

Call for input

Future Strategic Approach to Interconnection

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The energy system is evolving rapidly, and interconnection plays a critical role in delivering secure, affordable, and low-carbon electricity. To ensure future arrangements are fit for purpose, we are seeking views from industry on the most effective delivery and financing approaches for interconnector projects.

This Call for Input aims to gather perspectives on how strategically planned delivery and financing models for interconnection could operate, including the role of competition within this model, and how innovation and investment can be supported. This framework will only apply to those projects that are identified through strategic planning. Projects that have already received regulatory approval will continue under the regimes through which they were approved. Your feedback will help shape a framework that balances efficiency, resilience, and consumer benefit while aligning with the wider system planning context.

We welcome responses from all stakeholders, including developers, investors, system operators, National Regulatory Authorities and consumer representatives. Your insights will inform our next steps in designing a delivery and financing approach for interconnection that meets the challenges and opportunities of a decarbonised energy future.

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1. Introduction

This section outlines the rationale behind the Call for Input, background context, and the process for responding.

Purpose of this call for input

- 1.1. The role of interconnection and the way it is delivered are changing as we move towards a strategically planned energy system through the National Energy System Operator's (**NESO's**) Strategic Spatial Energy Plan (**SSEP**) and Centralised Strategic Network Plan (**CSNP**).
- 1.2. A system-led delivery approach will provide a clearer route to achieving whole system optimisation and wider socioeconomic benefits. By coordinating interconnector development with the SSEP and CSNP, this approach can better manage interactions with the wider network, mitigate constraint costs, and support efficient and coordinated design choices.
- 1.3. The move from a developer-led to a strategically-led approach to the planning of interconnection is a fundamental change, which will mean that NESO will determine the location, timing, and capacity of new interconnection. This could lead to a notable change in the type of interconnector projects developed. For example, there may be a greater emphasis on developing interconnector projects that have strong strategic benefits.
- 1.4. To date, interconnection has been delivered through our Cap and Floor regime or merchant route via a developer led approach. While this approach has unlocked significant deployment of required interconnection so far, with the shift to a strategically planned network it is appropriate to consider the most beneficial enduring approach. Additionally, with the possible changes to interconnector delivery routes as we move to a strategically planned system, there is also a need to look again at the financing of interconnector projects.
- 1.5. Before the introduction of the Cap and Floor regime in 2014, only four interconnectors had been built in Great Britain (**GB**). Since 2014, the Cap and Floor regime has enabled 5.3GW of new interconnection capacity for GB, connecting with Belgium, France, Germany, Denmark, Norway, and Ireland. Five new interconnectors are operational, one further interconnector is under construction, and seven other interconnectors have received regulatory approval.
- 1.6. Since 2014, interconnector projects in GB have largely been financed through the Cap and Floor regime, which has successfully delivered increased interconnection capacity, increased connections to European countries, and

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widened the pool of interconnector investors. So far, no project has required a floor payment, and various projects have returned revenues above the cap to consumers, amounting to over £200m since the Cap and Floor model was introduced.

- 1.7. Through this Call for Input we are seeking early views on how interconnector delivery and financing should evolve to reflect a more centralised, strategically-planned energy system. We are particularly interested in how future delivery arrangements can balance innovation, competition, cost efficiency, and deliverability, as well as any additional factors that should be considered to ensure future interconnection remains investable.
- 1.8. For financing, we are particularly interested in exploring the opportunities and limitations of the Cap and Floor and Regulated Asset Base (**RAB**) models, key financing parameters (such as pre-operation revenue, availability incentives and performance incentives), as well as any other factors that should be considered to ensure future interconnection remains financially viable.
- 1.9. This Call for Input is inclusive of point-to-point interconnectors (**P2P**) and Offshore Hybrid Assets (**OHA**s) - Multi-Purpose Interconnectors (**MPI**s) and Non-Standard Interconnectors (**NSI**s).¹

Context and related publications

- 1.10. In 2010, Ofgem published its *Electricity Interconnector Policy Consultation*,² setting out the state of GB interconnection at the time which had limited capacity in place and relied exclusively on the merchant route for project development. The publication signalled a clear intent to evaluate this existing approach and provided early proposals on future regulatory investment, considering EU market integration and the growth in renewables.
- 1.11. Between 2011 and 2014, Ofgem developed the first Cap and Floor regulatory regime for the GB-Belgium interconnector, Nemo Link, introducing a new regulated framework for interconnection. This policy development was shaped by two key publications: the *Cap and Floor Regime for Regulation of New Subsea Interconnector Investment*³ of 2011, which identified increasing limitations in the merchant model and set out options for alternative

¹An OHA is offshore electricity infrastructure with dual functionality combining transport of offshore wind energy to shore and interconnectors. A NSI is an OHA connected to an offshore generator in the connecting jurisdiction but not in GB, which will conduct interconnection activities in GB and the connecting jurisdiction as well as offshore transmission activities only in the connecting state. A MPI is an OHA connected to an offshore generator in GB, which will conduct interconnection activities in GB and the connecting state, as well as offshore transmission activities in GB (and optionally in the connecting state).

² [Interconnector Policy Consultation](#)

³ [Cap and floor regime for regulation of project NEMO and future subsea interconnectors | Ofgem](#)

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regulatory approaches, followed by Ofgem’s *Nemo Link Interconnector Investment Framework: Preliminary Conclusion Letter*⁴ of 2011, which established the principles for a coordinated regime design.

1.12. *The Integrated Transmission Planning and Regulation Project: Review of System Planning and Delivery (ITPR)*⁵ of 2013, part of Ofgem’s wider Integrated Transmission Planning and Regulation project which ran between 2013 and 2015, explored different approaches for the identification and delivery of future interconnection. This outlined the potential value of a centrally determined approach to interconnection and the wider network. However, at that time, we were confident that the market signals and commercial incentives were strongly aligned with the social value of new interconnection projects, hence the 2014 decision to extend the Cap and Floor regime, as outlined in the *decision to roll out a cap and floor regime to near-term electricity interconnectors letter*⁶.

