL proposed final cap and floor levels	Ofgem final adjustment at PCR	Ofgem final cap and floor levels
Cap	111.55	16.50	128.05	9.58 ⁵	121.13
Floor	61.70	16.71	78.41	14.38 ⁶	76.08

⁴ For all tables in this document, due to rounding, the figures in the table may not add up precisely to the totals indicated. Our cost assessment process uses unrounded figures.

⁵ Of this £9.58 million PCAC term, £0.03 million was due to the recalculation of the IDC.

⁶ Of this £14.38 million PCAF term, £0.01 million was due to the recalculation of the IDC.

1. Introduction

This section gives an overview of the Viking Link project, the cap and floor regime and what we have decided on. It also details our decision-making process.

Viking Link Project Overview

- 1.1 The Viking Link Project is a 767 km, 1.4 GW electricity interconnector between GB and Denmark. On the GB side, the cable landfall is at Boygrift, followed by 68 km of onshore cable to the converter station in North Ing Drove. This is followed by 2 km of alternating current (**AC**) cables to the Bicker Fen substation. The Danish end of the high-voltage direct current (**HVDC**) cable lands at Blaabjerg, followed by 76 km of onshore HVDC cable to the converter station at Revsing, which is adjacent to the Revsing substation.
- 1.2 Viking Link is shown alongside other operational and proposed interconnector projects in **Figure 1**.

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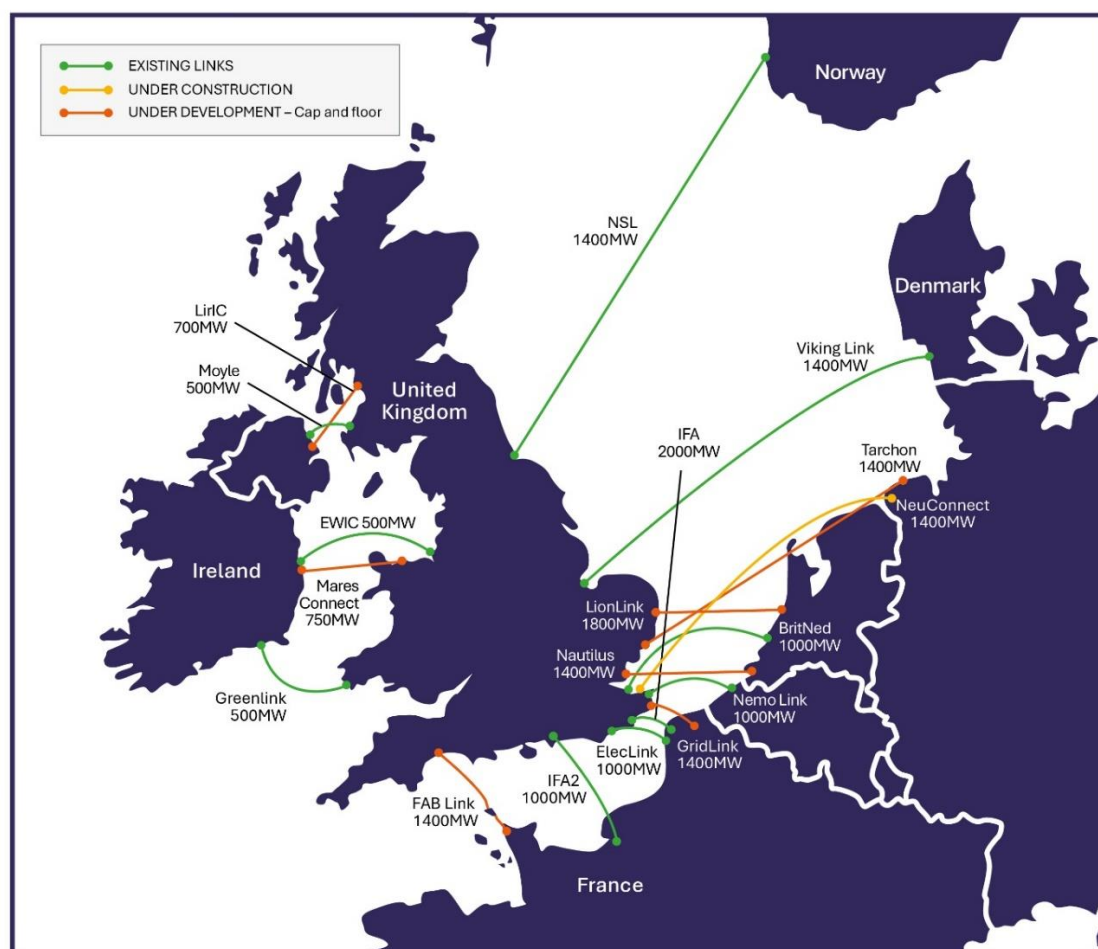


