

# Summary of responses to Ofgem's consultation on a cap and floor regime for regulated electricity interconnector investment for application to project NEMO

## Summary of responses

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### Overview:

The consultation sought views on our proposals for a new regulatory regime for electricity interconnector investment for application to project NEMO, the proposed interconnector between Great Britain (GB) and Belgium. The regime has been developed together with the Belgian regulator CREG.

The consultation was published on 7 March 2013 and closed on 3 May 2013. Ofgem received 13 responses from existing and interested interconnector owners, transmission system operators (TSOs) and energy companies. The purpose of this paper is to summarise responses under four main areas:

1. proposed cap and floor design for NEMO;
2. proposed cap and floor on returns methodology for NEMO and its implications;
3. cap and floor regime implementation issues; and
4. connection process to the onshore grid.

## Context

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In GB, we currently have limited electricity interconnection capacity. There is commercial potential for further interconnection which can bring benefits to the GB market, such as market integration and the delivery of the EU internal energy market as well as security of supply benefits. The need for further cross border investment has been highlighted by the European Energy Infrastructure Package which aims to ensure that strategic energy networks are completed by 2020.

There are barriers to this investment being delivered, including challenges with the current route in GB for delivering investment (the merchant approach) and this delivery route not being compatible with all European Member States reducing the range of candidate countries for connecting to GB. Therefore, there is a clear need to develop a regime that will overcome these barriers and develop a predictable and stable framework that will facilitate interconnector investment.

This led us to consider the development of a regulated regime for electricity interconnector investment in GB. This proposed regime has been developed with the Belgian regulator CREG and is intended to apply to the NEMO project, the proposed interconnector between GB and Belgium.

The consultation sought views on the proposed regime design and methodology to set the cap and floor on returns for NEMO. From a GB perspective, Ofgem also sought views on cap and floor regime implementation and connection process to the onshore grid.

In the consultation, we noted that in the shorter term and until the Integrated Transmission Planning and Regulation (ITPR) project is concluded, we are committed to delivering a regulatory framework for project NEMO. We noted the potential that this regime has for being applied on other projects beyond NEMO, subject to changes reflecting the views submitted in relation to this consultation and subject to the ITPR conclusions. Since this consultation closed, there has been a consultation issued under the ITPR project outlining our emerging thinking on the system planning and delivery for electricity transmission arrangements in GB, including electricity interconnection.

## Associated documents

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Integrated Transmission Planning and Regulation Project: Emerging Thinking (83/13), June 2013 (consultation)

[http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/itpr/Documents1/ITPR\\_emerging\\_thinking\\_consultation.pdf](http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/itpr/Documents1/ITPR_emerging_thinking_consultation.pdf)

Cap and floor regime for regulated interconnector investment for application to project NEMO (28/13), March 2013 (consultation)

<http://www.ofgem.gov.uk/Europe/Documents1/Cap%20and%20floor%20regime%20for%20regulation%20of%20new%20subsea%20interconnector%20investment5.pdf>

Preliminary conclusions of the regulatory regime for project NEMO and future subsea electricity interconnector investment, December 2011

[www.ofgem.gov.uk/Europe/Documents1/Preliminary%20conclusions%20letter.pdf](http://www.ofgem.gov.uk/Europe/Documents1/Preliminary%20conclusions%20letter.pdf)

Cap and floor regime for regulation of project NEMO and future subsea interconnectors (86/11), June 2011 (consultation)

<http://www.creg.info/pdf/Opinions/2011/NEMO/Nemo-EN.pdf>

<http://www.ofgem.gov.uk/Pages/MoreInformation.aspx?docid=67&refer=Europe>

Open letter on next steps from Ofgem's consultation on electricity interconnector policy, September 2010

<http://www.ofgem.gov.uk/Europe/Documents1/Ofgem%20next%20steps%20letter.pdf>

Electricity interconnector policy (12/10), January 2010 (consultation)

<http://www.ofgem.gov.uk/Europe/Documents1/Interconnector%20policy%20consultation.pdf>

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# 1. Consultation respondents

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1.1. We received 13 responses (one confidential) from an existing interconnector owner, interconnector developers, energy companies, and transmission system operators (TSOs). No responses were received from consumer representatives.