1.13. In 2021, the *Interconnector Policy Review: Decision*⁷ (ICPR) set out Ofgem’s position that, in the longer-term regime, interconnector planning should be integrated within more strategic network planning processes, with the outputs of those processes informing future investment. This is intended to ensure that the right projects come forward in the right locations and at the right time, to support the transition towards a net zero energy system and maximise consumer benefits. In the near term, Ofgem decided to open an interim window for those projects aiming to connect by 2030, with locational signalling forming part of the analysis.

1.14. In 2024, NESO began developing the SSEP, the first of its kind, whole system spatially optimised view of GB’s future generation, storage and hydrogen infrastructure needs. The *Strategic Spatial Energy Plan Methodology*⁸, published in May 2025, sets out the analytical approach, modelling framework and key assumptions that will underpin the plan.

1.15. The CSNP was commissioned to build a detailed and coordinated network build plan, identifying asset type, location and delivery timescales of transmission assets. In June 2025, NESO published the draft CSNP Methodology⁹ and ran the public consultation between June and August 2025, with the final methodology

⁴ [Preliminary conclusions on the regulatory regime for project NEMO and future subsea electricity interconnector investment | Ofgem](#)

⁵ [The Integrated Transmission Planning and Regulation Project: Review of System Planning and Delivery report](#)

⁶ [Decision to roll out a cap and floor regime to near-term electricity interconnectors](#)

⁷ [Interconnector Policy Review - Decision | Ofgem](#)

⁸ [SSEP Methodology May 2025](#)

⁹ [CSNP Draft Methodology](#)

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due soon. Ofgem’s CSNP guidance, published in November 2025¹⁰, sets out NESO’s obligations and requirements in delivering the plan.

- 1.16. Alongside this Call for Input, DESNZ have published a document on the next steps for Interconnection in GB, utilising themes from Ofgem’s future strategy work.

Overview

- 1.17. The intention of the future regulatory approach is to determine the way forward for interconnection in a strategically planned world, with NESO leading the strategic planning and Ofgem aiming to align the regulatory frameworks, to support coordinated delivery. Delivery arrangements will be tailored to ensure that the right projects are brought forward at the right time, with appropriate consideration of technical, financial and regulatory factors.
- 1.18. Our future approach to interconnector regulation will apply to the delivery and financing of all relevant asset types (P2P, MPI, NSI). Where the SSEP recommends interconnection, we expect that the CSNP will determine whether it could be delivered optimally as an OHA or a P2P interconnector. We anticipate that for interconnection the CSNP will identify; the connecting zone in GB and connecting market, the asset capacity, asset and technology type and the commissioning timeline.
- 1.19. Ofgem’s role will be to ensure that regulatory frameworks are aligned to support this coordinated approach. Financing models will be developed to reflect whole-system value, balancing innovation and competition with the need for cost efficiency and robust delivery. The frameworks will be designed to attract investment while maintaining value for money for consumers and will be adaptable to the diverse asset types involved.
- 1.20. A core aim of the future regulatory approach is to ensure that interconnection projects remain investable, by providing clear, stable frameworks and transparent planning processes. By aligning delivery and financing with strategic system needs, the approach will support the development of a resilient, efficient, and future-proof energy network, delivering long-term value for consumers and contributing to national net zero ambitions.

Call for input stages

Stage 1 Call for input opens: 25 March 2026

Stage 2 Call for input closes. Deadline for responses: 1 May 2026

¹⁰ [Centralised Strategic Network Plan guidance 2025](#)

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Stage 3 Responses reviewed and published.

Stage 4 Call for input outcome (decision, policy statement, or consultation)

How to respond

We want to hear from anyone interested in this call for input. Please send your response to the person or team named on the front page of this document before the response deadline.

We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

We will publish non-confidential responses on our website.

Your response, data, and confidentiality

You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information. For example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations, or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will contact you to discuss which parts of the information in your response should be kept confidential and which can be published. We might ask for reasons why.

If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the United Kingdom's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 2.

If you wish to respond confidentially, we will keep your response confidential, but we will publish the number, but not the names, of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

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How to track the progress of a call for input

1. Find the web page for the call for input you would like to receive updates on.
2. Click 'Get emails about this page', enter your email address and click 'Submit'.
3. You will receive an email to notify you when it has changed status.

A call for input has two stages: 'Open' and 'Closed'.

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2. Future Delivery Approach

This section outlines the delivery options we are exploring as part of the future regulatory approach. We are seeking views on the options we have been developing.

Criteria for Success

- 2.1 The Future Delivery Approach (**FDA**) is a subset of the wider work on the future regulatory approach. This aspect of the work is based around identifying the optimal delivery approach for strategically planned interconnection, including the type of competition to be enabled and the specific route to market.
- 2.2 The FDA for interconnection must deliver outcomes that are strategically aligned, investable, and beneficial for consumers. These criteria define what success looks like and, alongside Ofgem's statutory duties and objective, provide a framework for evaluating options and guiding implementation of the FDA.
- 2.3 **Primary Success Criteria:** Core purpose of the FDA
- **Value for Money for Consumers**
The approach must safeguard consumer interests by minimising unnecessary costs and ensuring that interconnection provides measurable benefits to GB consumers.
 - **Alignment with Strategic Planning**
The FDA must be structured to effectively implement the outputs of strategic planning, ensuring coherence with long-term system needs and strategic priorities.
 - **Market Participation**
Developers should view the FDA as an attractive opportunity for investment, with appropriate risk-reward balance and revenue certainty. The framework will need to support a range of possible financing models, including those under review in the Future Financing Approach (FFA) (Section 0).
 - **Competitive Tension**
The FDA must preserve and promote a competitive market environment, encouraging efficiency and innovation.
- 2.4 **Supporting Success Criteria:** Critical contributors to success
- **European Project Desirability**
The FDA should support projects that are desirable to European partners, ensuring they are likely to receive regulatory approval from the connecting country.