Figure 1: A map of existing interconnectors and interconnectors under construction and development.

- 1.3 The Viking Link interconnector started commercial operations on 29 December 2023 and is the fourth operational project to be regulated under our cap and floor regime, after Nemo Link, IFA2 and NSL. Viking Link is a Window 1 project.
- 1.4 The Viking Link project is jointly owned and operated by National Grid Interconnector Holdings (**NGIH**) and Energinet, the Danish TSO. Our cap and floor regime applies to National Grid's 50% share in the Viking Link project. Energinet's share in the project is regulated by the Danish regulator, Danish Utility Regulator (**DUR**).

Our cap and floor regime

- 1.5 The cap and floor regime is the regulated route for interconnector development in GB. It sets a minimum and maximum return that interconnector developers can earn. There are three main stages to our cap and floor assessment framework, shown in **Figure 2** below.

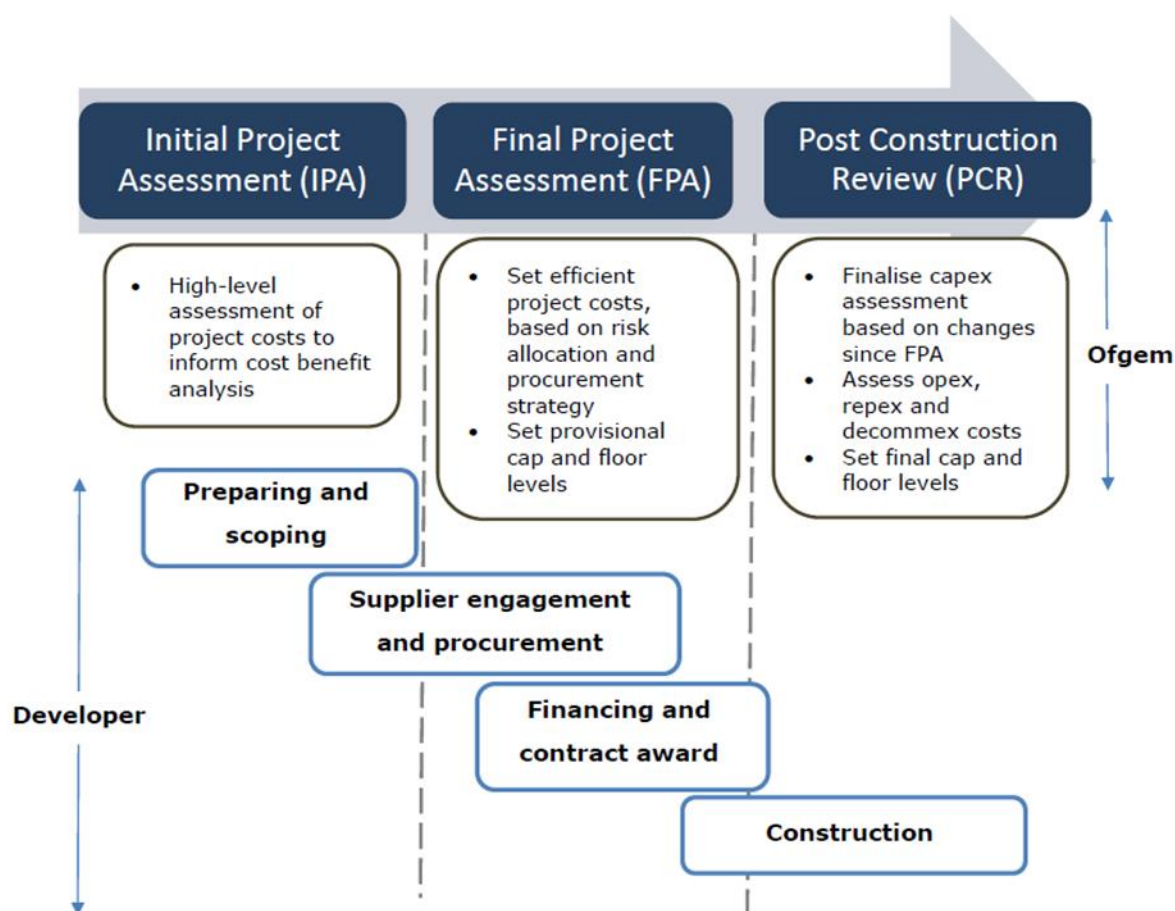


Figure 2: Cap and floor assessment framework.

- 1.6 The **Initial Project Assessment (IPA)** stage is when we assess the needs case for new interconnector projects. This is predominately an economic assessment, taking into account the total costs and benefits of new interconnectors and assessing the likely impacts on consumers.
- 1.7 At the **Final Project Assessment (FPA)** stage, we confirm the grant of a cap and floor regime and set the preliminary cap and floor levels. We assess the economic and efficient costs associated with developing, constructing, operating, maintaining and decommissioning of the interconnector. We also set the project's financial parameters, develop a project-specific financial model, and set the values for incentives.
- 1.8 The cap and floor levels are then confirmed at the **Post Construction Review (PCR)** stage, when we revisit aspects of our cost assessment that were not fixed at the FPA stage and assess the efficiency of certain costs incurred during construction. We conduct a review of the final capex and consider the efficiency

