Making a positive difference
for energy consumers

Interconnector developers and
other interested parties

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Date: 6 August 2014

Dear stakeholders

Decision to roll out a cap and floor regime to near-term electricity interconnectors

In May we published a consultation on proposals to roll out the cap and floor regime to near-term interconnector projects. We have received 25 responses, most of which broadly expressed support for our proposals. After carefully considering respondents' views,[1] we have decided to roll out the cap and floor regime to near-term electricity interconnector projects. With immediate effect, we are opening the application window for projects seeking a cap and floor regulatory regime. Developers must submit applications **by 30 September 2014** for projects to be considered as part of this window.

We have also decided that we will open a second application window for projects which may not be eligible to apply now or may benefit from delaying their application. This will help to ensure that projects are not inappropriately rushed through the first window. We intend that this second application window and assessment process will operate in the same way as the first.[2] Interested parties should notify us by 1 May 2015 of their intent to submit projects within the second window. We expect the deadline for applications to be September 2015 and we will confirm this based on discussions with developers.

Background

In our May 2014 consultation (and previous consultations[3]), we considered a number of regulatory approaches to interconnection. We proposed to roll out the developer-led cap and floor regime to near-term interconnectors as our analysis showed it is likely to facilitate timely investments and deliver significant benefits to consumers. The regime gives developers an incentive to identify efficient investment opportunities which are in consumers' interest. It also provides a level of certainty to developers without providing full consumer underwriting. It does not require legislative change and can be implemented reasonably quickly. As a result it can support investment by developers who already have mature projects in the pipeline.

We proposed the assessment window approach as it allows us to assess the justification for different projects together and, if appropriate, compare them. This should ensure that only

[1] Appendix 2 to this letter provides a summary of responses to our May 2014 consultation.
[2] Limits on timing of stages may differ slightly between the first and second assessment windows as discussed later in this letter. Changes may also be required due to developments and experience gained in the interim.
[3] Our ITPR Emerging Thinking consultation is available at: https://www.ofgem.gov.uk/ofgem-publications/52728/itpremergingthinkingconsultation.pdf

economic and efficient projects in the interest of consumers are granted cap and floor regulated revenues.

We are committed to ensuring there is a framework for efficient investment in interconnection beyond the two application windows we are announcing today. We will continue to keep the details of the policy under review, and amend as needed, to ensure it meets this aim. Long-term interconnector policy is still being considered as part of the Integrated Transmission Planning and Regulation (ITPR) project. We expect to publish draft conclusions (for consultation) by the end of September 2014. This will address our proposals for the regime beyond projects applying in the second window.

Updates on proposals

We have considered the feedback on our proposals from consultation responses and discussions with developers. We have identified some areas of our proposals that require further clarification, which we provide below.

In relation to the remainder of the proposals, not discussed in detail in this letter, our policy is as stated in the May 2014 consultation.

We are still considering the detailed implementation of the regime, in particular interactions with transmission charges, which is an issue that was raised by respondents. Some changes may be required but we do not foresee this affecting the fundamental regime design. We are also willing to consider project-specific proposals for variations to the detail of the regime, if a developer, as part of its submission, clearly demonstrates that a proposed change better protects the interests of consumers when compared to our general regime. This could include changes to the length of the assessment period over which revenues are assessed against the cap and floor.

Anticipatory investment

We will consider proposals to include anticipatory investment in the cost base for the calculation of any cap and floor. Developers must demonstrate why any anticipatory investment is in consumers' interest. If we do not agree we will exclude these costs from the calculation of the cap and floor.

If we agree with the rationale for anticipatory investment at the Initial Project Assessment (IPA) stage we would normally not revisit this at the Final Project Assessment (FPA) stage, unless the proposed level of anticipatory investment has changed significantly or if a long time has elapsed between the IPA decision and FPA submission (as set out below).

Connection agreement as an eligibility criterion

We still consider an agreement for connection before the end of 2020 to be a key indicator of project maturity. However, we recognise that getting an agreement can take time and we do not want to delay efficient investment. As a result we will be flexible in applying this criterion where developers have an agreement for connection by the end of 2020 that requires modification.

We expect to maintain this criterion for the second cap and floor application window, such that developers will need a connection agreement for connection prior to the end of 2021 to be eligible for the second window. We expect that all other eligibility criteria will remain the same as for the first window.

Non-firm connections

We recognise that some connections may be non-firm initially, where onshore grid investments cannot be completed in time.