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- **European Regulatory Coordination**

The FDA should consider how the regulatory framework is aligned and coordinated with EU regulatory frameworks, while reflecting GB's unique system requirements.

- **Innovation**

The approach should allow innovation in the implementation of new interconnection, while remaining aligned with strategic planning.

Questions for Stakeholders

Q1. Do you agree that these Criteria for Success cover the most important aspects of future interconnector delivery? If not, why? Are there other Criteria for Success that we should consider?

Type of Competition

- 2.5 **Definition:** In this context, competition refers to the point at which developers or investors are invited to bid for the opportunity to deliver strategically planned interconnection.
- 2.6 In this section, we refer to Ofgem, NESO and DESNZ collectively as 'public bodies'. We use the term 'public body' to refer to whichever of Ofgem, NESO or DESNZ may be assigned a particular function, as the detailed allocation of roles is yet to be defined at this early stage.
- 2.7 The type of competition enabled through the FDA will have a significant impact on the following areas:
- **Strategic alignment** (how closely aligned the project is with system needs e.g. CSNP).
 - **Market participation** (how attractive the opportunity is to developers).
 - **Risk allocation** (who bears planning, consenting, and delivery risks).
 - **Innovation and flexibility potential** (where innovation occurs and how much flexibility bidders have).
 - **Assessment complexity** (how easy it is for the authority to compare and assess bids).
- 2.8 Competition can be carried out at different project development stages, as defined in the table below.

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Table 1 - Definitions of competition types

Competition type	Definition
Very early	Competition occurs before a solution is defined (predesign). Developers propose how to meet a system need.
Early	Competition occurs pre detailed design. The public body defines the strategic need, and the developer proposes appropriate delivery solutions.
Late	Competition occurs post design and consents, but pre-construction. Developers compete to build and operate a defined solution.
Very Late	Competition occurs post-construction, pre-operation, and maintenance. Third parties compete to operate and maintain the assets only.

2.9 We consider the existing regulatory framework to align most similarly with a very early-stage competition model, however, with project development beginning prior to the formal identification of a system need.

Discounting very early and very late competition models

2.10 **Very early:** We consider that a very early competition model, where developers propose solutions before a network design is defined, is likely to be incompatible with the delivery of future interconnection projects. This is because it does not allow developers to align their project proposals with NESO's strategic planning exercises, e.g. the CSNP, limiting scope for the optimisation and increasing the risk of adverse impacts on the wider network, such as constraint costs.

2.11 **Very late:** We also consider a very late competition model, where competition is held once assets are constructed, unsuitable for the delivery of future interconnection projects. It would require the public body to take projects to a maturity level beyond their remit and would fundamentally alter the investor profile, given that developers currently operate across all development phases under the existing regime.

Exploring early and late competition models

2.12 To assess the viability of early and late competition models they were evaluated against the themes below, which align with the success criteria identified in Section 2.1.

- **Strategic Alignment:** Under both early and late competition models, the CSNP outputs could inform the criteria for future competition because NESO's strategic plans would be made available in advance of any competitive process. A later competition model may offer greater

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opportunities for alignment with delivery timescales, as projects would be taken to a more advanced stage before competition occurs.

- **Leveraging Developer Expertise:** An early competition model would draw on the expertise of developers by ensuring they retain responsibility for aspects of project development that they already undertake under the existing regulatory framework. This has potential to lessen the administrative burden on public bodies, in comparison to other types of competition.
- **Consenting risk:** Under an early competition model, developers retain responsibility for consenting, consistent with the current approach. A late competition model could involve a public body bringing forward a fully consented project, which may broaden market participation by derisking the development phase.
- **Assessment complexity:** Competition held earlier in the process may involve greater uncertainty, as bidders respond to a less fully defined scope, potentially increasing variability in proposed solutions and the complexity of assessment.
- **Innovation:** Early competition may create more scope for innovation, as bidders can shape project design from an earlier development stage, subject to CSNP parameters. Later competition may limit innovation primarily to delivery methods once design parameters are fixed.
- **European Engagement:** In an early competition model, developers may take on a greater share of engagement with European Transmission System Operators (EU TSOs), leveraging existing relationships. Under a later competition model, more of this engagement will likely sit with the public body ahead of the competition.
- **Market participation:** We consider an early competition model to offer greater scope for developers to shape project design in comparison to a later model. A later model may lower entry thresholds by presenting a more defined and consented project.

Roles and responsibilities

- 2.13 The point at which competition takes place has a direct influence on how roles and responsibilities are divided between public authorities and the developer. The competition models described in this publication are reasonably broad and the specific timing of an early or late competition model will be explored in more detail as policy development continues.
- 2.14 Under an early competition model, the public body undertakes the initial project scoping and high-level design, while developers take forward detailed development work, including in depth surveys, consenting and subsequent

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detailed network design. A greater proportion of project delivery, development risk and project level decision making therefore sits with the developer, aligning more closely with the existing regime. This allows greater developer flexibility and innovation potential.

2.15 Under a late competition model, the public body would typically progress the project to a more advanced stage, having completed surveys, consenting and detailed design work. This decreases the development phase risk for developers, potentially increasing competition and ensures stronger alignment with strategic plans. This could, however, require the public body to take on responsibility for development phases outside of its existing remit and would therefore depend on statutory requirements, resources and further policy work to determine feasibility.