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of the interconnector's opex. We also re-examine any information or aspects of the initial submission that have changed significantly.

- 1.9 In July 2015, we granted NGVL a cap and floor regime in principle at our IPA stage⁷, which we then confirmed at our FPA stage in September 2020⁸. In December 2023, we made licence changes to give practical effect to that decision⁹. The licence specified preliminary cap and floor levels of £111.55 million and £61.70 million (in real 2019-20 prices), which applies to NGVL's 50% share of the project. The licence provides for the final cap and floor levels for Viking Link to be set following our determination of the PCA terms at the PCR stage.¹⁰
- 1.10 The determined PCA terms adjust the preliminary cap and floor levels (whether upwards or downwards) to account for the difference between:
- Our estimate, assumed in the preliminary cap and floor levels for Viking Link, of the costs associated with developing, constructing, operating, maintaining and decommissioning Viking Link; and
 - Our assessment of these costs at the PCR stage (when the majority of the development and construction costs have been incurred).
- 1.11 The determined PCA values are used to calculate the final cap and floor levels for Viking Link. The final cap and floor levels then remain fixed for the duration of Viking Link's cap and floor regime, subject to any specific adjustments.¹¹
- 1.12 In March 2024, we received NGVL's initial PCR submission which included NGVL's initial proposed values for the PCA terms. We received an update with

⁷ [Cap and floor regime: Initial Project Assessment for the FAB Link, IFA2, Viking Link and Greenlink interconnectors](https://www.ofgem.gov.uk/consultation/cap-and-floor-regime-initial-project-assessment-fab-link-ifa2-viking-link-and-greenlink-interconnectors): <https://www.ofgem.gov.uk/consultation/cap-and-floor-regime-initial-project-assessment-fab-link-ifa2-viking-link-and-greenlink-interconnectors>