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Developers should be aware that unavailability due to the firmness of connections will be included in our calculation of performance against the availability incentive and availability threshold. This may result in a reduction in the cap or developers not qualifying for floor payments. This should minimise the risk of consumer underwriting if the interconnector is not sufficiently available due to developers' firmness agreements. We want developers to consider the optimal timing for projects to connect in the most efficient manner.

Time limit between IPA and FPA

In the consultation document we noted that we may need a time limit between IPA and FPA stages as the justification for a project may change over time. We expect developers applying in the first window to submit the full information for FPA within two years of our IPA decision. We would not normally revisit the IPA decision within two years, but would expect to do so if developers do not submit relevant FPA information within this period.

We appreciate the need for flexibility in the first application window given the relatively short notice period. For the second round developers will have more notice, so the window between the IPA and FPA stages will be shorter. For projects applying within the second window we expect to revisit the needs case if there is more than two years between our IPA and FPA decisions (ie our IPA decision will be conditional on an FPA decision being made within two years).

Time limit on commissioning date

In the consultation document we identified the need to have time limits on decisions, and considered several options. Our intention is to balance the need to prevent decisions from being open-ended and to protect developers against events outside of their control.

We will only grant interest during construction (IDC) and additional incurred costs associated with delays if developers can demonstrate they were outside of their control and were efficiently incurred. The FPA decision may be conditional on the start of construction not being materially delayed. If our IPA demonstrates that the project value to consumers strongly depends on a particular connection date being met, we may consider other arrangements when making our IPA decision.

Even where delays are outside the control of the developer, we will start the 25-year cap and floor period from the earlier of the actual connection date or 1 January 2021. This means that if delays push the operational date beyond the end of 2020, the length of the regime would be reduced by the length of the delay. We acknowledge that there are natural incentives on developers to deliver projects in a timely manner, but we think time limits will encourage developers to submit realistic business plans so that consumers are protected from unnecessary delays.

Where there are excessive delays before commissioning we may revoke our decision to award a cap and floor. This would be a last resort.

We expect to provide equivalent provisions for the second window.

Requirements to comply with EU law

Some consultation responses asked us whether it was possible to apply for the cap and floor regime as well as an exemption from certain EU law requirements, such as on unbundling and use of revenues. We confirm that we do not think it is appropriate for developers to apply for a cap and floor and an exemption in tandem. Projects applying for cap and floor should comply with all the relevant European law requirements, including existing and future European network codes. We expect developers to choose whether the cap and floor regime or the exemption route better suits the needs of their projects.

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We do not propose to specifically assess projects' ability to comply with other requirements (eg ownership unbundling obligations, licence conditions and related industry codes) as part of this process. It is for each project to ensure compliance with all relevant legal obligations and our decision to award a cap and floor is subject to these obligations being met.

Next steps

Developer applications must reach us by our submission deadline of **30 September 2014**. Where possible, developers should submit the information for the IPA before the deadline. We have provided guidance on the information we need in the May 2014 consultation document and in Appendix 1 to this letter. Where developers have additional questions they should get in touch with us. We remind developers that the IPA information must be complete when submitted for the project to be eligible in this window.

We encourage developers to submit complete FPA information together with the IPA where possible, and may prioritise consideration of projects that are able to do this. For developers who have not already told us of their intention to submit FPA information in tandem with the IPA, we require at least six weeks' notice before the FPA submissions.

We intend to open a second application window. We expect developers to provide us with notice of their intent to submit projects in the second window by 1 May 2015. If no developers express an intention to apply, we may delay or cancel the application window.

The updated submission guidance for this window, including the eligibility criteria, is published as an appendix to this letter. If you have any questions about this letter, please contact Andrius Cialka on 020 7901 3124.

Send project submissions and any questions to: cap.floor@ofgem.gov.uk.

Yours faithfully,

Kersti Berge

Partner, Smarter Grids and Governance – Transmission

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Appendix 1: Updated guidance for developers on project submissions and assessment

1.1. This appendix is an addition to the guidance for developers in Appendix 3 of our May 2014 consultation document. It clarifies the parts of Appendix 3 where developers and other stakeholders have requested further explanation.

1.2. Table 1 below provides an overview of what is required for developer submissions at the Initial Project Assessment (IPA) and Final Project Assessment (FPA) stages.

1.3. We plan to publish further guidance on the cost information we need for both the IPA and FPA in the coming weeks, as supporting documents to this letter. We expect this to comprise:

- a high-level submissions template (to inform IPA)
- a detailed submissions template (to inform FPA)
- a regulatory instructions and guidance document to provide clarity and consistency across submissions.