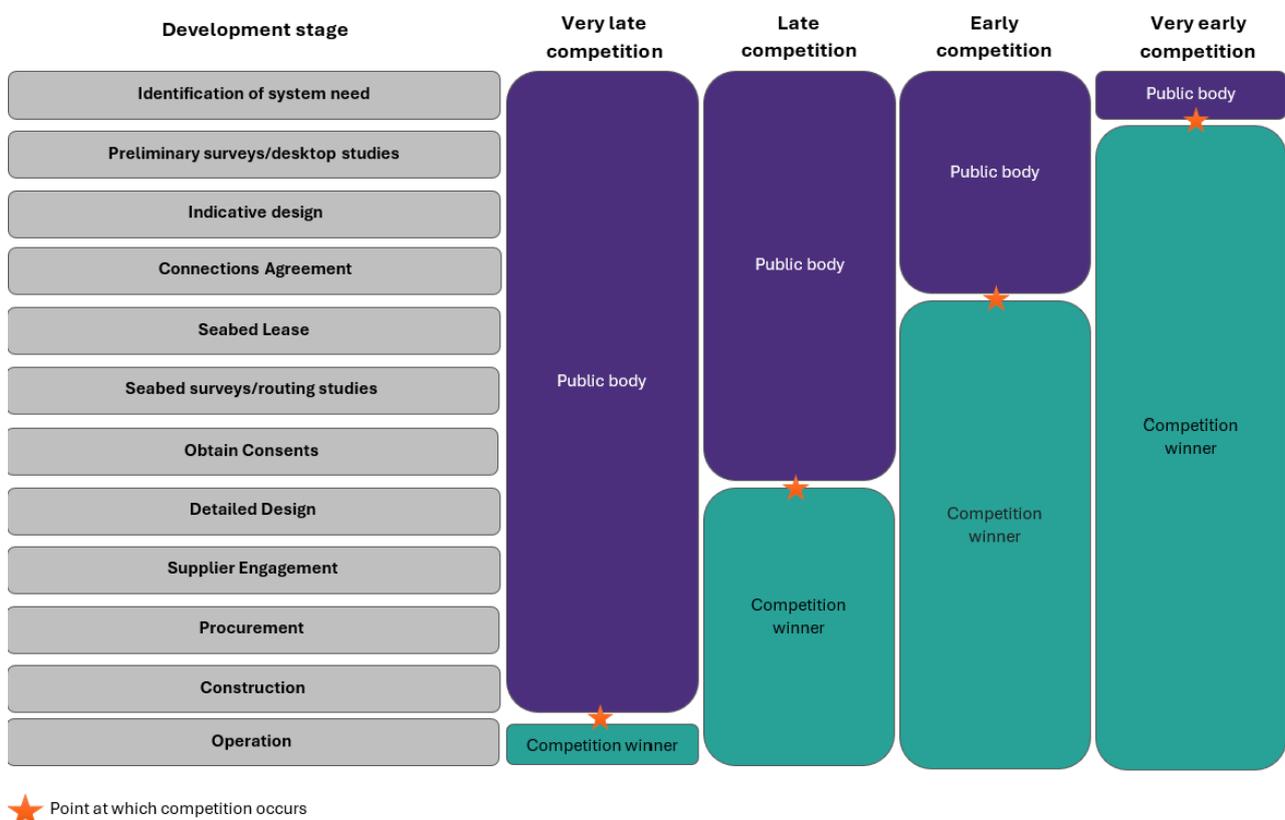


Figure 1: Ownership of development phases under different competition types.

Questions for Stakeholders

- Q2. Do you agree with our view to discount both a very early and very late competition model in the delivery of future interconnection?
- Q3. Do you agree with the way in which we define competition types?
- Q4. Are there any additional key development stages of interconnection delivery that we have excluded from Figure 1?

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- Q5. Do you have a preference on the type of competition we enable through the FDA? If so, why? Where do you see the role of the procuring body ending and project developer beginning for your preferred competition type?
- Q6. How could responsibilities be divided between the public bodies collectively (i.e. Ofgem, DESNZ and NESO) and the project developer across early-stage activities (identifying need, defining parameters, enabling landfall/route options) versus later stage activities (procurement, assessment, delivery oversight)?

Delivery Route

- 2.16 A clear and efficient route to market is essential for delivering interconnector projects under the FDA. This section seeks views on how projects should progress from strategic planning to developer owned, ensuring alignment with regulatory frameworks, competition principles, and investor confidence.
- 2.17 The route for delivery is the mechanism by which we permit projects to come forward for regulatory approval. We have already made the decision to implement a route to market that is aligned with the CSNP, and as we are proposing to discount very early and very late as competition models, the delivery routes identified do not account for these.
- 2.18 Through this process we have investigated three main routes to market, outlined in Table 2.

Table 2: Description of the different routes to market under consideration

Route to Market	Description
Ad-Hoc	Developers bring forward their projects for approval at any point in the year (or during a specific period each year), and the projects would be assessed on an Ad-Hoc basis with application criteria based on the CSNP outputs.
Strategic Window	Developers submit proposals through targeted application windows with criteria based on the CSNP outputs, such as location, connecting country and capacity.
Tender	Competitive tendering process where developers bid on projects put to market based on the CSNP outputs. The interconnectors projects are awarded to developers based on pre-defined criteria and system needs that align with the CSNP.

Evaluation of Delivery Routes

Ad-Hoc

- 2.19 An ad-hoc framework for interconnector projects is characterised by an open and flexible application process, allowing developers to submit proposals at any time consistent with the CSNP outputs, rather than within fixed windows or structured

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tender processes. Under this model, projects are brought forward for assessment on an individual basis, as and when developers are ready, without the opportunity for direct, side-by-side comparison with other proposals. This means each project is evaluated independently, enabling competition via the criteria for assessment rather than by grouped evaluation.

- 2.20 While the ad-hoc framework provides flexibility and responsiveness, it can present challenges for ensuring fairness, optimal outcomes, and alignment with broader strategic goals.