⁸ [Decision on the Final Project Assessment of the Viking Link interconnector to Denmark](https://www.ofgem.gov.uk/decision/decision-final-project-assessment-viking-link-interconnector-denmark): <https://www.ofgem.gov.uk/decision/decision-final-project-assessment-viking-link-interconnector-denmark>

⁹ [Statutory consultation: Decision on changes to the electricity interconnector licence held by National Grid Viking Link Limited \(NGVL\)](https://www.ofgem.gov.uk/decision/statutory-consultation-decision-changes-electricity-interconnector-licence-held-national-grid-viking-link-limited-ngvl): <https://www.ofgem.gov.uk/decision/statutory-consultation-decision-changes-electricity-interconnector-licence-held-national-grid-viking-link-limited-ngvl>

¹⁰ Relevant provisions are included in Special Condition 8: Process for determining the value of the Post Construction Adjustment terms and Special Condition 2: Cap Level and Floor Level. The PCA terms consist of two terms – the PCAC and the PCAF.

¹¹ The regime allows for a revision of the final cap and floor levels after no less than 10 years from the start of the regime to re-assess and benchmark the opex forecast submitted at the PCR stage. This can be triggered either by NGVL or Ofgem. If required, there can be multiple revisions to re-assess the decommissioning costs forecast submitted at the PCR stage.

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the proposed final values for the PCA terms from NGVL in its June 2024 RIGs submission. NGVL provided a final cost update in September 2024, containing risk costs that had materialised. Our November 2024 PCR consultation considered all submitted costs and set out our minded-to position on the proposed PCA values and proposed final cap and floor levels.

Related publications

[Decision on the Initial Project Assessment of the FAB Link, IFA2 and Viking Link interconnectors | Ofgem](#)

Published: July 2015

[Decision on the Final Project Assessment of the Viking Link interconnector to Denmark | Ofgem](#)

Published: September 2020

[Statutory consultation: Decision on changes to the electricity interconnector licence held by National Grid Viking Link Limited \(NGVL\) | Ofgem](#)

Published: December 2023

[Post Construction Review of the Viking Link interconnector to Denmark | Ofgem](#)

Published: November 2024

[Cap and Floor Regime Handbook 2024 | Ofgem](#)

Published: December 2024¹²

[Decision on the Post Construction Review of the NSL Interconnector to Norway | Ofgem](#)

Published: September 2023

[Decision on the Post Construction Review of the IFA2 interconnector to France | Ofgem](#)

Published: August 2022

[Decision on the Post Construction Review of the Nemo Link interconnector to Belgium | Ofgem](#)

Published: December 2019

¹² This handbook has been updated since the Viking Link PCR consultation.

Our decision-making process

1.13 This decision sets out:

- Our final view on Viking Link's PCR, in particular our determination of the values for the PCA terms and the final cap and floor levels for the project. The determined PCA values and final cap and floor levels are specified in the direction attached at Appendix 1;
- Related changes made to the special conditions in NGVL's licence to reflect the changes in the governance arrangements and updates made to Viking Link's Cap and Floor Financial Models (**CFFMs**) as well as updates to certain defined terms in NGVL's licence, including Floor Start Date.

1.14 The relevant licence modification notice is attached in Appendix 2. Viking Link's Cap and Floor Financial Model 1 (**CFFM1**) and Cap and Floor Financial Model 2 (**CFFM2**) and associated handbooks are attached in Appendices 3 and 4.

Structure of this document

1.15 The rest of this document is structured as follows:

Section 2 – Summary of our PCR decision

1.16 This section provides a summary of our final review of Viking Link's costs and our determination of the values of the PCA terms and final cap and floor levels, including an overview of the relevant cost variations.

Section 3 – Main points raised during consultation

1.17 This section addresses the key issues raised by the respondent to the November 2024 PCR consultation concerning the following areas:

- Our proposed cost allowances at consultation stage; and
- Proposed changes to NGVL's special licence conditions.

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Decision-making stages

- 1.18 The consultation on Viking Link’s PCR and related documents closed on 18 December 2024. We have reviewed the response received, which has been published alongside this consultation.

