Making a positive difference for energy consumers

Consultation

Post Construction Review of the Greenlink Interconnector to the Republic of Ireland

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Contents

Executive summary

This document sets out our[1] minded-to position on Greenlink Interconnector Limited's (**GIL**) (the licensee) Post Construction Review (**PCR**). We have reviewed the proposed values for the Post Construction Adjustment (**PCA**) terms submitted by GIL and proposed final cap and floor levels for the project. Our minded-to position is summarised in Table 1 below:

Table 1: Overview of the cap and floor levels for Greenlink[2] (£ million)[3]

Item	Preliminary levels set at FPA (FC)[4] (2020/21 prices)	GIL proposed adjustment at PCR (2020/21 prices)	GIL proposed final cap and floor levels (2020/21 prices)	Ofgem minded-to adjustment at PCR (2020/21 prices)	Ofgem minded-to final cap and floor levels (2020/21 prices)	Ofgem minded-to final cap and floor levels (2020 prices)
Notional Cap Level	31.24	1.48	32.72	0.21	31.45	31.39
Notional Floor Level	15.58	1.68	17.26	0.58	16.16	16.13
Actual Floor Level	18.60	(1.18)	17.42	(1.26)	17.34	17.30

This document is structured as follows:

[1] The terms "Ofgem", "the Authority", "we", "our", and "us" are used interchangeably in this document.
[2] References to "Greenlink" refer to the electricity interconnector project
[3] Table 1 present cap and floor levels in both 2020/21 prices and 2020 prices. The 2020/21 price basis facilitates comparison with historical cap and floor values, while the 2020 price basis reflects the price base used in the amended licence definitions, based on the change from financial years to calendar years, as outlined in paragraphs 3.27 to 3.30.
[4] Financial Close marks the end of the Final Project Assessment (FPA) stage. For Greenlink, we set the preliminary cap and floor levels at Financial Close. More detail about GIL's Financial Close can be found https://www.ofgem.gov.uk/publications/update-provisional-cap-and-floor-level-greenlink-interconnector

- Section 1 provides an overview of GIL's cap and floor regime, including related past publications related to the project.
- Sections 2 provides detailed information on the cost assessment procedure, as well as rationale for the minded to proposals pertaining to GIL's cap and floor levels.
    - Section 3 provides our views on Greenlink's financial models, as well as GIL's financial parameters and proposed licence modifications

We are seeking views on our minded to proposals pertaining to GIL's Notional Cap Level, Notional Floor Level and Actual Floor Level as well as the statutory consultation on the consequential changes to the special conditions to GIL's licence. Furthermore, we encourage stakeholders to share views on the updated the Greenlink Cap and Floor Financial Model 1 (GCFFM1) and the associated handbook (GCFFM1H). This extends to the new Greenlink Cap and Floor Financial Model 2 (GCFFM2) (and associated handbook (GCFFM2H)), which was specifically developed to reflect the project finance nature of the Greenlink interconnector.

Following the close of the respective consultations and subject to our consideration of responses, we expect to make our final decisions one each of the elements outlined above by:

- issuing a direction under Special Condition 8 of GIL's licence, specifying the determined PCA values and confirming the final cap and floor levels for the project; and
- issuing licence modification notices under section 11A of the Electricity Act 1989 to modify the special conditions in GIL's licence.

Subject to consideration of responses, we anticipate making these decisions in December 2026.

1. Introduction

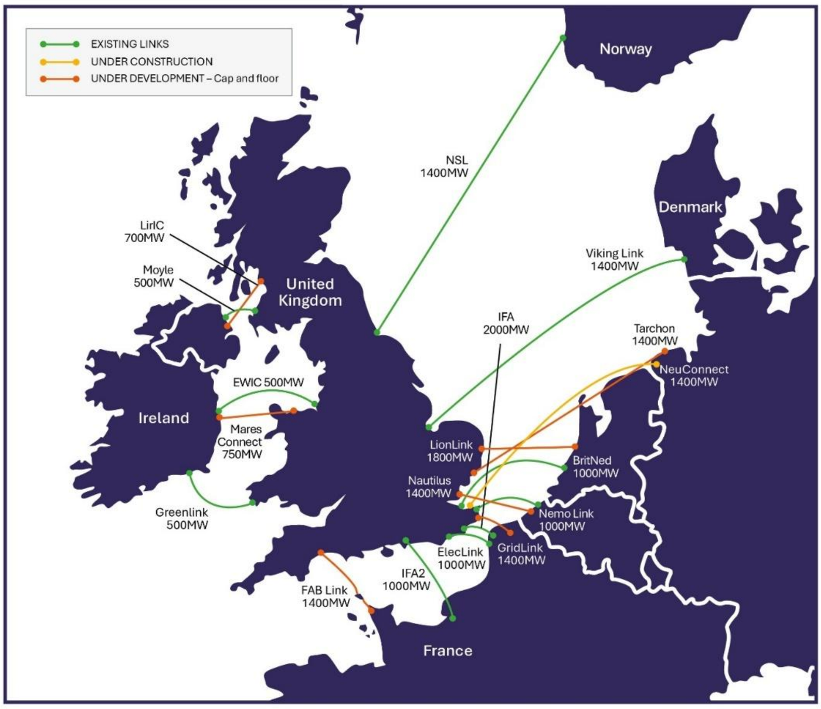
This section provides an overview of Greenlink, the cap and floor regime and what we are consulting on. It also details the consultation process, including how to respond to this consultation and next steps.

Overview

1.1 Greenlink is a 500MW electricity interconnector between Pembrokeshire in Wales, Great Britain (**GB**) and Great Island in County Wexford, Ireland. On the GB side, the cable landfall is at Freshwater West beach, followed by approximately 7 km of onshore cable to the converter station in Pembrokeshire (Penfro converter station). This is followed by approximately 1 km of alternating current cables to the Pembroke 400 kV substation. The Irish end of the high-voltage direct current (HVDC) cable lands at Baginbun Beach, followed by onshore HVDC to the converter station at Great Island, which is adjacent to the Great Island 220 kV substation.

1.2 Greenlink is shown alongside other operational and proposed electricity interconnector projects in Figure 1 below.

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



1.3 Greenlink started commercial operations on 29 January 2025 and is the fifth operational electricity interconnector project to be regulated under our cap and floor regime, after Nemo Link, Interconnexion France-Angleterre 2 (IFA2), North Sea Link (NSL) and Viking Link. Greenlink is a Window 1 project[5] that is the first cap and floor interconnector project in GB to have been financed through project finance[6].

1.4 Greenlink is ultimately jointly controlled by Equitix Holdings Limited and Baltic Cable AB[7] and is the licensed owner and operator of the interconnector. Our cap and floor regime applies to the GB portion of the project (50% share). The Commission for Regulation of Utilities (**CRU**) regulates the Irish portion of the project (50% share).

Cap and Floor Regime

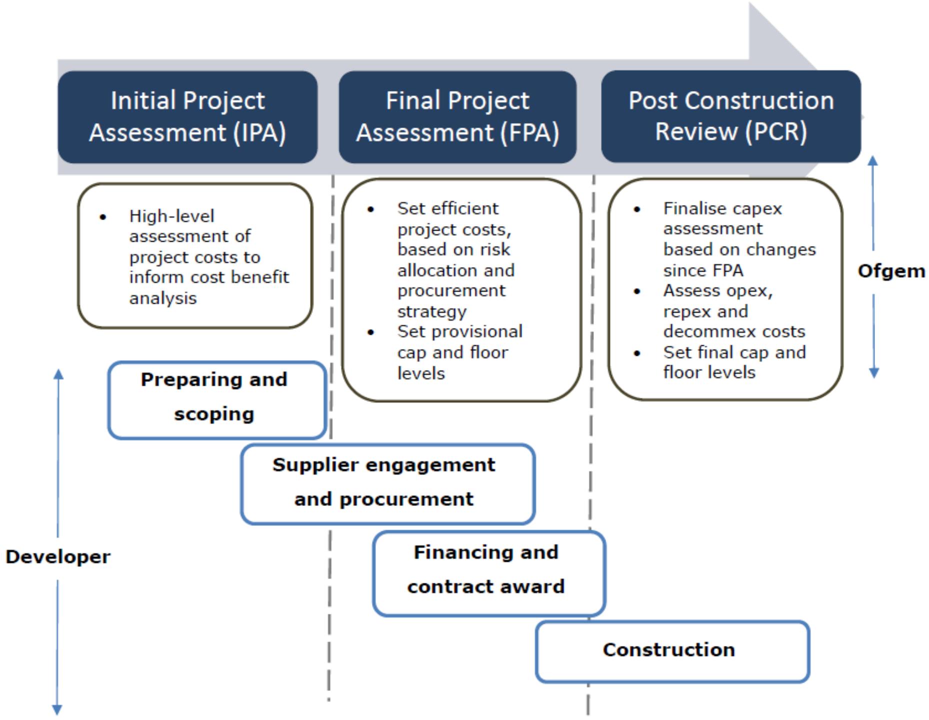
Overview

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 over the Regime Duration[8].