## 1.2. List of non-confidential responses

|    | Name   | Group                         |
|----|--|-------------------------------|
| 1  | BritNed  | Existing interconnector owner |
| 2  | Centrica   | Energy company                |
| 3  | DONG Energy  | Energy company                |
| 4  | EDF Energy   | Energy company                |
| 5  | FAB Link   | Interconnector developer      |
| 6  | National Grid Electricity Transmission (system operator) | Transmission system operator  |
| 7  | NEMO Link  | Interconnector developer      |
| 8  | North Connect  | Interconnector developer      |
| 9  | RTE  | Transmission system operator  |
| 10 | RWE  | Energy company                |
| 11 | Statnett   | Transmission system operator  |
| 12 | Vattenfall   | Energy company                |

Responses received by Ofgem which were not marked to be kept confidential have been published on our website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)) and copies are also available from our library.

## 2. Responses to questions

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### Proposed cap and floor design for NEMO

**Question 2.1:** Do you agree with our proposed regime design outlined in this chapter and Appendices 1 and 2? Is the design consistent with the high level principles established for the cap and floor regime in December 2011?

1.3. In the consultation on the proposed regime design for NEMO<sup>1</sup> (the consultation) we proposed:

- an allowed revenue approach based on costs to set the level of the cap and floor ex-ante for the length of the regime;
- periodic assessments of whether the cap and floor have been breached over discrete periods;
- cap and floor levels constant in real terms;
- no profit sharing arrangements; and
- developer facing performance incentives.

1.4. Most respondents agreed that the proposed regime design for NEMO was appropriate and consistent with the principles established for the cap and floor regime in December 2011. An energy company supported the proposed regime design, as long as the business case for NEMO has been demonstrated in an open and transparent way.

1.5. A number of respondents, both interconnector developers and energy companies, believed that the proposed principles for the regime will be a major enabler for the realisation of other interconnector projects with significant benefits to GB. One interconnector developer noted that the proposals addressed the regulatory barrier to interconnector investment which existed without this framework. One energy company believed that given this likely development, and GB consumers underwriting some of the project risk, the project evaluation process must include an impact assessment that includes other technologies and/or balancing options.

1.6. An interconnector developer believed that certain aspects of the proposed regime design for NEMO may not allow Ofgem to meet its objective that the regime

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<sup>1</sup><http://www.ofgem.gov.uk/Europe/Documents1/Cap%20and%20floor%20regime%20for%20regulation%20of%20new%20subsea%20interconnector%20investment5.pdf>

will be ‘finance solution invariant’. In particular, they cited a strong preference for annual assessments over periodic assessments to fulfil this objective.

1.7. One transmission system operator (TSO) believed that the proposed regime was compatible with the proposed regime in France despite differences between the proposed regimes. They considered some potential asymmetries would need to be addressed in order for the regimes to work well together. They highlighted concerns over whether a discrepancy in risk taken by developers on both ends of the link, arising from differences in assessment period duration and the financeability test, could delay or even jeopardise projects.

1.8. One existing interconnector owner and two energy companies highlighted the importance of the regime being non discriminatory between all interconnectors, both existing and future interconnectors, and stressed the need to retain strong market incentives under the regulated framework. One energy company believed that stakeholders should be able to understand the business case for NEMO, so that they could assess the extent to which the cap and floor regime might distort the market. They highlighted that consumers are underwriting some of the product risk and that alternative products could provide some similar benefits to interconnectors.

**Question 2.2:** Do you consider that provision for a financeability test within period outlined in this chapter and in Appendix 2 is needed with five year assessment periods? If so, how should the trigger point for financeability constraints be set?

1.9. In the consultation, we proposed to assess congestion revenues against the level of the cap and floor every five years, to consider each assessment period in isolation, ie discrete periodic form of assessment, and to include provision for a financeability test within-period.

1.10. Most respondents answered this question. They advocated either five year assessment periods or annual assessment periods. They held differing views on the need for a financeability test within-period under five year assessment periods and the trigger for causing the movement of funds if there was such a test.

1.11. The respondents who favoured annual assessments were primarily interconnector developers who were proposing to use project finance for their project. Those respondents also sought a strong within-period financeability test. Other interconnector developers and TSOs were broadly in favour of five assessment periods with provision for a financeability test within period. Energy companies that commented on this question advocated five year assessment periods with no within-period financeability test.

1.12. One interconnector developer felt that the proposed five year assessment periods did not achieve Ofgem’s objective of the regime being ‘finance solution invariant’. They advocated cumulative annual assessments over a five year period and a strong mechanistic financeability test if five year assessment periods were retained.