Strategic Investment Window

- 2.21 A Strategic Investment Window would be a structured process in which applications for interconnector projects are invited, assessed, and compared within defined timeframes or “windows”, similar to the way interconnector projects are currently evaluated.
- 2.22 During each window, all submitted applications are evaluated together, allowing for direct comparison and scoring against a set of predefined criteria—such as cost, delivery time, capacity, location, strategic value, and alignment with system needs. This approach would enable a transparent and competitive environment, where projects are assessed on a level playing field, either through direct or weighted scoring scales.
- 2.23 By grouping applications, the Strategic Investment Window would facilitate more effective prioritisation of projects, ensuring that those which best meet the criteria and strategic objectives are advanced. It would also allow for the consideration of system-wide needs, assists with the distribution of awards within a specified timeframe and supports the efficient allocation of resources. The process can be tailored to include stakeholder engagement, clear timelines for submission and decision-making, and feedback mechanisms for applicants.
- 2.24 Ultimately, this approach aims to deliver greater value for consumers, encourage innovation, and ensure that interconnector development aligns with long-term planning and regulatory frameworks.
- 2.25 We would expect the project developer and the EU TSO to have collaborated to bring forward an appropriate bid, much like the current application window approach under the Cap and Floor Regime. The key feature for a strategic investment window outside of the to-date window regime is the alignment of application criteria with the outputs of strategic planning.

Tender

- 2.26 In a tender approach, the process begins with the identification of a specific system need, as determined by the outputs of the CSNP. Once this need is established, a formal tender is launched, inviting developers to submit bids that address the defined requirements that are identified from the CSNP. The tender documentation would outline clear and transparent criteria for evaluation,

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expected to include cost-effectiveness, technical capabilities, and deliverability etc, depending on the competition type enabled.

- 2.27 For example, in an early approach we would anticipate that the projects would be at a less mature stage, with the project developer bidding for the ownership of the project and then going through the detailed development with the relevant EU TSO after the project has been assigned on the GB side.
- 2.28 All submitted proposals would be assessed in a competitive environment, ensuring that each project is evaluated on a level playing field. The assessment process may use direct or weighted scoring to compare submissions against the established criteria.
- 2.29 By linking the tender process directly to the CSNP, this model ensures that project selection is aligned with regulatory frameworks and system priorities. It also supports regulatory objectives for transparency, fairness, and consumer benefit.

Variation for asset classes

- 2.30 The intention is that the high-level delivery framework is inclusive of all asset classes. However, we acknowledge that each type of interconnector asset has specific requirements for the development and delivery. While the type of delivery model implemented through the FDA will be broadly consistent across P2Ps and OHAs, the specific arrangements could differ depending on the asset type. As a result, the delivery approach may need to be tailored due to the characteristics of the asset class being delivered.

Questions for Stakeholders

- Q7. What are the key benefits and risks of each of the proposed approaches, and do you have a preference towards a delivery route? Please explain your reasoning, with reference to any examples from previous interconnection windows, if applicable.
- Q8. What would be the expected period from the CSNP outputs to the start of an application process?
- Q9. What additional factors should we consider to future proof the delivery model and regulatory processes, particularly in relation to managing design variations?
- Q10. What measures should the FDA implement to effectively address the needs of various asset classes?
- Q11. Are there any specific adjustments that should be made to the delivery approach for MPIs to account for wind leasing rounds? Are there additional development differences for MPIs that require changes to the delivery strategy?

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European Regulatory Alignment

- 2.31 As the UK energy system evolves towards a strategically planned future, effective interconnection with European partners remains essential for delivering secure, affordable, and low-carbon electricity. Ensuring the FDA considers European regulatory frameworks will be important in ensuring that new interconnector projects are coordinated efficiently.
- 2.32 This section seeks stakeholder views on the challenges and opportunities of coordinating with other Transmission System Operators (TSOs), lessons learned from other jurisdictions, and the governance structures needed for successful cross-border projects.

Questions for Stakeholders

- Q12. How should our future approach to interconnection align with European regulatory and financing frameworks and cross-border governance to ensure regulatory clarity, investability and timely delivery?
- Q13. What challenges and mitigation measures should be considered when coordinating with other TSOs?
- Q14. What can be learnt from other jurisdictions' approaches to interconnection planning?
- Q15. Do you have any other views or proposals on the future of interconnection delivery that we have not yet considered?

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3. Future Financing Approach

- 3.1 This section outlines two financing models – Cap and Floor and RAB – and the key financial parameters we are exploring as part of the future financing approach for interconnection. We are seeking views on both financing models and the key financial parameters.

Investor confidence

- 3.2 The current Cap and Floor regime has been successful in improving investor confidence in interconnection, and attracting a broader pool of investors, such as infrastructure funds.
- 3.3 Before the introduction of the Cap and Floor regime in 2014, there had been limited investment in GB interconnection under the merchant route, where developers received no regulated returns on their investment, and faced the full upside and downside risk related to the use of the interconnector.
- 3.4 The subsequent Cap and Floor regime has created a clear and stable regulatory framework which incentivises timely investment and competition in the interconnection sector, as well as providing the level of revenue certainty required to develop large-scale interconnector projects, striking a fair balance between risk and rewards for both developers and consumers.
- 3.5 However, early feedback from developers and investors suggested that some aspects of the Cap and Floor regime, including the 5-year assessment period and the availability target of 80%, might not be suitable for certain types of financing solutions. For this reason, Ofgem introduced a regime variations process to enable developers to request variations to the default regime, where they could be justified. These changes have increased the confidence of private investors and lenders to bring forward interconnection investments, which has supported the development of project financed interconnector projects.
- 3.6 The development of a new financing approach for future interconnection will be mindful of the impact that any change can have on investor confidence. As the new, enduring financing regime is designed and developed, Ofgem will continue to have regard to the need for investor confidence in interconnection projects.