1.6 There are three main stages to our cap and floor regime – the Initial Project Assessment (**IPA**) and Final Project Assessment (**FPA**), followed by the PCR, as shown in Figure 2 below. These main stages are supported by annual reporting, which takes place between the FPA and PCR stages. At the FPA stage we confirm the grant of a cap and floor regime and set the provisional cap and floor levels[9]. These levels are then finalised at the PCR stage.

[5] Cap and floor regime: An update on ‘Window 1’ interconnector projects | Ofgem
[6] regime_variations_decision.pdf
[7] AB stands for Aktiebolagand and is the Swedish term for a limited liability company.
[8] Regime Duration is defined in Special Condition 1, paragraph 5 of the interconnector licence.
[9] For Greenlink, the provisional cap and floor levels were set at Financial Close.

Figure 2: Cap and floor assessment framework



1.7 The IPA stage is when we assess the needs case for new interconnector projects. This is predominantly an economic assessment, considering the total costs and benefits of new interconnectors and assessing the likely impacts on consumers.

1.8 At the FPA stage we confirm the grant of a cap and floor regime and assess the economic and efficient costs associated with developing, constructing, operating, maintaining, financing, decommissioning and risk allowances of the licensee's interconnector. We also develop a project-specific cap and floor financial model to set the preliminary cap and floor levels and values for incentives. For interconnectors seeking project finance funding solutions, a debt raise process is carried out, where we review, approve and fix the financing terms and parameters. Following which, we update the Cap and Floor Financial Model (CFFM1) and set the preliminary cap and floor levels, marking the end of Financial Close[10].

1.9 The cap and floor levels are then finalised at the 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 Capital Expenditure (**CAPEX**) and consider the efficiency of the interconnector's Operating Expenditure (**OPEX**). We also re-examine any information or aspects from the FPA stage that have changed significantly.

[10] Financial Close is defined in Special Condition 1, paragraph 5

Greenlink's Cap and Floor Regime

1.10 During the IPA stage for Window 1 projects in 2015, we assessed Greenlink, considering its potential impacts on electricity markets and cross-border trade on the GB electricity network alongside strategic and sustainability indicators. Based on the information available at the time, our initial assessment indicated that Greenlink was unlikely to deliver net benefits for GB consumers.

1.11 As a result, in our March 2015 IPA consultation[11], we sought stakeholder views on our minded-to position not to grant GIL a cap and floor regime. Following a further consultation on updated analysis in August 2015[12], we subsequently decided in September 2015 to award GIL a cap and floor regime in principle[13]. This was based on our assessment that the project is likely to benefit GB consumers and GB as a whole based on the cost benefit analysis results and other qualitative factors.

1.12 In our September 2015 IPA decision letter for Greenlink, we stated that our decision was contingent on progress in line with timelines, cost estimates and commercial arrangements provided in the project submissions. Moreover, we stated that where information was submitted to us before the FPA decision that indicated these conditions are not met, we would revisit the outcome of the IPA to ensure the project continued to be in consumers' interest.

1.13 Following the updated FPA cost submission by GIL in August 2020, we decided that the IPA conditions had not been met, as costs had materially increased from the projection at the IPA stage. This resulted in us revisiting the aspects of the needs case[14]. Following our needs case review of Greenlink, we decided that Greenlink still remained likely to benefit GB consumers and GB as a whole and that it should retain its cap and floor regime in principle.

1.14 We agreed to conduct a phased FPA process for GIL, whereby the information that we required GIL to submit to conduct our FPA, was provided in three stages. In October 2021, we published our FPA decision for Greenlink[15]. It did not include the provisional cap and floor levels as these levels were calculated when the project reached Financial Close.

1.15 GIL achieved Financial Close on 15 March 2022 after securing debt finance. Following which, GIL notified Ofgem on 21 March 2022 of its election to use

[11] Cap and floor regime: Initial Project Assessment for the FAB Link, IFA2, Viking Link and Greenlink interconnectors | Ofgem
[12] Cap and floor regime: Update on our Initial Project Assessment of the Greenlink interconnector | Ofgem
[13] Decision on the Initial Project Assessment of the Greenlink interconnector | Ofgem
[14] Consultation on the Final Project Assessment of the Greenlink interconnector to Ireland and decision on Greenlink's needs case review | Ofgem
[15] Decision on the Final Project Assessment of the Greenlink interconnector to Ireland

Approach 2 (selection of the Actual Floor Level) to set the floor level for the Greenlink project[16]. Therefore, to determine GIL's performance in relation to the floor level, the Actual Floor Level will be used over the Regime Duration. As a result, on 16 August 2022, we set the following financial parameters for Greenlink in 2020/21 prices:

- the preliminary Cap Level for Greenlink was £31.24 million,
- the preliminary Notional Floor Level was £15.58 million;
- the Preliminary Actual Floor Level was £18.60 million[17].

1.16 The Preliminary Actual Floor Level was set using the GIL project finance model (**PFM**) based on the final lending terms agreed on the day of Financial Close. GIL's PFM provided the inputs to the GCFFM1, to ensure that the Preliminary Actual Floor level generated in the PFM matched the Preliminary Actual Floor in the GCFFM1.

1.17 In the process of achieving Financial Close, GIL requested a statement on regulatory processes from Ofgem, to demonstrate certainty to lenders. In this statement, we agreed key policy positions which we are proposing to set out in GIL's special licence conditions and have provided further detail in Section 4.

- The Preliminary Actual Floor Level for GIL is divided into two components:
    - Component 1: This component is based on the operating costs, replacement CAPEX, decommissioning costs and tax elements - this component will be indexed annually by outturn UK RPI[18] inflation rates.
    - Component 2: The second component is based on the debt service and the debt service cover ratio (**DSCR**) - this component will be indexed at a pre-specified RPI fixed rates schedule, agreed with Ofgem, to ensure that it remains fixed for the entirety of the regime.
- The Actual Floor Level will be revisited at the PCR stage, where we will assess final project costs and only adjust the Actual Floor Level to reflect any CAPEX, contingencies and/or standby facilities that remain unspent at that time. This means that the debt service portion of the Actual Floor Level may be adjusted at PCR, but only downwards to reflect unused costs and debt.

[16] [Update to the provisional cap and floor level for the Greenlink Interconnector | Ofgem]
[17] The Preliminary Actual Floor Level for GIL is divided into two components as set out in paragraph 2.17
[18] RPI stands for Retail Price Index

Beyond the PCR, the debt service portion of the Actual Floor Level will remain fixed for the full regulatory period reflecting a maximum DSCR that was agreed at Financial Close which has been redacted for commercial sensitivity.