Date	Stage description
08/11/2024	Stage 1: Consultation open
18/12/2024	Stage 2: Consultation closes (awaiting decision), Deadline for responses
11/07/2025	Stage 3: Responses reviewed and published
11/07/2025	Stage 4: Consultation decision

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We’d also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

2. Summary of our PCR decision

This section outlines any changes between our minded-to position (in our November 2024 consultation) and our final decision, following consideration of responses.

It also provides a summary of our cost assessment process and final position on project costs, the determined values for the PCA terms and final cap and floor levels for Viking Link.

Key changes between our minded-to position and final decision

- 2.1 We have considered the issues raised by consultation respondents and none of our minded-to positions have changed.
- 2.2 Below we provide more detail on the factors that we have considered in reaching a final view; an overview of the cost assessment process; and final position on the project costs, the determined values for the PCA terms and final cap and floor levels for Viking Link.

Cost assessment summary

- 2.3 In its PCR submission, NGVL proposed upward adjustments to the preliminary cap and floor levels of £16.50 million and £16.71 million (in real 2019-20 prices), respectively.
- 2.4 In our November 2024 consultation, we proposed:
- to set a combined capex and devex value at £691.9 million in real 2019-20 prices, a decrease of £12.2 million from NGVL's PCR submission;
 - to set the opex value at £913.6 million in real 2019-20 prices, which remains unchanged from the opex values in NGVL's PCR submission; and
 - consequently, to revise and adjust the PCA values at the cap and floor, submitted by NGVL, downwards by £6.91 million and £2.33 million, respectively.
- 2.5 Following consideration of the received consultation response, our view has not changed and we have decided to proceed with our provisional PCR position, as detailed above.
- 2.6 **Table 2** below shows a summary of project costs at FPA and at the PCR decision stage.

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Table 2: Summary of GB share of project costs (£ million, 2019-20 prices)

Item	NGVL FPA submission	Ofgem FPA decision	NGVL PCR submission	Ofgem minded to position	Ofgem final decision
Devex	22.5	22.5	22.5	22.5	22.5
Capex – Firm costs	670.5	664.0	680.9	669.4	669.4
Capex - Risks	92.0	69.3	0.6	0.0	0.0
Total	785.0	755.9	704.0	691.9	691.9
Opex	452.7	452.7	913.6	913.6	913.6
Repex	30.9	28.6	46.7	46.7	46.7
Decommex	85.6	85.6	49.4	49.4	49.4
Total	569.2	566.9	1009.7	1009.7	1009.7
MRC ¹³	0.0 ¹⁴	0.0	144.3	144.3	144.3

2.7 **Table 3** below sets out the preliminary cap and floor levels, the adjustments to these levels proposed by NGVL, our provisional and final determination of these adjustments and the corresponding impacts on the final cap and floor levels.

Table 3: Adjustments to the preliminary cap and floor levels (£ million, 2019-20 prices)

Item	Cap	Floor
NGVL's preliminary cap and floor levels	111.55	61.70
NGVL's proposed PCA values	+16.50	+16.71
Cap and floor levels using NGVL's proposed PCA values	128.05	78.41

¹³ Market Related Cost (MRC) is a pass-through cost and deducted from revenue in the year it is incurred. It does not affect the cap and floor levels.

¹⁴ No values for MRC were submitted at FPA.

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Ofgem provisional determination of the PCA values	+9.58 ¹⁵	+14.38 ¹⁶
Cap and floor levels using our provisionally determined PCA values	121.13	76.08
Ofgem final determination of the PCA values	+0.00	+0.00
Final cap and floor levels	121.13	76.08

Final capex cost adjustments

2.8 The capex submitted by NGVL at the 2019 FPA was £762.5 million, whereas the value submitted at PCR was £681.5 million, a decrease of £81.0 million. In our November 2024 consultation, we proposed to make reductions totalling £12.2 million to the submitted PCR value.

2.9 After consideration of the consultation response, we are not modifying our minded-to position. We are setting the final capex allowance at £669.4 million.