1.13. Several interconnector developers and one TSO highlighted the need for clarity on how the financeability test would be conducted for the investment decision.

1.14. One energy company cautioned that whilst a financeability test may protect against very negative events within period, it could encourage inefficient gearing arrangements which would require higher floor returns to ensure debt covenants are met. They proposed the trigger for the test should be relatively strict. This view was supported by an interconnector developer who advocated the trigger should be below the cumulative level of the floor and restricted to conditions that are beyond those that could have been reasonably foreseen by the developer. Another energy company went further and argued that if there is a business case for the interconnector project, a financeability test within-period should not be required.

1.15. One TSO highlighted the importance of the regime compatibility, in particular, for the delivery of future interconnector projects where the cap and floor didn’t apply at both ends of the link. They noted five year assessment periods are more in line with length of onshore regulatory settlements in mainland Europe but that revenues are adjusted annually rather than at the end of the period.

**Question 2.3:** Do you consider the proposed arrangements (for market related costs and the availability incentive) incentivise high link availability?

1.16. In the consultation we proposed:

- Firmness treated as market related cost, and netted off from gross congestion revenues. No allowance provided in the cap and floor for these cost. Net revenues, ie gross congestion revenue minus firmness costs, assessed against the cap and floor values to determine if either has been breached.
- An availability incentive with a symmetric financial incentive linked to the cap. A one percentage point change in the level of the cap for each percentage point deviation in link availability from the target set. Target availability set on a project by project basis, subject to a maximum upside/downside of two percentage points.

1.17. Most respondents answered this question. Respondents were in broad agreement that the proposed availability incentive, along with the proposed treatment for market related costs, is appropriate and effective for incentivising high link availability.

1.18. Several interconnector developers and energy companies commented that exposure to market related costs incentivises developers to maximise link availability. One energy company remarked that the requirement to provide firm forward products, which may result from the European network codes, should provide a good incentive to maintain link availability as developers have to comply with the network codes. They felt firm products will be more valuable to network users and provide more earnings for interconnector owners.



1.19. Respondents agreed with our proposed approach for setting target availability on a project by project basis mechanistically and the application of the financial incentive (at the cap only but with safeguards at the floor). However, some respondents suggested that other factors may need to be taken into account when setting target availability, in particular external constraints imposed on the link by the system operator.

1.20. Interconnector developers and one TSO provided additional comments on the availability incentive in the following areas:

- Measuring ‘actual’ availability: One interconnector developer supported a project specific assessment for availability but sought further clarity on the definition of target availability (technical and market availability). They advised that neither target nor actual availability should include the impact of market-driven or potential external factors beyond the control of the link operator. Another interconnector developer and a TSO supported this view.
- Dataset used to set ‘target’ availability: One interconnector developer felt that the dataset used in the model should be continuously updated. Another interconnector developer felt the proposed target for NEMO diverged from observed availability data for existing high voltage direct current (HVDC) interconnectors.

**Question 2.4:** Do you believe that there are opportunities for gaming by developers with our proposed regime design?

1.21. Among those who responded to this question, interconnector developers and energy companies alike felt that there are no systematic opportunities for gaming.

1.22. One energy company remarked that there appears to be a good amount of checks and balances in the proposal to safeguard both developers’ and consumers’ interests. They believed the risk of gaming was similar to that faced by Ofgem in its usual work with network and tariff regulation.

1.23. Another energy company highlighted that there are sufficient regulatory tools to deal with cases of gaming, for example, the provision of misleading information. An interconnector developer and an energy company felt that the proposal to set floor revenues on the basis of costs reduced the scope for gaming.

**Question 2.5:** Are there aspects of the proposed regime design for NEMO that should be reviewed for future projects, eg changes in capex treatment as more of these projects are built?

1.24. In the consultation we proposed to consider an ex-ante incentive based treatment of capex for projects following NEMO.

1.25. Among those who responded, all commented on the suitability of moving towards an ex-ante capex incentive for future interconnector projects. Energy companies and interconnector developers noted that as more projects are built using the same technology proposed for NEMO, which has previously not been deployed at this scale, more robust estimates of building an interconnector may be attainable. This may allow a move towards an ex-ante incentive based treatment of capex for future projects.