- The debt service portion of the Actual Floor Level will increase in line with the inflation rates agreed with Ofgem and CRU, as per the PFM, and the OPEX, replacement cots (**REPEX**), tax and decommissioning costs (**DECOMMEX**) will increase in line with actual outturn inflation.
- Moreover, the Actual Floor Level must be maintained at the gearing level set at Financial Close. This refers to GIL's debt to equity ratio which measures how much of the interconnector project is funded by debt relative to equity. At Financial Close, a specific gearing ratio was agreed which has been redacted for commercial sensitivity. Additionally, if the Actual Floor Level is higher than the Notional Floor Level and if higher floor payments from consumers are required as a result, the licensee must repay any outstanding difference between the Actual Floor Level and the Notional Floor Level before any repayment or return on any equity investment, shareholder loan, dividend or equivalent can be recovered, paid or prepaid.

1.18 These provisions are set out in the GIL's proposed special licence conditions as explained in further detail in Section 4.

1.19 In relation to the PCR stage, the licence provides for the final cap and floor levels for GIL to be set following our determination of the PCA terms at the PCR stage[19]. The determined PCA terms adjust the preliminary Notional Cap Level, the preliminary Notional Floor Level and the Actual Floor Level to account for the difference between:

- our estimate, assumed in the preliminary notional cap and floor levels for GIL, of the costs associated with developing, constructing, operating, maintaining, financing and decommissioning Greenlink and,
- our assessment of these costs at the PCR stage, which is the earlier of 85% to 95% of development and construction costs being incurred or at Full Commissioning Date[20]. (For GIL, this was the Full Commissioning Date).

[19] Special Condition 8 sets out the process for determining the value of the PCA terms and Special Condition 2 sets out the Cap Level and Floor Level. The PCA terms consist of three terms – the Post Construction Adjustment At Cap term (PCAC), the Post Construction Adjustment At Notional Floor term (PCANF) and the Post Construction Adjustment At Actual Floor term (PCAAF).

[20] As per Special Condition 8, paragraph 4(a)(i)

1.20 The determined PCA values are used to calculate the final cap and floor levels for Greenlink which then remain fixed for the duration of GIL's cap and floor regime[21].

1.21 We received GIL's PCR submission on 29 April 2025, with an updated submission made on 25 July 2025 in response to a request by Ofgem for further information. The submission made on 25 July 2025 has been treated as GIL's final PCR submission that we have based our minded-to position on.

Regime variations

1.22 A feature of the GIL project is its project-financed status. This was enabled by our decision to allow regime variations to our cap and floor regime in May 2020[22]. These variations were requested by GIL and NeuConnect Britain Limited to broaden the sources of financing available for them to progress the projects through development and construction.

Related publications

- Decision on the Initial Project Assessment of the Greenlink interconnector
    - Published: September 2015
- Decision on proposed changes to our electricity interconnector cap and floor regime to enable project finance solutions
    - Published: May 2020
- Decision on our needs case review of the Greenlink interconnector
    - Published: March 2021
- Decision on changes to the electricity interconnector licence held by Greenlink Interconnector Limited (GIL) and the electricity interconnector licence held by NeuConnect Britain Limited (NBL)
    - Published: June 2021
- Decision on the Final Project Assessment of the Greenlink interconnector to Ireland

[21] The regime allows one opportunity 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 GIL or Ofgem. If the Licensee can provide evidence, that a change in legislation during the Regime Duration has caused an increase or reduction in the costs or expenses associated with decommissioning the Interconnector, the Licensee must notify the Authority in writing.
[22] Decision on proposed changes to our electricity interconnector cap and floor regime to enable project finance solutions | Ofgem

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  - Published: October 2021

- Update to the provisional cap and floor level for the Greenlink Interconnector
  - Published: August 2022
- Cap and Floor Regime Handbook 2024
  - Published: December 2024

What are we consulting on

1.23 We are consulting on our minded-to position on the PCR for Greenlink. We are seeking views on our minded-to position on the proposed values for the PCA terms.

1.24 Alongside our consultation on the PCR, we are also conducting a statutory consultation on the:

- consequential changes to the special conditions of GIL's licence to reflect changes to governance arrangements for the CFFM; and
- consequential changes to update definitions in the special conditions of GIL's licence.

1.25 Furthermore, the proposed licence changes are described in Appendix 3 and shown in tracked text in Schedule 1A. The reasons and effects of the proposed licence changes are set out in Schedule 3B.

1.26 Additionally, we are seeking views on the GCFFM1 and GCFFM2 and associated handbooks, published alongside this consultation document in Appendices 4, 4A, 5 and 5B.

Consultation stages

1.27 Our consultation on GIL's PCR and the other elements outlined above will close on 15 October 2026.

1.28 Following the close of this consultation and subject to consideration of responses, we expect to make our final decisions on each of the elements as follows:

- determination of the PCA values for GIL – by issuing a direction pursuant to paragraph 16 of Special Condition 8 on GIL's licence, specifying the determined PCA values;
- modification to the GIL special conditions – by issuing licence modification notices under section 11A(2) of the Electricity Act 1989.

1.29 We anticipate making these decisions in December 2026.

- **Stage 1** Consultation open: 17 September 2026
- **Stage 2** Consultation closes (awaiting decision). Deadline for responses: 15 October 2026
- **Stage 3** Responses reviewed and published: December 2026

How to respond

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

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 4.

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

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will evaluate each response on its own merits without undermining your right to confidentiality.

How to track the progress of a consultation

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 consultation has three stages: ‘Open’, ‘Closed (awaiting decision)’, and ‘Closed (with decision)’.

2. Our Post Construction Review (PCR) Cost Assessment

This section provides an overview of the PCR cost assessment that we have undertaken, detailing our minded-to position on the project's costs.

Previous Cost Assessments

2.1 In August 2020, GIL submitted provisional costs in order for us to set the preliminary cap and floor levels at the start of the project's construction. We conducted a cost assessment, published in September 2020[23], and set provisional cap and floor levels following Financial Close on 16 August 2022.[24]

2.2 All costs discussed in this section are reported as real 2020/21 prices. Costs submitted as well as cap and floor levels are set in pound sterling (**GBP**).

2.3 Our 2021 FPA cost assessment involved a detailed review of all aspects of the submitted costs, with a particular focus on the capital costs related to the construction of the project.

2.4 We set out our view of the efficient costs for Greenlink, resulting in total provisional project costs being set at £379.8 million compared to the licensee's submitted cost of £381.1 million over the Regime Duration. After Financial Close, this was used to define the preliminary cap level at £31.24 million, preliminary notional floor level at £15.58 million, and preliminary actual floor level at £18.60 million per year.

Annual Reporting

2.5 In accordance with the electricity interconnector licence[25] granted, GIL was required to submit annual reports during the construction phase via the Cap and Floor Regulatory Instructions and Guidance (**RIGs**) submissions. These submissions included updates on construction progress, cost variations from those set in the FPA decision, and any other relevant information.

2.6 The Cap and Floor RIGs is the primary means by which we ensure that interconnector licensees collect and provide the information we require to monitor their performance during construction. There is no obligation for us to

[23] Decision on the Final Project Assessment of the Greenlink interconnector to Ireland
[24] Update to the provisional cap and floor level for the Greenlink Interconnector | Ofgem
[25] Decision on changes to the electricity interconnector licence held by Greenlink Interconnector Limited (GIL) and the electricity interconnector licence held by NeuConnect Britain Limited (NBL) | Ofgem

adjust the cost allowances or cap and floor levels as a result of the RIGs, but the process is valuable for us when it comes to our assessment at the PCR.

2.7 GIL made three formal RIGs submissions, from 2022 to 2024. The RIGs submissions consist of a narrative update of the main elements of the project, the status of construction, the latest CAPEX costs, and detailed explanations of specific line items where there has been a change in cost.

2.8 Additionally, each submission includes an updated version of the project's cost assessment template (**CAT**), breaking down the project costs into all major components and highlighting where costs have deviated from previous submissions. Our review considers the submission materials along with any additional evidence we might require.

Description of the PCR process

2.9 The PCR is the process for determining the values of the PCA terms as set out in Special Condition 8 of GIL's licence. These terms are:

(a) the Post Construction Adjustment At Cap term (**PCAC**),

(b) the Post Construction Adjustment At Notional Floor term (**PCANF**) and,

(c) the Post Construction Adjustment At Actual Floor term (**PCAAF**).