Final opex and post-construction cost adjustments

2.10 Our November 2024 consultation proposed to not make any reductions to the opex, repex, decommex, and MRC values in NGVL's PCR submission.

2.11 After consideration of the consultation response, we are not modifying our minded-to position. We are setting the final opex allowance at £913.6 million, the final repex allowance at £46.7 million, the final decommex allowance at £49.4 million, and the final MRC allowance at £144.3 million.

Final values for the Post Construction Adjustment (PCA) terms

2.12 The values of the PCA terms represent the difference between the preliminary cap and floor levels set at the FPA stage and the final cap and floor levels set at the PCR stage.

2.13 **Table 4** below sets out our decision on the PCAC and PCAF.

¹⁵ Of this £9.58 million PCAC term, £0.03 million was due to the recalculation of the IDC.

¹⁶ Of this £14.38 million PCAF term, £0.01 million was due to the recalculation of the IDC.

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Table 4: PCA values (£ million, 2019-20 prices)

Item	Developer submission	Ofgem minded to disallowances	Consultation minded to position	Ofgem final disallowances	Final decision
PCAC	16.50	6.91	9.58 ¹⁷	6.91	9.58
PCAF	16.71	2.33	14.38 ¹⁸	2.33	14.38
Cap	128.05	6.91	121.13	6.91	121.13
Floor	78.41	2.33	76.08	2.33	76.08

¹⁷ Of this £9.58 million PCAC term, £0.03 million was due to the recalculation of the IDC.

¹⁸ Of this £14.38 million PCAF term, £0.01 million was due to the recalculation of the IDC.

3. Key issues raised in consultation responses

This section addresses the key points raised in responses to the November 2024 consultation.

- 3.1 This section sets out views on the key issues raised in response to the November 2024 consultation, specifically:
- guaranteed vessel availability costs;
 - the extension to the warranty period of a section of cable at UK landfall;
 - acceleration works costs;
 - intermediate High Voltage (**HV**) testing costs;
 - the disallowance of the Delay in Start-Up (**DSU**) insurance;
 - costs of the UK food subsidy scheme;
 - the disallowance of the launch event costs;
 - the treatment of the remaining risk budget;
 - the additional Unexploded Ordnance (**UXO**) survey option; and
 - application of Corporation Tax.
- 3.2 We received one response to the November 2024 consultation from NGIH. The response has been published on the consultation page.
- 3.3 We consider below the key issues raised in response to the November 2024 consultation and provide our views.

Guaranteed vessel availability

- 3.4 NGIH disagrees with this cost being disallowed and believes that the cost associated with having a vessel on standby to be available for any remedial works in case of a cable fault was economic and efficient. This is due in part to the current lack of vessel availability and the potential negative financial impact on NGVL that may result due to a prolonged outage if a vessel is not available at short notice.
- 3.5 Ofgem's view, based on the information provided by NGVL, is that the potential risk of cable damage requiring immediate repair or replacement did not warrant a vessel to be on standby over this time period. The level of cost incurred to the consumer during this period for the vessel to be on standby fails to meet the threshold for what we would consider economic and efficient. As a result, we maintain our position on disallowing £2.0 million for the standby vessel payments.

Extension to warranty period of a section of cable at UK landfall

- 3.6 NGIH disagrees with this cost being disallowed and consider that extending the warranty is in the best interests of the consumer. NGIH were able to evidence to the contractor that there was an increased risk of fault on the cable. However, due to insufficient evidence of liability they were unable to pass the associated costs for the damage to the cable on to the contractor.
- 3.7 The cost of the extension of the warranty period is a direct result of damage to the cable during the installation. The consumer should not be liable for costs associated with contractor error and should therefore not be exposed to additional costs for potential damage caused by the contractor during cable laying. It is the developer's responsibility to prove liability of the relevant contractor and recoup the additional costs that were incurred from that contractor. We maintain our position not to include the additional coverage cost of £4.0 million.