Anticipatory investment

- 3.7 This Call for Input is focused on the Cap and Floor and RAB financing models and the potential key financial parameters for any future financing approach, but we are also interested in whether anticipatory investment should also feature in our policy development. Anticipatory investment refers to proactive investments made to reinforce infrastructure based on anticipated future demand, rather than just current need. This approach could be helpful by enabling more efficient investment up-front, but brings with it a degree of uncertainty and the potential for under-utilisation. As such, in considering anticipatory investment, it is important

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to balance the need for infrastructure development with affordability for consumers, as well as the risk of stranded assets.

Questions for stakeholders

- Q16. How can we maintain investor confidence during the period of transition from a developer-led to a more strategically-led approach to interconnection planning and delivery?
- Q17. What factors would make interconnection projects attractive to investors in a centralised, strategically-planned energy system?
- Q18. In developing the new financing approach, how should we balance predictability and certainty for investors and developers, with the need for project-specific flexibility?
- Q19. What are your views on anticipatory investment, and how can its potential benefits and risks be balanced to protect the interest of consumers?

Cap and Floor model

Rationale for Cap and Floor regime

- 3.8 Before the introduction of the Cap and Floor regime in 2014, all GB interconnectors were developed under the merchant route. However, the evolution of the European regulatory frameworks saw exemptions as exceptions, rather than the mainstream route for developing interconnection. Moreover, in many European countries there was no merchant-exemption route available, which limited the range of candidate countries for connection to GB.
- 3.9 As such, there was a need to develop a regulated regime to overcome these barriers and offer a predictable framework within which developers could invest in interconnection. In developing the Cap and Floor regime, Ofgem aimed to maintain elements of market exposure to help guide developers on the appropriate location, size, technology and timing of the proposed investment and minimise the exposure of consumers.

Key elements of the Cap and Floor regime

- 3.10 While this Call for Input discusses the Cap and Floor and RAB models as two separate financing models, the Cap and Floor model is also a RAB-based model. In our default Cap and Floor regime, the Cap and Floor levels are set based on project costs using a typical RAB model, before applying different notional financial return parameters to set the Cap and Floor levels independently. However, there are significant differences between the two models, with no direct financial contribution from consumers under the Cap and Floor model, but direct financial contribution from consumers under the RAB model.
- 3.11 The Cap and Floor regime sets a minimum revenue level (floor) ensuring that developers can recover their costs and a reasonable return and sets a maximum revenue level (cap), preventing excessive profits. If revenue falls below the floor, consumers contribute the difference to bring it up to the floor level, and if revenue

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is above the cap, the surplus is shared with consumers. As such, this model maintains a significant degree of market exposure and merchant incentive for developers, encouraging them to invest only in commercially attractive projects whilst keeping costs down. This, in turn, minimises the risk that consumers will have to provide financial support to developers. Crucially, for consumers, the cap and floor mechanism allows for infrastructure investment without any direct financial contribution from consumers, which is very different from the RAB model.

Challenges of the Cap and Floor regime

- 3.12 Currently, there are various external pressures on the delivery of interconnector projects, including supply chain constraints and increasing capital expenditure (**capex**) costs, though there is uncertainty whether these are enduring pressures, or whether market dynamics might change in future. These external pressures may necessitate modifications to, or a move away from, the Cap and Floor regime for the future financing of some asset types.
- 3.13 This view is not new. Even as the Cap and Floor regime was being developed, it was acknowledged that in the longer-term the Cap and Floor regime might need to evolve towards a more regulated approach because of increasing levels of interconnection between GB and other markets resulting in price convergence (reducing developer incentives), and ambitions for a complex and meshed North Seas grid.

Adjustments to the Cap and Floor regime

- 3.14 The Cap and Floor regime is not a single, rigid financing model, but rather can be calibrated according to the risk profile of a specific class of offshore assets. For example, a Narrow Cap and Floor model is an adjustment of the existing Cap and Floor regime for P2P interconnectors, with the wide band of exposure between the Cap and Floor levels reduced to account for higher risks and increased revenue uncertainty. During the development of the regulatory framework for pilot NSIs, the Cap and Floor model was adjusted, by narrowing the gap between the cap and the floor. The aim of this adjustment was to provide more risk protection for the pilot NSIs only, due to the higher uncertainties and risks that these projects are likely to face, relative to P2P interconnectors. The exact degree of the narrowing of the Cap and Floor range can be considered and decided upon balancing the risks and rewards of the specific project, with consumers' interests. Ofgem noted that the Narrow Cap and Floor provided for the NSI pilots would not form a precedent for the broader Cap and Floor regime.
- 3.15 Despite the ability to adjust some elements of the Cap and Floor model, it does still have some limitations, which may restrict its suitability for the future financing of interconnection. For example, the Cap and Floor model currently only provides post-construction revenue to developers, and there is currently no mechanism to provide pre-operation revenues, such as revenue during

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development or revenue during construction. This may be important for OHA projects with much higher capex investment levels and longer delivery lead times.

RAB model

Outline of the traditional RAB model

- 3.16 The RAB model is a type of economic regulation typically used in GB for monopoly infrastructure assets such as water, gas and electricity networks. Under the model, companies receive regulated payments from consumers – via levies on energy suppliers - which help to cover the costs of construction and operation. This arrangement provides investors with a predictable return on their investment. Unlike traditional financing models, where consumers only start providing developers with payments when a project is operational, the RAB model allows for consumer payments during the construction phase. This approach helps avoid the accumulation of interest on loans, which can lead to lower costs for consumers when the project is completed. The model is overseen by an independent regulator, who ensures that the funds are used appropriately and that the interests of consumers are protected. The regulator also sets the price controls and issues licences for the projects. By offering stable returns and reducing risk, the RAB model encourages private sector investment in essential infrastructure projects.
- 3.17 In 2016, the RAB model was applied successfully for the first time in GB to a single asset construction – the Thames Tideway Tunnel (TTT) project. Under the TTT RAB model, there was provision for the licensee to receive revenue during construction. This mechanism means that some potential project risk is transferred early from investors to consumers, and that consumers will pay an additional amount on their bills during construction.