2.10 The PCR process is initiated by the licensee, who submits a request for the proposed value for the PCA terms with supporting cost information when between 85% and 95% of the development and CAPEX, excluding interest during construction (**IDC**)[26], has been committed to the development and the construction of the interconnector. The PCR process may also be initiated earlier or later than this, after agreement in writing by the Authority[27].

2.11 The values of the PCA terms for GIL are determined by the Authority and are expressed in real 2020/21 pound sterling prices. The PCA terms are equal to zero until their determination by the Authority[28]. Once determined, they remain fixed from the date on which they take effect for the remainder of the Regime Duration[29].

[26] IDC is a return that developers will earn on economically and efficiently incurred spend during the development and construction phases of the project.
[27] As per Special Condition 8, paragraph 5
[28] As per Special Condition 2, paragraph 13(e)
[29] As per Special Condition 2, paragraph 13(d)

2.12 Special Condition 8 of the licence defines the PCA terms as the adjustment (whether upwards or downwards) of the cap level and the floor level proposed by the licensee as a consequence of the difference between:

- the Authority's estimate, assumed in the preliminary cap and floor level, of the costs associated with developing, constructing, operating, maintaining, financing and decommissioning for Greenlink; and
- the Authority's assessment, at the PCR stage, of the economic and efficient costs associated with developing, constructing, operating, maintaining, financing and decommissioning for Greenlink[30].

2.13 After confirmation of the receipt of all the necessary information to define the PCA terms, we have to determine whether we consider the proposed values to be acceptable, or to specify alternative values for these terms within 12 months[31].

2.14 Once determined, we specify the values of the PCAC, PCANF and PCAAF terms in a direction. The determined PCAC, PCANF and PCAAF values take effect from the Regime Start Date (**RSD**) of 1 May 2022[32]. This RSD was determined based on our partial acceptance of GIL's request for a later RSD, with the original RSD moving from 1 January 2021 to 1 May 2022[33] .

2.15 The PCAC, PCANF and PCAAF terms feed into the formula used to calculate the final cap and floor levels for GIL, as described in Special Condition 2, paragraph 4 of GIL's licence.

2.16 We determined GIL's Full Commissioning Date to be 3rd Feb 2025 on the basis that GIL had satisfied the criteria specified in Special Condition 2, paragraph 7(a) and (b) of its licence. Based on this determination, GIL's Floor Start Date came into effect on the Floor Start Date which is 1st January 2025.

Scope of the PCR for Greenlink

2.17 GIL made its PCR submission in April 2025. Construction costs were submitted in nominal terms while forecasted costs during operations were submitted in 2024 real terms (converted to 2020/2021 prices); both were denominated in pound sterling.

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[30] Special Condition 8, paragraph 3(a) of GIL's licence.
[31] Special Condition 8, paragraph 13 of GIL's licence.
[32] Special Condition 8, paragraph 16 of GIL's licence.
[33] Greenlink Interconnector Limited – Decision on a request for a later regime start date for the Greenlink interconnector project | Ofgem

2.18 We set the final cap and floor levels in pound sterling in real terms (2020 prices). More detail on the approach used to carry out these conversions is provided in Appendix 1.

2.19 Since the cap and floor levels are largely based on GIL's costs, we assess these costs to ensure that consumers do not underwrite inefficient costs for the project. The key components that we assessed during this PCR were the final project costs.

2.20 The PCR CAPEX review consisted of:

- reviewing the engineering, procurement and construction (**EPC**) contracts;
- reviewing our minded to positions on the cost variations that we considered during the previous RIGs;
- reviewing the cost variations that occurred during the final year of construction; and
- reviewing any remaining risk costs included within the PCR submission.

2.21 The PCR OPEX costs review covered the following key elements:

- costs associated with managing, operating and maintaining the interconnector, including resources and expenses, business services, trading systems and agreements, planned and unplanned maintenance, business rates and insurance;
- REPEX associated with the replacement of assets to ensure continued functionality of the interconnector over the operational life of the project; and,
- DECOMMEX for decommissioning the interconnector's assets at the end of its operational life.

2.22 In accordance with our FPA decision and GIL's licence, we have not assessed market related costs (**MRC**) at this stage[34]. MRC are treated as partial passthrough costs and, as such, these costs will be netted off GIL's gross congestion revenues, before comparison against the cap and floor levels, on an annual basis. GIL have confirmed in its PCR submission that its indicative value for MRC would be £0, in line with what was submitted at the FPA stage. We set an allowance of £3.8 million for DECOMMEX as part of our FPA decision[35].

[34] Market related costs include firmness costs (the cost of compensating parties who have purchased interconnector capacity that cannot be provided), error accounting costs and trip contract costs.
[35] Decommissioning costs are those relating to sufficiently removing (or taking other relevant actions in relation to) assets at the end of the operational life.

2.23 GIL's licence provides for adjustments to the cap and floor levels (whether upwards or downwards) in the event that a change in legislative requirements results in additional or reduced DECOMMEX agreed by the Authority. This is to reflect the fact that legislative requirements relating to decommissioning could change before the end of GIL's cap and floor regime and could lead to additional or reduced DECOMMEX which GIL would not have foreseen.

Summary of our PCR cost assessment

Cap and floor levels

2.24 In its PCR submission, GIL proposed an upward adjustment of £1.48 million to the preliminary cap level, an upward adjustment of £1.68 million to preliminary notional floor level and downward adjustment of £1.18 million (real 2020-2021 prices) to the preliminary actual floor level. This adjustment is based on updated costs in GIL's PCR submission, in particular for OPEX and REPEX. We had set the preliminary levels for GIL at the FPA (FC) stage based on the latest cost projections at that time.

2.25 Based on the results of our assessment, we are minded-to approve a reduction of £0.03 million to the preliminary cap level, an increase of £0.38 million to the preliminary notional floor level, and a reduction of £1.46 million to the preliminary actual floor level[36].

2.26 Details on the preliminary cap and floor levels we had set at the FPA (FC) stage, the adjustments proposed by GIL, our provisional determination of these adjustments and our minded-to decision are provided below in Table 2. Our cost analysis is presented in more detail in the following sections.

[36] The PCAC, PCANF and PCAAF terms include the PCR cost allowances as well as the recalculation of the IDC.

Table 2: Adjustments to the preliminary cap and floor levels (£ million)[37]

Item	Preliminary levels set at FC (2020/21 prices)	GIL proposed adjustment at PCR (2020/21 prices)	PCR proposed final cap and floor levels (2020/21 prices)	Ofgem minded-to adjustment at PCR (2020/21 prices)	Ofgem proposed final cap and floor levels (our minded-to position) (2020/21 prices)	Ofgem proposed final cap and floor levels (our minded-to position) (2020 prices)
Cap	31.24	1.48	32.72	0.21	31.45	31.39
Notional Floor	15.58	1.68	17.26	0.58	16.16	16.13
Actual Floor	18.60	(1.18)	17.42	(1.26)	17.34	17.30

GB share of project costs

2.27 GIL states that the adjustments to the preliminary cap and floor levels being proposed are as a result of the following updates from FPA (FC) (2020/21):

- Increase in DEVEX of £1.2 million;
- Decrease in CAPEX of £8.7 million;
- Increase in OPEX of £29.53 million;
- Increase in REPEX of £14.3 million; and
- Decrease in DECOMMEX by £0.3 million.

2.28 We have assessed the updated values in paragraph 2.28 to ensure that these costs are economic and efficient. From GIL's PCR submission, we are minded-to determine as follows:

[37] Table 2 presents cap and floor levels in both 2020/21 prices and 2020 prices. See Table 1 for explanation for presenting both date ranges.

- No change in DEVEX;
- Decrease in CAPEX of £1.2 million;
- Decrease in OPEX of £25.0 million;
- No change in REPEX; and
- No change DECOMMEX.