Acceleration works

- 3.8 NGIH disagrees with the disallowance and categorisation of the cost associated with accelerating the schedule of one of the project's contractors. They state that bringing forward the contractor's work avoided an overlap with work being carried out by another contractor.
- 3.9 We expect all works to be scheduled efficiently to avoid any interface issues occurring which may have an impact on productivity. It is Ofgem's position to consider acceleration costs inefficient. Additional expenditure has been incurred to avoid this interface issue and our view remains that this was avoidable. We maintain our position not to include this cost of £0.6 million.

Intermediate High Voltage (HV) testing

- 3.10 NGIH disagrees with the disallowance of the cost of the intermediate HV testing and requested further clarity on the rationale for the disallowance, as they did not consider this should be classed as an acceleration cost. The intermediate testing was added to the programme to test the assets at set points in the process to help mitigate any delays that may have incurred if faults occurred during end-to-end testing.
- 3.11 The additional cost incurred in bringing forward HV testing in the programme at additional stages to pre-empt any issues with the asset were considered to be acceleration when initially identified and again within the consultation. It remains Ofgem's opinion that this was an acceleration cost, and we view the

increased testing of the assets to be duplication of work. We maintain our position not to include this cost of £0.2 million.

Delay in Start-Up (DSU) insurance

- 3.12 NGIH consider that DSU insurance could provide significant benefits to consumers if included within the scope of the cap and floor regime. They also acknowledge that Ofgem has held a consistent approach towards DSU insurance and that our approach set out in the consultation is part of a longstanding policy position on this issue.
- 3.13 We have not yet been provided evidence that this insurance provides a tangible benefit to consumers. We maintain our position not to include this combined cost of £3.9 million.

UK food subsidy scheme

- 3.14 Costs associated with a food subsidy scheme for contractors were included within NGVL's PCR submission. NGIH stated that this cost is justifiable as a cared-for workforce can translate into increased productivity and stressed the importance of wellbeing within the construction industry.
- 3.15 The costs for inclusion within the cap and floor should relate to the development, construction and operation of the interconnector. We remain of the view that this sits outside the scope of the costs that can be considered for inclusion within the cap and floor levels and maintain our position not to include this cost of £0.1 million.

Launch event

- 3.16 NGIH recognises that Ofgem is inclined not to include costs associated with launch events. NGIH argues that such events provide indirect benefits to the consumer by strengthening public and political support for interconnection.
- 3.17 We maintain our position as set out in the consultation that launch events do not offer the consumer any tangible benefit and therefore the associated costs should not be reflected in the cap and floor. This treatment is in keeping with previous projects and we remain of the view that the consumer does not benefit from launch events. We maintain our position not to include this cost of £0.4 million.

Remaining risk budget

- 3.18 At consultation we stated our position that for the PCR, no risk budget should remain or be as close to zero as possible. Only risks materialising shortly after

submission would be considered by Ofgem to be included within the cap and floor. NGIH recognises the guidance on this issue is clear and that any remaining budget will not be included within the cap and floor as per the guidance.

- 3.19 As a result of this, we maintain our position not to include this cost of £0.6 million.

Additional Unexploded Ordnance (UXO) survey option

- 3.20 In the FPA submission, an option to undertake an additional UXO survey was provided within the contract. This option was not required and an additional UXO survey was not carried out. The costs associated with this option were included which NGIH confirmed were included in error.

- 3.21 As a result of this, we maintain our position not to include this cost of £0.5 million.

Corporation Tax

- 3.22 In our November 2024 consultation we outlined our position to maintain the existing regime design, whereby the Corporation Tax (**CT**) rate is determined at time of Final Investment Decision (**FID**).

- 3.23 NGIH stated that it does not agree with this view as, due to the recent increase in CT rate levels (from 19% to 25%), the cap and floor levels do not reflect the CT rate HM Treasury (**HMT**) announced in 2023.

- 3.24 Furthermore, NGIH stated that this treatment of tax rates has been changed for Window 3 interconnectors, aligning with the RIIO regime.