The Nuclear RAB model

- 3.18 The *Nuclear Energy (Financing) Act 2022* introduced a RAB model as an option to fund future nuclear projects in GB. Under the legislation, a company is granted a licence (or an existing licence is modified) and receives a regulated revenue in exchange for providing the infrastructure in question. In contrast to the current Cap and Floor model, the Nuclear RAB model enables investors to share some of the project's construction – as well as operating - costs and risks with consumers, significantly lowering the cost of capital which is the main driver of a nuclear project's cost to consumers. The Nuclear RAB model requires consumers to pay an amount on their bills during the construction of a nuclear project. These payments will avoid the build-up of interest on loans that would ultimately lead to higher costs to consumers once the plant is in operation. The construction period for nuclear projects is very long, so there may be limited direct equivalence for P2P interconnectors. However, some future interconnection projects, such as MPIs, may be more complex, with a considerably longer construction period than current P2P interconnectors.

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3.19 Under the Nuclear RAB model, no revenue is paid during development. Rather, revenue is only available after financial close. For example, if a project is taken forward under the Nuclear RAB model, following the final investment decision, appropriately incurred development costs can be added to the RAB. Allowing development costs to be added to the RAB provides reassurance that development spending which, prior to any final investment decision, is incurred at the risk of developers, can be recouped if the project enters into a revenue collection contract under the Nuclear RAB model.

The RAB model and interconnection

3.20 The RAB model is used extensively across Europe – including France, Germany and the Netherlands - to fund large energy infrastructure projects, including interconnection. However, it should be noted that in most countries that use the RAB model to finance interconnection, the projects are developed and delivered by national Transmission System Operators (**TSOs**), rather than more market-based commercial entities. At present, we are exploring the legal limitations on when a RAB model can be used to finance energy infrastructure projects in GB, to discover whether the current legal framework would allow a RAB model to be used to finance future interconnection.

Questions for Stakeholders

Q20. We are starting from the position that the Cap and Floor model remains the most suitable financing regime for P2P interconnectors. How has the risk profile of P2P interconnectors changed since the introduction of the Cap and Floor model, and how should this be reflected in the future financing model?

Q21. What amendments, if any, would be required to the Cap and Floor model given the move from a developer-led to a strategically-led energy system?

Q22. Given the differing risk and cost profiles of different asset types, should different assets be financed using different models? If so, what model would be most suitable for what asset type, and what would be the key elements/parameters of that model?

Pre-operation revenue

3.21 Under the Cap and Floor model, there is currently no provision for developers to receive any finance during development or construction, and only post-construction revenues are paid to developers. We are currently exploring whether Ofgem has the power to provide pre-operation revenues to interconnection developers, or whether there would be a need for fundamental changes to implement revenue during development or construction.

3.22 There are few examples of financing regimes used in GB to finance energy infrastructure that provide developers with pre-operation revenue. The Nuclear RAB regime allows interest on capital to be remunerated during construction, while the RIIO networks RAV regime allows funding streams to start before the

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asset is operational, as transmission operators are funded on the actual profile of efficient spend.

- 3.23 In Europe, many countries, including France, Germany and the Netherlands, provide revenue during development and construction for large infrastructure projects, such as interconnections. The exact form of the revenue during development and construction will differ in each country. For example, in Germany developers are paid 50% of development costs based on a forecast, which is corrected at the end of the year.

Questions for Stakeholders

- Q23. Do you believe that supply chain issues currently affecting interconnection projects will abate or not in future? If not, what is your assessment of why these issues will endure?
- Q24. Given the increased complexity of MPIs, do you believe that further revenue and risk mitigations will be needed for this asset type? Why? And what revenue and risk mitigations should we explore?
- Q25. As revenue and risk mitigations can transfer costs and risks to consumers before the asset is operational, what mechanisms, if any, should be considered to ensure effective and efficient project delivery?

Availability incentives

- 3.24 Under the current Cap and Floor model, to receive floor payments, interconnectors must meet a minimum availability level of 80%. Depending on availability performance, the interconnector project's cap can be increased or decreased by up to 2%. The purpose of these technical availability incentives is to ensure high availability by encouraging interconnectors to operate above the floor, decreasing the likelihood that consumers will provide payments to the floor, and encouraging developers to aim towards the cap, which will result in above-cap payments to consumers.
- 3.25 Other financial regimes in GB for different types of energy infrastructures also provide for availability incentives. The Offshore Transmission Owners (**OFTO**) regime has a 98% availability target, which is directly linked to the revenue received. The purpose of the OFTO availability incentive is to encourage high technical availability, as if a project cannot connect very high levels of generation, it can have substantial impacts on consumers, the generator and the transmission network. The Accelerated Strategic Transmission Investment (**ASTI**) framework and CSNP re-opener are introducing a 'minimum availability standard' to the RAV model on a project basis. Under the Nuclear RAB model there is provision to apply an availability incentive to encourage the nuclear licensee to safely maximise plant availability. This availability incentive will be set at the PCR, and at each periodic review, and will apply for each regulatory year. The

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availability incentive will also include an allowance for efficiently planned maintenance based on the nuclear licensee’s maintenance plan for the upcoming price control period. Moreover, the availability target will include an allowance for unplanned outages, recognising the difficulty in forecasting the specific duration of outages to conduct planned maintenance.