2.29 GIL's OPEX cost submission represent the sources of the largest cost increases from FPA (FC) to the PCR, as demonstrated in paragraph 2.27 above. GIL's submitted OPEX figures represent a 19.5% increase and REPEX has increased by approximately four times its FPA (FC) figure. Table 3 below sets out our decision on project costs at the FPA (FC) stage and Table 4 sets out our minded-to position at the PCR stage. The tables also provide values from GIL's submissions and the values we have disallowed as uneconomic and inefficient.

Table 3: Summary of GB share of project costs at FPA (£ million, 2020 prices)[38]

Item	GIL FPA submission	Ofgem FPA disallowance	Ofgem FPA decision
DEVEX	11.3	0.0	11.3
CAPEX – firm costs	201.0	-0.8	200.2
CAPEX – Risks	6.6	-0.5	6.1
Total	**218.9**	**-1.3**	**217.6**
OPEX	150.9	0.0	150.9
REPEX	7.4	0.0	7.4
DECOMMEX	3.8	0.0	3.8
Total	**162.2**	**0.0**	**162.2**
MRC[39]	0	0	0

[38] The allowances in this table are from the FPA decision

[39] 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. GIL stated its MRC costs at FPA was 0.

Table 4: Summary of GB share of project costs at PCR (£ million, 2020-21 prices)

Item	GIL PCR submission	Ofgem PCR disallowance	Ofgem PCR minded-to decision
DEVEX	12.5	0.0	12.5
CAPEX – firm costs	182.2	-1.2	181.1
CAPEX – Risks	0.0	0.0	0.0
Total	**194.7**	**-1.2**	**193.6**
OPEX	181.0	-25.0	156.0
REPEX	21.7	0.0	21.7
DECOMMEX	3.5	0.0	3.5
Total	**206.3**	**-25.0**	**181.3**
MRC[40]	0	0	0

Our minded-to proposals

2.30 After our assessment of the economic and efficient costs associated with developing, constructing, operating, maintaining, financing and decommissioning of Greenlink, we are minded to determine the following for the Regime Duration:

- DEVEX and CAPEX (including risk allowance):
  - CAPEX of £181.1 million and DEVEX of £12.5 million as set out above in Table 4. This is a decrease of £1.2 million to CAPEX from GIL's PCR submission, it represents an decrease of £8.7m from our FPA (FC) decision

- OPEX (excluding MRC):
  - OPEX of £156.0 million, as set out above in Table 4. While this is a decrease of £25.0 million to OPEX from GIL's PCR submission, it represents an increase of £4.53m from our FPA (FC) decision.

[40] GIL have confirmed in its PCR submission that its indicative value for MRC would be 0

- REPEX, DECOMMEX and MRC:
  - REPEX of £21.7 million, DECOMMEX of £3.5 million, and MRC of £0. This is no change from GIL's PCR submission.

2.31 Table 5 below provides a summary of the developer proposed adjustments and our minded-to position. The reasonings are detailed in the following paragraphs.

Table 5: GIL and Ofgem proposed adjustments, GB share (£ million, 2020-21 prices)[41]

Item	Ofgem FPA (FC) decision	Adjustment from FPA (FC) to GIL PCR submission	GIL PCR submission	Ofgem PCR disallowance	Ofgem PCR minded-to position
DEVEX	11.3	1.2	12.5	0.0	12.5
CAPEX – firm costs	184.9	(2.7)	182.2	-1.2	181.1
CAPEX – Risks	6.1	(6.1)	0.0	0.0	0.0
Total	**202.3**	**(7.6)**	**194.7**	**-1.2**	**193.6**
OPEX	151.47	29.53	181.0	-25.0	156.0
REPEX	7.4	14.3	21.7	0.0	21.7
DECOMMEX	3.8	(0.3)	3.5	0.0	3.5
Total	**162.7**	**43.6**	**206.3**	**-25.0**	**181.3**
MRC	0	0	0	0	0

[41] These figures may not add to totals due to rounding

Proposed final CAPEX costs

2.32 The value of the CAPEX (excluding DEVEX) at the FPA(FC) decision was £191 million whereas the PCR value submitted by GIL was £182.2 million, a decrease of £8.7 million. We are minded to make reductions totalling £1.16 million to this PCR value, detailed in Table 6 below.

Table 6: Proposed CAPEX cost adjustments (£ million, 2020-21 prices)[42]

Cost	Reasons for adjustment	PCR submitted cost	Ofgem disallowance	Ofgem PCR minded-to position
Delay in Start-Up (DSU) insurance	No tangible benefit to consumers	0.99	-0.99	0.0
Commissioning-related investigations[43]	Submitted cost was a forecast and only a small portion of the budget was actually allocated	0.15	-0.14	0.02
EPC contract associated costs	Costs works to duplicate compensation already inherent to cap-and-floor mechanism	0.03	-0.03	0.0

[42] These figures may not add to totals due to rounding
[43] Full figures are 0.153, 0.136 and 0.17 for PCR submitted cost, Ofgem disallowance and Ofgem PCR minded-to position respectively

DSU insurance

2.33 GIL submitted a cost of £0.99m for DSU insurance for the project. These costs were assessed during the FPA and after discussing them with the developer, we decided that these costs would be disallowed, and the requirement for DSU insurance would not be revisited during the PCR[44]. On this basis, we are minded-to disallow both the DSU insurance and the DSU insurance tax costs.

Commissioning-related investigations

2.34 GIL's PCR submission included forecast expenditure for commissioning-related investigations. The submitted cost of £155k was listed as an open item in the provided documentation.

2.35 Through subsequent engagement, GIL confirmed that the costs incurred for the commissioning-related investigations were lower than forecast, with an actual spend of £17k, with the £137k allocated to this cost item remaining unspent.

2.36 We are minded to allow the actual costs incurred but we are minded to disallow the remainder of the forecasted budget, given that we have no evidence that these costs were incurred. We therefore accepted the actual expenditure of £17k.

EPC contract associated costs

2.37 GIL's PCR submission proposed the expenditure of £31k in relation to a payment incurred in connection with the delivery of specified performance outcomes under the EPC contract.

2.38 We note that the EPC contract already includes guaranteed performance levels intended to incentivise the delivery of efficient performance. It is our view that optimisation to meet and improve, where possible, upon the guaranteed levels, is an outcome that GIL should be reasonably expected to meet under the existing contractual and regulatory framework.

2.39 While we recognise GIL's view that improved performance may deliver long-term benefits, we consider that allowing recovery of these costs would risk compensating behaviour that is already incentivised through contractual arrangements and the cap and floor regime.

2.40 We are therefore minded to disallow £31k of EPC contract associated costs from the calculation of the PCA.

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[44] See the 'Developer insurance' section in [Greenlink's Final Project Assessment]

Proposed final operational costs

2.41 The value of the OPEX (excluding REPEX) at the FPA (FC) decision was £151.47 million and the PCR OPEX submission at PCR by GIL was £181.0 million, which represents an increase of £29.53 million. We are minded to disallow a total of £25.0 million of GIL's OPEX submission, with the specific disallowances detailed in Table 7 below. Following the disallowances being applied, the OPEX allowance is set at £156.0 million. This represents a decrease of £25.0 million to OPEX from GIL's PCR submission and a £4.53m increase from FPA (FC).

2.42 GIL state that the increase in OPEX increase between FPA (FC) and PCR is primarily driven by updated cost estimates for personnel, maintenance, business support services, network and property rates and operational systems. The increases submitted reflect more mature cost information as operational arrangements and contracts became fixed.

Table 7: Proposed OPEX cost adjustments (£ million, 2020-21 prices)

Cost	Reasons for adjustment	PCR submitted cost	Ofgem disallowance	Ofgem PCR minded-to position
Personnel costs	Payroll breakdown and changes from FPA to PCR not evidenced	22.92	-7.7	15.22
Business services and general administration	Changes from FPA to PCR not evidenced	23.74	-17.30	6.44

Personnel Costs

2.43 GIL did not provide a mapping between the payroll breakdown tables and the personnel categories in the CAT, nor a reconciliation explaining changes from FPA to PCR. Instead, the developer re-referenced previously supplied documents that do not align to CAT categories and do not explain the movement from FPA to PCR. In the absence of sufficient information to verify consistency between the underlying payroll build-up and the CAT values, personnel costs have been set at the FPA level.