1.26. One interconnector developer advised that Ofgem should review the equipment supply and construction contracts at financial close (final investment decision) and carry out an ex-ante capex assessment at this point. They suggested Ofgem used the construction and contract information obtained in the offshore electricity transmission tender process to facilitate benchmarking. They believe this process would reduce regulatory risk for developers at financial close. This view was supported by a TSO, who felt an ex-ante incentive would provide a stronger incentive on timeliness and efficiency in the construction phase. They also expressed concern with commercially sensitive information around suppliers’ costs being shared for the ex-post capex review.

**1.27.** One energy company warned that generalised capex incentives are not likely to be a simple matter for case by case projects. They advised that each project is dealt individually, given the likely developments in technology.

## **Proposed cap and floor on returns methodology for NEMO and its implications**

**Question 3.1:** Do you agree with our proposed approach on the key methodology considerations? Is our approach consistent with the high level principles established for the cap and floor regime in December 2011?

1.28. In the consultation we proposed:

- separate weighted average cost of capital (WACC) calculations at the cap and floor based;
- using a mechanistic rather than a deterministic approach to calculate the WACCs;
- locking down the cap and floor on returns at financial close (final investment decision);
- blended cost of capital calculations applied on a 50:50 basis between the two jurisdictions; and
- allowing developers to keep any refinancing costs and receive a provision within the RAV for issuance costs.

1.29. Our proposals on key methodology considerations were supported by all seven respondents to this question. Some specific points raised included:

- Two energy companies highlighted the importance of a mechanistic approach for providing investor clarity and certainty. This view was supported by a developer who noted that it had advantages in terms of transparency and simplicity.
- One interconnector developer noted that under an operation cost of capital that is determined by a 50:50 weighting of cap and floor returns, the cap and floor will be symmetric around the project cost of capital if the cap and floor are set appropriately. They cautioned that with separate cost of capital calculations for the cap and floor there was a risk of an unduly low prospective average project return.

**Question 3.2:** Do you agree with our approach of using the cost of debt and equity to set returns at the floor and cap respectively, while acknowledging that that the appropriate level of the cap and floor returns are interrelated?

1.30. In the consultation we proposed:

- Tracking a cost of debt index as the mechanism for the floor allowing an efficient developer with a notional financing structure to recover their costs to ensure they are financeable.
- Setting the cap on returns based on the cost of equity for a generation plant to reflect the risks at the cap together with the reduction in project risk by the provision of the floor and our proposed methodology for setting the floor on returns.

1.31. Respondents supported our proposed approach with two interconnector developers providing specific comments on the calculation of the cost of debt and equity.

1.32. One TSO supported our proposal that an efficient developer should be allowed to recover its costs and service its debt obligations (be ‘financeable’) at the floor. They noted they would have views on minimum equity and/or liquidity and maximum allowable gearing if they were entering into a project with a partner and these views may differ to Ofgem’s notional gearing assumption.

1.33. One interconnector developer commented on the proposed methodology used to set the cap and floor on returns. They believed the methodology used to set the cap may need to take into account two additional considerations.

- Firstly, using the cost of equity for a generation plant caps developers return at a level less than or equal to those seen by a generator (whose average

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returns will include contributions from returns above as well as below their average value). Under our proposed methodology, the cost of equity is being applied on the whole asset base not just the non geared proportion. This means the scale of the respondent’s concern will depend on the volatility of revenues.

- Secondly, they queried the use of Drax as the generation comparator. They suspected that there are number of other factors which are relevant to Drax’s observable beta which are not relevant to interconnector investment appraisals but did not provide any alternatives. They also felt the presence of the floor and the floor on returns does not reduce the level of risk at the cap.

1.34. One interconnector developer noted further detail on the particular benchmarks and parameters that would be chosen in Belgium is required.

**Question 3.3:** Do you agree with our proposed approach to setting interest during construction (IDC) outlined in this chapter and Appendix 4? Are there any other relevant risks/factors that we should be aware of when developing an IDC methodology?

1.35. In the consultation we proposed to apply a similar approach to the interest during construction (IDC) calculation in the GB offshore transmission regimes. Aspects of the methodology may be amended to reflect the risks faced by interconnectors under the proposed regulatory regime design may be different than the GB offshore transmission regime.

1.36. Two interconnector developers supported our proposed approach to setting IDC. Another developer agreed with the aspects set out in Appendix 4. One energy company endorsed our proposed methodology and advocated that the methodology ensured a fair and balanced outcome for investors and consumers.