Areas of updated guidance

1.4. **Interconnector modelling and overlap with other projects**: some stakeholders requested clarification of how developers' modelling should take account of other proposed interconnector projects. We expect developers to provide a view on how each project looks in various states of the world, including with other interconnectors going ahead. Developers should use the publicly available information in National Grid Electricity Transmission's (NGET) interconnector register[4] to inform estimates of future interconnector capacity.

1.5. **Connection agreement**: our eligibility criteria include proof of a connection agreement by the end of 2020. We maintain that this is an important indicator of project maturity. However, we recognise the short time that potential developers have had to go through the process since our consultation, so we're updating this accordingly:

- In GB: developers need to provide either:
  a) proof of a connection agreement with the System Operator (SO) for connection to the GB national electricity transmission system before the end of 2020, or
  b) evidence that the developer is engaging with the SO to modify an existing agreement, including a target date for receiving a final connection agreement, and the indicative connection date of any agreement.
- In connecting markets: our consultation did not say eligibility was dependent on a connection date at the other end of the link. Given the short timeline for cap and floor applications, we do not propose to make this a firm eligibility requirement for the first window. However, we do expect developers to provide an overview of their progress in connecting countries, including evidence that they can meet a 2020 connection date and whether they have a firm connection agreement. This should be part of their project plan and overview.

1.6. **Provision of cost information and consistency across projects:** some stakeholders requested clarity on the level of detail we require for project costs, at both the IPA and FPA stages. We will soon publish a high-level cost template. Developers must fill

[4] National Grid Electricity Transmission's interconnector register is available at: http://www2.nationalgrid.com/UK/Services/Electricity-connections/Industry-products/TEC-Register/

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this in as part of their IPA submissions. We will also publish a detailed cost template in the coming weeks. This will be needed as part of FPA submissions. These templates will be accompanied by instructions and guidance.

1.7. **Variations to the cap and floor regime design**: Where a developer wishes to propose variations to the regime they must:

- explain in full what they are proposing
- include financial modelling of the regime design with and without the change to show impacts of any change on consumers
- justify why the change is in consumers' interests.

1.8. Developers must clearly state whether their submission is conditional on any proposed variation. If this is the case then the project will not be assessed if the variation is not shown to be in consumers' interests.

Information provided by the SO

1.9. Our consultation noted that there may be a role for SO input into our assessment process on the efficiency of timing and location of connection points, and into the value of interconnectors for system operation.

1.10. Based on discussions to date, the SO will provide two submissions to inform our IPA stage:

- Information relating to the **efficiency of the connection choices** made by projects, by the end of September 2014.
- A submission on the general **system operation impact of interconnectors**, supported by quantified and project-specific analysis where this is available.

1.11. Based on these timings it will not be possible for developers to use this information to inform their own submissions. We continue to require a narrative from developers justifying the chosen connection location, interconnector capacity and technical design. This should be part of the IPA submission and should contain comparison with other reasonable options. Developers don't need to engage with the SO to inform these submissions (beyond the connections process undertaken).

1.12. Where a developer feels that a given project provides significant system operation benefits, we would welcome this analysis (either as part of interconnector modelling or separately) in its submissions.

Summary of submission material required

1.13. Table 1 below is a high-level overview of the information that we require to inform our assessment of projects. This should be read alongside the more detailed information in Appendix 3 of our May 2014 consultation document (and the clarifications in the section above).

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Table 1: Summary of submission requirements

Stage and deadline	Requirement	Submission material
Eligibility **(30 September 2014)**	Interconnector licence (granted or application made).	Proof of licence or current status of application.
	Connection date by the end of 2020.	Proof of final connection agreement (or proof of existing connection agreement and modification process).
	Detailed and realistic plan for project operation by the end of 2020.	Project plan including milestones for consenting, procurement, financing and investment decisions and construction.
	Submission information for IPA stage complete.	All information listed for IPA stage below is submitted and complete.
IPA **(30 September 2014)**	Project overview.	General overview of project, including ownership structure and confirmation of licence and connection agreement.
	Modelling study.	Cost-benefit analysis and social welfare modelling undertaken against a plausible range of scenarios. This should cover a number of spot years and connecting markets as a minimum. It should include interactions with other interconnector projects. This should also include modelling of projected revenues and estimated impacts of a cap and floor on revenues and on consumers. All assumptions, scenarios and sensitivities should be well justified.
	Qualitative assessment of risk and dependencies.	Description of relevant risks, uncertainties and dependencies.
	Indicative costs.	A completed version of the high-level template (to be published alongside this decision letter in the coming weeks).
	Justification of connection	Justification for the overall design of