Business Services and General Administration

2.44 Greenlink submitted £23.74 million in business services and general administration costs, which represented a £17.3 million increase from the FPA approved value of £6.44m. GIL did not provide a granular reconciliation identifying the drivers of change between FPA and PCR for Business Services and General Administration costs. Instead, the response relied on narrative relating to GIL's special purpose vehicle structure and benchmarking against other interconnectors. This does not explain why costs have increased relative to FPA, nor does it classify the delta into new, omitted or underestimated costs as requested. In addition, the developer confirmed that it is not possible to track individual Business Services and General Administration cost components from FPA to PCR. As a result, in the absence of a clear, quantified reconciliation, the PCR uplift has not been sufficiently evidenced and has been set at the value agreed at FPA.

Proposed final REPEX

2.45 In its submission, Greenlink stated that the increase in REPEX can be attributed to updated asset replacement requirements, revised replacement timings, and higher forecast costs identified following a reassessment of long-term operational and maintenance needs.

2.46 At the PCR, we undertook a full review of the submitted REPEX costs and assessed these costs as being in line with costs we have seen in previous projects while taking current market conditions into account. Therefore, we are minded to allow these costs as submitted at PCR in full (see Table 5 above).

Updates from our FPA decision

2.47 In the FPA, we highlighted a number of costs that we would review again at the PCR stage, as well as one additional change highlighted during an annual RIGs submission.

DSU insurance

2.48 As stated in paragraph 3.34 above, we decided at FPA that these costs would be disallowed, and the requirement for DSU insurance would not be revisited during the PCR[45]

Developer project management

2.49 Developer project management costs cover GIL's internal resourcing, together with relevant external contractors and advisers, during the construction phase of the project.

2.50 At FPA, we considered GIL's internal project management costs to be reasonable when compared to similar projects. However, when combined with the contractor's project management costs, the overall project management costs were higher than expected.

2.51 We did not look to disallow costs at the FPA stage but stated that we would monitor any cost increases closely, requiring any changes to be substantiated with robust justifications.

2.52 During the PCR, we monitored the outturn developer project management costs through GIL's PCR submissions and subsequent engagement, with a particular focus on any increases relative to the costs assessed at FPA.

2.53 Where increases were identified, we sought further evidence from GIL to ensure that these were supported by robust justifications and appropriately evidenced. This included consideration of the drivers of cost increases and whether they reflected efficient project delivery.

2.54 On the basis of this review, and having considered the justifications provided, we are satisfied that the approximately £2.1m cost increase has been economically and efficiently incurred and do not consider that adjustments to developer project management costs are required at PCR.

Land costs

2.55 At the FPA stage, we stated that we would provide an allowance for the outturn value of land costs, subject to final costs not being significantly different to expectations, and that we would not re-assess this cost area unless outturn costs were materially higher.

[45] See the 'Developer insurance' section in Greenlink's Final Project Assessment

2.56 At PCR, GIL reported a small increase in land costs relative to the estimate considered at FPA. We reviewed the drivers behind this increase and the supporting evidence provided by GIL.

2.57 On the basis of our review, we consider that the increase in land costs from approximately £2.5m at FPA to £2.7m at PCR were appropriately justified and reflects economic and efficient expenditure. We are therefore minded to allow the outturn land costs at PCR and do not propose any adjustment to this cost category.

Risk register

2.58 At the initial June 2024 submission of the PCR, approximately £8.1m of risk allowance was included. This related to a handful of ongoing activities, such as grid connection costs, ground conditions and contractor non-compliance to the remaining work being undertaken. This was further reduced in the RIGs 2024 submission and finally reduced to £0 with GIL's PCR submission. The costs incurred from the risk budget were assessed and determined as efficient.

Proposed values for the PCA terms

2.59 The PCR assessment is the final stage of our three project assessment stages – IPA, FPA and PCR. The PCR assessment determines cost adjustments that may be required to the values Ofgem approved at the FPA (FC) stage.

2.60 The PCA terms consist of three terms – the PCAC, PCANF and PCAAF terms.

- The PCAC value is added to the preliminary cap level to inform the final cap level.
- The PCNAF value is added to the preliminary notional floor level to inform the final notional floor level.
- The PCAAF value is added to the preliminary actual floor level to inform the final actual floor level.

2.61 The PCR cost adjustments are determined first, then the relevant inputs in the CFFM1 are updated to reflect the adjustments and generate the final cap and floor levels.

2.62 The values of the PCA terms represent the difference between the preliminary cap and floor levels set following Financial Close for GIL, and the final cap and floor levels set at the PCR stage[46].

[46] More detail on this regime process is set out in Part C of Special Condition 2 (Cap Level and Floor Level) of GIL's interconnector licence

2.63 The final cap and floor levels reflect the economic and efficient costs associated with developing, constructing, operating, maintaining, financing and decommissioning the licensee's interconnector.

2.64 Our minded-to position on the PCAC, PCANF and PCAAF is set out below in Table 8.

Table 8: PCA values (£ million)

Item	GIL submission (2020/21 prices)	Ofgem disallowance (2020/21 prices)	Ofgem minded-to position (2020/21 prices)
PCAC	1.48	1.27	0.21
PCANF	1.68	1.1	0.58
PCAAF	(1.18)	0.08	(1.26)
Notional Cap Level	32.72	1.27	31.45
Notional Floor Level	17.26	1.1	16.16
Actual Floor Level	17.42	0.08	17.34

Questions

Q1. Do you agree with our proposed cost allowances?

3. Proposed licence modifications, GIL's financial parameters & GCFFM2

This section presents our proposed changes to GIL's special licence conditions and discusses the views raised by GIL, as well as our minded-to positions, in relation to the GCFFM1 and GCFFM2.

Overview

3.1 In GIL's PCR submission, it shared its observations in relation to the GCFFM1 and specific financial parameters and why it would benefit from change. This section provides our minded-to positions in response to these proposals by GIL.

3.2 Moreover, this section discusses the consequential changes to GIL's special licence conditions, based on the PCR review, where we aim to capture all the necessary updates to the licence based on all the changes taken place from when the licence was last modified. Furthermore, this section will discuss the licence modifications proposed to reflect the statement on regulatory processes as outlined in paragraph 1.17.

3.3 This section will also introduce the GCFFM2 and provides an overview of the key differences between previous CFFM2s and GCFFM2, as the GCFFM2 is a new model developed to incorporate regime variations associated with project finance.

Minded-to positions on GCFFM1 proposals raised by GIL

3.4 In GIL's PCR submission, it requested that we make changes to specific aspects of the GCFFM1 including certain financial parameters as outlined below:

a) an update to the GGCFFM1 such that REPEX feeds into the Actual Floor Level,

b) the annuity-based averaging used in the actual floor,

c) the use of real as opposed to nominal values,

d) the uncertainty of variable elements,

e) the real floor return rate,

f) transaction costs,

g) Retail Price Index (RPI) to Consumer Price Index (CPI),

h) the currency of regulatory submissions and,

i) changing the definition of "Relevant Year"

3.5 In relation to the financial parameters outlined in points (b) to (f) and (h) above, we believe these key financial parameters have been agreed upon and set at Financial Close and provided our views on each in the paragraphs below.

REPEX and the Actual Floor Level

3.6 Greenlink highlighted that REPEX was not feeding into the Actual Floor Level in the GCCFM1. We agree that REPEX should be included within the Actual Floor calculation and have amended the methodology accordingly. We are minded-to adopt the approach of including REPEX in the year in which the expenditure is incurred, rather than recovering it through depreciation and a return allowance. We consider this approach to be the most appropriate treatment of REPEX within the Actual Floor framework and have amended the calculation on this basis.

Annuity-based averaging

3.7 GIL stated that the actual floor adopted the annuity-based averaging used for the notional floor, despite the two mechanisms serving different purposes. GIL stated that, in practice, any shortfall arising at the specific point in time when the floor is required, would not be mitigated by surpluses in other periods. As a result, averaging is inappropriate.