1.37. One interconnector developer felt that the IDC methodology should incorporate an appropriate allowance for development costs within the methodology for calculating IDC to reflect the particular risk associated with development costs.

1.38. One interconnector developer commented that they did not expect a significant difference between the operational cost of capital and cost of financing during construction. This was because under the proposed ex-post capex review all economic and efficient spend was passed through into the opening regulatory asset value (RAV).

1.39. Amongst energy companies, respondents held diverging views on the appropriate rate of IDC. One energy company felt that under an ex-post capex review, IDC can be considered as an almost risk-free return and could be equal to the minimum return calculated at the floor. Conversely, another energy company supported CEPA’s inclusion of ~20% risk of unrewarded costs (RoUC) term in the

IDC calculation due to inefficient or uneconomic capex being disallowed in the offshore transmission regime.

**Question 4.1:** Is our analysis on Return on Regulated Equity (RoRE) considerations consistent with the high level regime principles?

**Question 4.2:** Do you think that our proposed RoRE range is sufficiently wide enough to retain market incentives within a regulatory framework?

1.40. In the consultation, we computed a return on regulated equity (RoRE) range under our proposals and compared this against the RoRE on offer in other regulatory regimes and for other relevant comparators.

1.41. Five respondents commented on our RoRE analysis and proposed RoRE range. Interconnector developers and energy companies alike were broadly supportive of the proposed range. Interconnector developers held mixed views about the size of the range, and felt it was consistent with high level regime principles.

1.42. Another interconnector developer, and two energy companies, felt that the proposed RoRE range was sufficiently wide enough to retain market incentives within a regulatory framework. One interconnector developer felt the RoRE upside was not sufficient. They believed that the prospective average RoRE returns were below those for RIIO-T1 and that this was a counterintuitive outcome given the predominance of construction risk and the significant exposure to market prices. They suggested the proposed cap return may be somewhat low because returns on alternative investments which are likely to have lower risk would be more attractive.

1.43. One interconnector developer proposed a narrower RoRE range. They felt the floor on RoRE should be moderately higher than the cost of debt, provided appropriate availability requirements are met, to attract a broad and deep pool of investors. They believed this was important because of the difficulty, to date, in attracting investment into fully merchant interconnector projects and the competing investment opportunities for investors’ funds. They acknowledged that if the floor was set above the cost of debt then the corollary of this would be a lower cap.

## Cap and floor implementation issues

**Question 5.2:** Do you have any views on the regulatory decision making process for project NEMO and on any other areas of consideration for the cap and floor regime beyond NEMO?

### **Broad support for applying the cap and floor regime on projects beyond NEMO**

1.44. In the consultation we noted that in the shorter term and until the Integrated Transmission Planning and Regulation (ITPR) project is concluded, we are committed to delivering a regulatory framework for project NEMO. We noted the potential that that this regime has for being applied on other projects beyond NEMO, subject to

changes for example reflecting the views submitted in response to this consultation and subject to ITPR conclusions.

1.45. Most respondents were supportive of the idea of applying a cap and floor regime on other projects beyond NEMO. Establishing a more enduring investment framework was seen by many as a major enabler for the realisation of other interconnector projects with significant wider benefits for GB.

1.46. A few interconnector developers highlighted the potential of developing this approach as the European model for third party interconnector investments. Two interconnector developers encouraged Ofgem to make efforts to achieve EU wide acceptance and recognition of the potential socioeconomic contribution of third party interconnectors as a supplement of national TSO projects.

1.47. A few other respondents, primarily energy companies, highlighted the need to establish a transparent and clear evaluation process for future projects, given the potential distortive effects on the markets by consumers potentially underwriting most of the investment. One other energy company suggested that a similar assessment process to Strategic Wider Works<sup>2</sup> would be desirable.

1.48. One interconnector developer was concerned with the delay of considering their application for a cap and floor treatment until after a decision on NEMO is taken (planned to be by the end of the year). They urged Ofgem to open up the process immediately for consideration of other advanced projects that have met certain criteria, for example provisional project of common interest (PCI) status or signed connection agreements.