Performance incentives

- 3.26 The current Cap and Floor model for interconnectors has a built-in commercial performance incentive in the form of the Cap and Floor, with developers encouraged to ensure that their interconnector project has revenues that surpass the floor. In contrast, the traditional RAB model has a more limited performance incentive, with developers usually receiving the allowed revenue regardless of the asset’s performance. In some RAB models, such as the TTT RAB model, incentives have been included as additional licence conditions, including the requirement to complete the project on time, to the specified quality and at minimum cost, with rewards/penalties for meeting or missing these targets. As such, there is some potential to amend the RAB model to provide an additional performance incentive.
- 3.27 The LDES financing regime has adjusted the Cap and Floor’s in-built performance incentive, by introducing a soft cap, with 30% revenue sharing above the cap, and by allowing developers to propose a higher floor level, as part of their application for regulatory approval.
- 3.28 Given that the development of future interconnection projects will be dependent on strategically-led, rather than developer-led, planning, it may be the case that both availability and performance incentives will become more important, as the link between interconnections and market signals weaken. As interconnections move to being strategically-driven, there may be a greater need for sharper availability and performance incentives to ensure the continued effective technical and commercial performance of future interconnection, and to ensure continued value for money for GB consumers.

Questions for Stakeholders

Q26. Given the move from a developer-led to a strategically-led energy system, are current availability and performance incentives still fit for purpose?

Q27. What availability and performance incentives should be part of the future financing model, and how should they balance the interests of consumers and developers?

Q28. Should different asset types (P2PS, NSIs, MPis) have different availability and/or performance incentives? If so, what should be the incentives for each asset type?

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4. Next steps

- 4.1 Throughout this call for input we have asked questions to inform any future policy as to the future approach of interconnection. We welcome the views of stakeholders on these questions. The changes we make will be shaped by your feedback.
- 4.2 We expect our next steps to be:
 - Consult on any policy changes to our regulatory framework in the second half of 2026.
 - This consultation will likely include proposals for how we could change our approach, based on feedback to this call for input.
- 4.3 Our aim is to have a fully developed regulatory model in place in time to deliver on the outputs of the CSNP publication.
- 4.4 Following publication of this paper, we will be taking the opportunity to engage directly with stakeholders, to allow us to discuss this paper in more detail. We will share details of this engagement with shareholders in due course.

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Send us your feedback

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

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.

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Appendix 1: Summary of Questions

1. Do you agree that these Criteria for Success cover the most important aspects of future interconnector delivery? If not, why? Are there other criteria for success that we should consider?
2. Do you agree with our decision to discount both a very early and very late competition model in the delivery of future interconnection?
3. Do you agree with our definitions of competition types and are there any additional key stages in the development of an interconnector that we have excluded from Figure 1?
4. Do you have a preference on the type of competition we enable through the FDA? If so, why? Where do you see the role of the procuring body ending and project developer beginning for your preferred competition type?
5. How should the organisations collectively share responsibility for early-stage activities (identifying need, defining parameters, enabling landfall/route options) versus later-stage activities (procurement, assessment, delivery oversight)?
6. What are the key benefits and risks of each of the proposed approaches, and do you have a preference towards a delivery route? Please explain your reasoning, with reference to any lessons learnt from previous windows, if applicable.
7. Do you have a view towards any alternative proposals we have not yet considered?
8. What would be the expected period from the CSNP outputs to the start of an application process?
9. What additional factors should we consider for futureproofing the delivery model and associated regulatory processes?
10. What measures should the FDA implement to effectively address the needs of various asset classes?
11. Are there any specific adjustments that should be made to the delivery approach for MPIs to account for wind leasing rounds? Are there additional development differences for MPIs that require changes to the delivery strategy?
12. How should our future approach to interconnection align with European regulatory and financing frameworks and cross-border governance to ensure regulatory clarity, investability and timely delivery?
14. What challenges and mitigation measures should be considered when coordinating with other TSOs?
15. What lessons can be learned from other jurisdictions' approaches to interconnection planning?
16. How can we maintain investor confidence during the period of transition from a developer-led to a more strategically-led approach to interconnection planning and delivery?
17. What factors would make interconnection projects attractive to investors in a centralised, strategically-planned energy system?

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18. In developing the new financing approach, how should we balance predictability and certainty for investors and developers, with the need for project-specific flexibility?
19. What are your views on anticipatory investment, and how can its potential benefits and risks be balanced to protect the interest of consumers?
20. We are starting from the position that the Cap and Floor model remains the most suitable financing regime for P2P interconnectors. How has the risk profile of P2P interconnectors changed since the introduction of the Cap and Floor model, and how should this be reflected in the future financing model?
21. What amendments, if any, would be required to the Cap and Floor model given the move from a developer-led to a strategically-led energy system?
22. Given the differing risk and cost profiles of different asset types, should different assets be financed using different models? If so, what model would be most suitable for what asset type, and what would be the key elements/parameters of that model?
23. Do you believe that supply chain issues currently affecting interconnection projects will abate or not in future? If not, what is your assessment of why these issues will endure?
24. Given the increased complexity of MPIs, do you believe that further revenue and risk mitigations will be needed for this asset type? Why? And what revenue and risk mitigations should we explore?
25. As revenue and risk mitigations can transfer costs and risks to consumers before the asset is operational, what mechanisms, if any, should be considered to ensure effective and efficient project delivery?
26. Given the move from a developer-led to a strategically-led energy system, are current availability and performance incentives still fit for purpose?
27. What availability and performance incentives should be part of the future financing model, and how should they balance the interests of consumers and developers?
28. Should different asset types (P2PS, NSIs, MPIs) have different availability and/or performance incentives? If so, what should be the incentives for each asset type?

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Appendix 2. Privacy policy

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, “Ofgem”). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. With whom we will be sharing your personal data

Information: Include here all organisations outside Ofgem who will be given all or some of the data. There is no need to include organisations that will only receive anonymised data. If different organisations see different set of data then make this clear. Be a specific as possible.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for (be as clear as possible but allow room for changes to programmes or policy. It is acceptable to give a relative time e.g. ‘six months after the project is closed’)

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data

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- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use “the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this”.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system. (If using a third party system such as Survey Monkey to gather the data, you will need to state clearly at which point the data will be moved from there to our internal systems.)

10. More information For more information on how Ofgem processes your data, click on the link to our “[ofgem privacy promise](#)”.