3.8 Moreover, GIL highlighted the annuitisation of the operational cost element as a concern, as it takes the real 2020 costs for 22 years and applies an annuity factor based on a debt tenor of 22.59 years to create an annuity that is used for 22 years. It is also highlighted that this is part of a wider annuity calculation for both the operational costs and financing elements. The licensee has requested that the costs be split into two components and separate annuity calculations be performed on them, where the operational costs element will be based on 25 years of costs and an annuity factor of 25 years.

3.9 We maintain the view that annuitisation is necessary to calculate the annual floor value in real terms which is used to make ex-post calculations. This is a position we have held for all Cap and Floor interconnectors[47].

3.10 Furthermore, in relation to the 22 years of operating costs that are represented in the Actual Floor Level, Ofgem granted a partial acceptance to Greenlink's request for a later regime start date by 36 months, by providing a 16-month relief period[48]. As a result of this delay, Greenlink does not receive floor protection for the period between the RSD (1 May 2022) and the floor start date (1 January 2025), reducing

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[47] See page 94 in the Cap and Floor Regime Handbook

[48] Greenlink Interconnector Limited – Decision on a request for a later regime start date for the Greenlink interconnector project | Ofgem

the period over which operating costs are recovered through the floor. This is also linked to the debt tenor of 22.6 years, as the 22.6 years provides payment despite the delay. The basis of calculating the annuity factor was outlined at Financial Close and set in page 35 of the GCFFM1 handbook[49]. In accordance with this methodology, the ACOD floor annuity factor uses Greenlink's actual debt tenor of 22.6 years.

Use of nominal terms and variable elements

3.11 GIL stated that the GCFFM1 provided a real cost of actual debt, in opposition to GIL's actual floor obligations being largely fixed in nominal terms, creating a mismatch between a real terms allowance and GIL's financing requirements. GIL stated that due to its project finance debt being predominantly fixed in nominal terms, a floor set in real terms does not align with the nominal funding requirements it must meet.

3.12 Moreover, GIL noted that project finance includes variable elements where future cost cannot be reliably forecast. GIL stated that beyond the senior debt, which has a fixed principal and rate; it cannot know in advance whether GIL will need to use its other banking facilities.

3.13 The actual floor is structured to reflect different indexation approaches for different cost components. The component of the floor related to debt and the DSCR is indexed using a fixed inflation index, while the remaining component of the floor, including OPEX, REPEX and DECOMMEX, are indexed using outturn inflation.

3.14 We therefore consider that this approach should alleviate GIL's concerns regarding the debt component of the actual floor being linked to outturn inflation, by ensuring that the debt and DSCR-related elements are indexed using fixed inflation rates agreed with Ofgem, while retaining outturn inflation indexation only for those cost components where this is more appropriate. Fixed inflation rates were agreed at Financial Close and confirmed through the statement on regulatory processes outlined in paragraph 2.7. The specific rates agreed have been redacted for commercial sensitivity.

3.15 Furthermore, in relation to GIL's comments around the variable elements, we believe that the use of facilities have clear inputs and the responsibility falls on GIL to arrange and manage financing and ensure adequate reserves are maintained to meet its commitments.

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[49] CFFMH1 ACOD Greenlink.pdf

Real floor return rate

3.16 Lastly, Greenlink stated that a real floor return rate of -1.14% is based on a weighted average of the real cost of debt and a debt weighting, with a conversion from nominal to real interest rates, resulting in a value of 4.28%. Moreover, Greenlink highlight that this is used for tax calculations in the model and the value is different to the fixed assumptions used to inflate the debt servicing element of the Actual Floor, which has a long-term assumption of 2.0%. Greenlink state that the higher value depresses the real cost of debt and they would favour the use of an Internal Rate of Return (**IRR**) calculation as opposed to weighted average.

3.17 We do not agree that the Actual Floor return rate, debt servicing cashflows or associated tax allowances should be recalculated. The methodology used to derive the Actual Floor was established at Financial Close and formed the basis on which the Preliminary Actual Floor was determined. Under this methodology, the long-term inflation assumption was derived using market inflation expectations observed over a 20-day observation period around Financial Close and used to convert the nominal cost of debt into a real equivalent. This was outlined at Financial Close and set out on page 55-56 of the GCFFM1 handbook[50].

3.18 Greenlink's proposed changes, including the use of an IRR-based approach and alternative inflation assumptions, would represent a departure from the methodology agreed and applied at Financial Close. In our view, these changes would constitute a fundamental revision of the Actual Floor methodology rather than an adjustment arising from the PCR assessment. As the purpose of the PCR is to assess efficient project costs within the existing regulatory framework, we consider it appropriate to retain the established approach as agreed for determining the real cost of debt, the treatment of debt servicing cashflows and the associated tax calculations.

Transaction costs

3.19 GIL queried the modelling treatment of transaction costs, noting that the approach appears to assume a repurchase or retirement of equity at the transition from construction to operations, and asked how such an assumption could be realised in practice.

3.20 The initial debt and equity transaction costs at the start of the construction period are calculated based on the initial notional gearing level, with debt transaction costs calculated in proportion to gearing and equity transaction costs calculated in proportion to one minus gearing. At the end of construction and the start of the

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[50] [CFFMH1 ACOD Greenlink.pdf]

operational period, the notional gearing level increases. This implies the issuance of additional debt and the retirement of a portion of equity. The model therefore calculates an adjustment to transaction costs to reflect the issue of additional debt and the repurchase of some equity, ensuring consistency with the notional financing structure assumed under the regime[51].

3.21 As a result, our minded-to position on transaction costs is to retain the approach we have followed for previous cap and floor interconnector projects, and we encourage stakeholders to share views on this point.

Retail Prices Index (RPI) to Consumer Price Index (CPI)

3.22 GIL highlighted our decision to change our inflation index for interconnectors from RPI to CPI[52].

3.23 GIL stated that it was concerned that, in the absence of a clear regulatory policy or firm regulatory principles, the treatment of inflation measures could have a material negative impact on the cap and floor values. GIL stated that this would contradict good regulatory practice and labelled it as a material regulatory uncertainty.

3.24 We acknowledge GIL's concerns regarding the change in the inflation index applied under the cap and floor regime. However, as of this publication, this policy has not been implemented for Window 1 and Window 2 projects and any future decision would need to be considered more broadly across the relevant cap and floor projects, rather than solely in the context of GIL. When this aspect of the regime is reviewed, we would consult on any proposed changes and invite GIL and other stakeholders to provide their views.

Currency of the GCFFM1 and future submissions

3.25 GIL made its PCR submission on 29 April 2025 in EUR. It stated that it would like to make future regulatory submissions in EUR instead of GBP because the majority of its costs are incurred in EUR and its statutory accounts are completed in EUR. Moreover, it stated it would be more optimal, increase reliability and reduce regulatory burden, if GIL are allowed to make submissions in EUR. It also highlighted the Nemo Link interconnector as a project that makes submissions in EUR, stating that it followed Nemo Link's precedent of making submissions in EUR.

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[51] Pages 26 to 27 of the GCFFM1 Handbook

[52] Decision on 2024-25 Interest During Construction rates for offshore transmission projects and cap and floor interconnectors and modification to inflation metrics | Ofgem

3.26 We only accept submissions in EUR for projects that are jointly regulated. A jointly regulated project means that the same regulatory regime applies on both sides of the interconnector and both national regulators jointly regulate the project under aligned licence conditions and regulatory treatment. GIL is not a jointly regulated project and is a split-regulated project, meaning that the same regulatory regime is not applied jointly by us and CRU. As a result, we are of the view that GIL should make all future regulatory submissions to us in GBP. In relation to GIL's PCR submission, following an RFI requesting GIL to provide a submission in GBP, on 25 July 2025, GIL made a revised submission with a EUR-GBP bridge.

Financial Year to Calendar Year

3.27 Prior to this minded-to consultation, 'Relevant Year' was defined in 'Financial Years' in GIL's special licence conditions[53]. GIL requested that the definition of Relevant Year be changed such that it would align with its statutory accounting, which is conducted on a calendar year basis.