- 3.25 NGIH proposed a mechanism to periodically vary the CT and capital allowance rates through the regime period to reflect actual HMT rates and the following two alternative options relating to a fixed CT rate for the regime duration:

- The prevailing view of HMT CT rate(s) for the duration of the regime period, at the time that Ofgem publishes the PCR consultation (i.e. the point in time when the cap and floor levels are being finalised); or
- The prevailing CT rate on the date at which the interconnector entered operations.

- 3.26 While we acknowledge that there has been an increase in the CT rate and a decrease in the capital allowance rate since FID was taken for the Viking Link project in 2018, the cap and floor regime was designed to give developers sufficient certainty in advance around specific parameters that feed into the cap

and floor model. This approach fixed certain parameters including the CT rate at the time of FID, for the duration of the regime to provide certainty to investors. In addition, we note that the cap and floor regime seeks to protect developers via the floor level from any material change in financial parameters that could adversely affect revenue.

- 3.27 Our policy on the CT rate used for the purposes of calculating cap and floor tax allowances remains that it is set at FID based on the HMT tax guidance at the time, taking into consideration any public statements from HMT on future movements.
- 3.28 We maintain our minded-to position to uphold the current regime design in relation to the CT rate.

Related changes to NGVL's special licence conditions

- 3.29 We proposed to make changes to the special licence conditions in NGVL's electricity interconnector licence to reflect changes in governance arrangements of the CFFMs and update definitions.
- 3.30 At Viking Link's FPA, the Cap and Floor Financial Model (CFFM) had already been split into two separate models: Cap and Floor Financial Model 1 (CFFM1) and Cap and Floor Financial Model 2 (CFFM2). In the context of the Viking Link project:
- VLCFFM1 – used to determine the final cap and floor levels at PCR stage, following the final assessment of costs for developing, building, maintaining, operating and decommissioning the interconnector project; and
 - VLCFFM2 – used during the operational period to adjust cap and floor levels (where required following revision of the baseline allowance for controllable operating costs or decommissioning costs) and to inflate cap and floor levels annually; to reflect performance relative to NGVL's availability targets; to assess, at the end of each default 5-year assessment period, actual revenue earned by NGVL against the adjusted cap and floor levels, and actual non-controllable operating costs against the baseline level, to determine whether NGVL's revenues should be 'topped up' to the floor level or whether excess revenue (above the cap level) should be returned to consumers. A minor update has been made to the VLCFFM2 to align the dates of the regime.
 - The VLCFFM1, VLCFFM2 and associated handbooks can be found in Appendix 3 and 4.
- 3.31 We also proposed a number of other minor consequential changes, including:

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- updating the definition of “Floor Start Date” to reflect the date specified in a direction issued by the Authority to the licensee in accordance with paragraph 11(b) of Special Condition 2: Cap Level and Floor Level; and
- updating the definition of “Full Commissioning Date” to reflect the date on which NGVL had satisfied the criteria specified in paragraph 7(a) of Special Condition 2 of its licence.

3.32 As a result of changes described above, we proposed to modify the special licence conditions of NGVL’s licence in the manner shown in Schedule 1 to reflect these changes in governance arrangements and the consequential changes as described above.

3.33 We note that no concerns were raised in respect of these proposed licence modifications, and we confirm our decision to proceed with these changes. The licence modifications can be found in attached Schedule 1.

Appendices

Documents published alongside this decision

Document	Description
Appendix 1	Direction to determine PCA terms for the Viking Link interconnector
Appendix 2	Direction to modify special conditions of the electricity interconnector licence held by National Grid Viking Link Limited Schedule 1 – Modifications to the special conditions of the electricity interconnector licence held by NGVL
Appendix 3	VLCFFM1 Schedule 2 – Viking Link Cap and Floor Financial Model 1 Handbook (VLCFFM1H)
Appendix 4	VLCFFM2 Schedule 3 – Viking Link Cap and Floor Financial Model 2 Handbook (VLCFFM2H)