1.49. An energy company noted that the business case for more interconnection investment may be driven by regulatory regimes such as renewable energy sources (RES) subsidies and therefore an EU alignment of market design is needed in order to encourage investment. Another energy company noted the need to develop the regulatory framework further with the aim of ensuring adequate incentives are in place for the realisation of projects with a positive socioeconomic effect on a regional level. One TSO highlighted that they do not see the process of facilitating the movement of funds between the system operator and the developers (via transmission network use of system charges) as complex or controversial. They felt that in GB the process would mirror the approach for other network owners, such as the Scottish transmission owners (TOs) and the offshore transmission owners. They noted the need to establish clear principles so that investors are able to understand the implications of the process and take them into account.

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<sup>2</sup> Under the Strategic Wider Works process put in place under RIIO-T1, incumbent TOs may propose the delivery of large electricity transmission network developments. See <http://www.ofgem.gov.uk/Networks/Trans/ElecTransPolicy/CriticalInvestments/strategic-wider-works/Pages/index.aspx>

1.50. The same TSO questioned the rationale of keeping the existing prohibition which does not allow existing transmission licensees to hold an interconnector license. They noted that by excluding national TOs, a potentially good source of development ideas, expertise and financial resources is excluded.

## Connection process to the onshore grid

**Question 5.1:** Do you agree with the proposed principles for considering the connection process in the regulatory decisions on electricity interconnector investment? Are there any other areas that need to be considered in the principles?

1.51. We proposed some principles for considering the treatment of the connection process to the onshore grid in the regulatory decisions for both exempt and merchant interconnectors.

1.52. Respondents were supportive of the need to review the interconnector connection process and establish high level principles. They were broadly supportive with our proposed principles.

1.53. Most respondents noted the need to establish a framework for effective cooperation between the relevant parties. They highlighted the need to work further on how costs are treated under both the regulatory and the merchant-exempt regime, noting also the potential issues that may arise due to the first come first served approach for interconnectors and connect and manage for generators. They stressed the need for the ITPR project in GB to establish an enduring solution which would ensure interconnectors are treated as transmission rather than generation or demand. Some respondents felt that this framework would require a more centralised planning approach. Other respondents stressed the need to ensure it is in line with the EU Third Package which they feel requires that the solution delivers highest social welfare for EU consumers as a whole.

1.54. One interconnector developer believed that the current connection process is not appropriate for interconnectors. They said it is unpredictable and even close cooperation between the national electricity transmission system operator (NETSO) and the interconnector developer does not necessarily result in an optimum solution for the interconnector and onshore network combined. The same respondent noted that this should not be the model for an enduring solution under the ITPR project. They supported the idea of some degree of centralised planning of interconnectors.

1.55. An energy company noted that the absence of financial signals could lead to inefficient connection location choices and therefore it is important to establish principles for cooperation and coordination between existing TSOs and new interconnectors. Another respondent agreed with the need to establish principles regarding the connection process to be used in the interim, until ITPR is concluded. They noted that the enduring framework should ensure interconnectors are treated as transmission not generation. They also highlighted the need for further clarity on what constitutes an ‘economic and efficient’ test, noting that the EU Third Package

may require a wider approach to this test to ensure it delivers highest social welfare for consumer in the EU as a whole.

1.56. One TSO welcomed an industry debate on how the proposed design proposals will be treated and what the benchmark against which investments will be assessed should be. They welcomed the idea that only economic and efficient costs are considered in the regulatory decisions within the cap and floor regime but questioned whether this is applicable in the case of exempt interconnectors. The same respondent highlighted the potential need for interconnectors to be subject to a ‘light license’, to provide clarity on the consequences of inefficient and uncoordinated decisions by developers, particularly when they seek an exemption, where Ofgem’s powers seem to be less clear.

1.57. One TSO noted that there is a case for further development of the system operator – transmission owner code (STC) so that it provides a framework for managing relationship between interconnector owners, the NETSO and affected TOs. Changes to the connection and use of system code (CUSC), which is currently treating interconnectors as generation and demand, may also be needed. The same respondent suggested that these changes are a major piece of work and it may be worth waiting for the ITPR project to be concluded before proceeding with such major framework development.

1.58. One interconnector developer noted that by reflecting any potential increase in interconnection costs (due to a connection that involves higher costs than the one proposed originally) to the RAV will depress the expected project returns. This is because interconnector revenue is independent of the connection point chosen in the two countries (assuming link availability is unaffected by the location), and so higher costs mean that expected profit for the interconnector developer is reduced. They suggested that interconnector developers should not be asked to bear additional costs without additional benefits and they should receive an additional regulated income stream (on top of their congestion revenues) to reflect the onshore transmission costs avoided.