3.28 GIL stated that this would enable greater reliance on audited statutory accounts for regulatory reporting purposes, reduce the need for allocations between statutory and regulatory reporting periods, minimise the use of unaudited management information and offline calculations, and reduce the risk of errors arising from additional reporting complexity.

3.29 We are minded-to agree with GIL's request to align its statutory accounting year with its reporting year, as we see value in regulatory alignment to reduce reporting complexity. This change has resulted in associated changes to GIL's cap and floor levels, as previous levels were set in financial year. These values are set out in Tables 1 and 2. This is provided for ease of comparison with values established at the FPA (FC) and proposed by GIL in its PCR submission.,

3.30 The resulting amendments to the licence involve any reference to 2020/21 prices being changed to 2020 prices.

GCFFM1 submission

3.31 On 05 November 2025, GIL submitted an updated CFFM1 which consolidated elements of the GIL PFM and the GCFFM1. This model was not considered in our assessment of GIL's PCR, as it introduced material changes to the approved GCFFM1 methodology, including changes to the debt component of ACOD floor, actual floor calculation, annuitisation approach and eligible cost treatment. The

[53] Financial Year and Relevant Yearhttps://www.ofgem.gov.uk/sites/default/files/2021-06/Schedule 1A – New proposed special conditions for the electricity interconnector licence %281%29.pdf are defined in Special Condition 1, paragraph 5

model used in our assessment was the model submitted on 25 July 2025, in response to the RFI shared with GIL on 27 June 2025.

3.32 For the PCR, we have used the GCFFM1 to generate the Notional Cap and the Notional Floor levels and to use GIL's PFM and GCFFM1 to provide inputs to the GCCFM1 to set the ACOD floor level. This process is detailed in paragraph 1.16 of section 1. The values in the GCFFM1 submission are based on project costs we approved at FPA (FC) and subsequently updated at PCR, based on our minded-to allowances.

Q1. Do you agree with our minded-to positions in relation to GCFFM1 proposals raised by GIL?

Consequential changes to GIL's special licence conditions

3.33 The changes we propose to make to the special conditions in GIL's electricity interconnector licence are detailed in this section, along with the purpose of the change and what this change aims to achieve. Detail on the specific licence conditions impacted are set out in Appendix 3 and Schedule 3B.

Floor Start Date

3.34 GIL's Floor Start Date was determined to be 1 January 2025. This followed our determination that GIL's Full Commissioning Date was 3 February 2025, after it had successfully completed the 60 days of continuous operation and met the relevant licence requirements. We propose to modify the special licence conditions of GIL's licence to reflect the update to GIL's Floor Start Date.

Changing the definition of the term "Relevant Year"

3.35 As stated in paragraphs 3.27 to 3.30, GIL requested the "Relevant Year" definition be updated such that it aligns with the definition of calendar years, as opposed to financial year. As we are minded to agree with GIL, for the reasons outlined above, this has led to consequential changes in GIL's special licence conditions.

Reflecting the statement on regulatory processes

3.36 As stated in paragraph 1.17 of section 1, in March 2022, GIL requested a statement on regulatory process to demonstrate certainty to lenders in its debt raise process. The regulatory statement was agreed by GIL and through the statutory consultation on GIL's special licence conditions, we are minded-to incorporate it into the licence.

3.37 The Preliminary Actual Floor Level for GIL being divided into two components is an addition to the licence. Moreover, it is stated that these are indexed at two different indexation schedules as highlighted in paragraph 1.17. This is included in the licence to provide clarity on which elements of the Actual Floor Level are fixed or subject to change, thus impacting how cost allowances or disallowances impact the Actual Floor Level at the PCR stage. We also capture the agreed position of the debt service component of the Actual Floor Level remaining fixed for the full regulatory period, reflecting the maximum DSCR agreed at Financial Close, which has been redacted for commercial sensitivity.

3.38 Moreover, we have included provisions to state that the Actual Floor Level must be maintained at the gearing level set at Financial Close as well as how any consumer payments must be carried out in the specific situation where the Actual Floor Level is higher than the Notional Floor Level. This is because no equivalent provisions currently exist within GIL's special licence conditions that capture the content of the statement on regulatory process.

3.39 We are only consulting on the modifications to be made to GIL's special licence conditions to incorporate the parameters set out within the regulatory statement as agreed at financial close.

Q1.	Do you agree with our proposed modifications to GIL's special licence conditions?

Corporation Tax

3.40 Our default regime allows for the Corporation Tax (**CT**) rate to be set at Final Investment Decision (**FID**), taking into account any public statements, at that time, about any future movements of the CT rate. This approach was used to determine the CT rate specified in the GIL FPA decision and is in line with the information provided in our Interconnector Cap and Floor Regime Handbook[54].

3.41 For GIL, we have applied a CT rate of 25% within the CFFM models. This rate is consistent with the above approach of setting the CT rate at the time of FID.

GCFFM2

3.42 The GCFFM2 will be used:

(a) 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

[54] Interconnector_Cap_and_Floor_Regime_Handbook_Updated_Version.pdf

(b) to inflate cap and floor levels annually;

(c) to reflect performance relative to GIL's availability targets;

(d) to assess, at the end of every regulatory year, actual revenue earned by GIL against the adjusted cap and floor levels, and actual non-controllable operating costs against the baseline level, to determine whether GIL's revenues should be 'topped up' to the floor level or whether excess revenue (above the cap level) should be returned to consumers.

3.43 The GCFFM2 is a new model developed to incorporate the Cap and Floor regime variations that have emerged due to GIL's project financed nature.

3.44 Alongside the GCFFM2, we have also published the Greenlink Cap and Floor Financial Model 2 Handbook (GCFFM2H). The GCFFM2H has more detail around the specific changes made and the associated guide for understanding the GCFFM2.

Q2.	Do you agree with our proposed approach to the GCFFM2 and GCFFM2H?

4. Conclusions and next steps

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 consultation. 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.

Appendix 1. Technical summary

A1.1 This appendix outlines our approach to determining the value of the inflation indices that are used within our assessment of project costs submitted by GIL at the PCR stage.

A1.2 At this PCR stage, we have reviewed all submitted costs during construction and forecasted costs during operation to assess whether these have been (or would be, in the case of future costs) economically and efficiently incurred. Under our cap and floor regime, these costs play a key role in the building blocks approach that we use to determine the cap and floor levels for an interconnector project.

A1.3 Depending on the nature of the costs, i.e., construction costs already incurred or forecasted operational costs, the costs submitted at this stage are denominated in pound sterling (GBP) and expressed in either real or nominal terms for the year in which those costs have been incurred (or are expected to be incurred).

A1.4 The cap and floor levels for GIL have to be denominated in GBP and in real 2020 prices[55]; therefore, we had to convert both construction and operational costs into 2020 prices.

Costs during development and construction

A1.5 GIL's cost submission for PCR includes costs incurred during the development and construction phase, i.e. between 2014 and 2025 [56] . These costs are expressed in GBP and in nominal terms. Hence, they had to be converted as described above.

A1.6 For those costs incurred during the above periods, historical 12-month averages of inflation indices (UK RPI) were used to achieve the conversion described above, as monthly figures were available for each month during the 2020 period and historical 12-month averages could be calculated for each parameter in each year based on those figures.

Costs during operations

A1.7 In GIL's PCR submission, costs during operations are expressed in GBP in real terms (2024 prices) and will be incurred during the 25 years of the regime, between 2022 and 2048.

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[55] Update to the provisional cap and floor level for the Greenlink Interconnector | Ofgem

[56] These include DEVEX, CAPEX and cost of spares.

A1.8 An indexation factor has been applied to the costs during operations to convert them from real 2024 prices to real 2020 prices. The indexation factor is calculated as the average UK RPI value for the year 2024 divided by the UK RPI value for the year 2020.

Appendix 2. Privacy policy

Personal data

The following explains your rights and gives you the information you are entitled to under UK 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
- 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".