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	location, capacity and technical design.	the project, including justification and reference to other options. This should include SO discussions to date and associated onshore impacts.
	Project plans.	Detailed project plans including milestones from early-stage development to operation (and ability to meet 2020 connection date).
	Indication of FPA submission.	Indication of planned timing of FPA submission, including confirming whether any aspects of the IPA are likely to change by the point of FPA submission.
FPA **(project-specific; notice required at least two months before submission)**	Final technical specification and costs.	A completed version of the detailed cost template (to be published in the coming weeks). It should include all necessary supporting information as set out in our consultation. This should also include any further cost or design information relating to the final project that has not been captured by the detailed template.
	Updates to needs case.	Any updates to the needs case that was assessed at the IPA stage (if this has changed significantly or in response to our requests to re-examine any aspects).

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Appendix 2: summary of consultation responses for the roll out of a cap and floor regime to near-term projects

Our consultation on proposals to roll out a cap and floor regime to near-term electricity interconnector projects ran from 23 May to 18 July 2014. We received 25 responses, two of which were confidential. Respondents included interconnector developers, energy suppliers, generators, interest groups and transmission system operators (TSOs). There were no responses from consumer groups.

The responses also included five from Irish residents who object to further interconnection with GB as they do not think it will benefit Ireland.

The non-confidential responses have been published on our website[5] and copies are also available from our library.

Question 1: Do you agree that making the developer-led cap and floor regime available to near-term projects would be in GB consumers' interests?

Most respondents believed the developer-led cap and floor regime would be in GB consumers' interests. Several interconnector developers and energy companies thought the regime would increase security of supply and competition as well as increase certainty for investors. Several respondents also thought the regime would allow increased interconnection, which would facilitate the integration of intermittent renewable generation and help achieve 2020 renewable energy targets.

In contrast, one developer and one generator believed that making the regime available to near-term projects would not be in GB consumers' interests. Both respondents suggested it was unnecessary to underwrite any revenue for interconnectors as they considered interconnection was already a viable commercial opportunity.

One interest group sought clarity on what impact the cap and floor regime would have on transmission use of system charges. It thought this could create uncertainty for GB transmission-connected generators. Respondents noted that any changes to charges should be transparent and proportionate.

Many of the respondents said it was important to also consider the interaction with other policy areas and implications for GB consumers, such as Electricity Market Reform (EMR), which will confirm which non-GB generators will be eligible for Contracts for Difference. EMR introduces the possibility of increased generation being imported, which will be funded by the CfD supplier obligation.[6]

Question 2: What are your views on the cap and floor regime design?

Most respondents agreed with the design of the cap and floor regime. They thought it was an appropriate regulatory means to reduce risk of exposure for investors while ensuring that excess revenues are returned to the National Electricity Transmission System Operator (NETSO) to benefit GB consumers.

Most interconnector developers and one TSO considered the regime design to be pragmatic and consistent with our other assessment processes. They thought it would help bring forward commercially viable projects with socio-economic benefits, limiting the risk of consumer underwriting. One interconnector developer strongly disagreed with our proposed approach as it thought projects should not be underwritten.

[5] Responses are available at: https://www.ofgem.gov.uk/publications-and-updates/regulation-future-electricity-interconnection-proposal-roll-out-cap-and-floor-regime-near-term-projects

[6] The CfD Supplier Obligation will be a statutory obligation on suppliers to make payments to fund the payments that are due under CfDs to generators.

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Several interconnector developers believed it was important that parameters are set on a project-specific basis and facilitate proportionate sharing of risks and benefits between consumers and developers. Two interconnector developers considered that the floor was set too low. Another interconnector developer thought that the floor should be based on the weighted average of an allowed floor equity return and actual costs of debt. It said a higher floor should be offset by a lower cap to protect consumers, and the floor should be applied annually with reconciliation payments made in a short period after the end of each revenue year.

One developer queried whether equity providers will be satisfied with having their potential upside restricted, while still being exposed to returns below that of equity investors in a regulated asset.

Another interconnector developer recommended applying an uncertainty uplift to offset the limitations of applying the Capital Asset Pricing Model to projects. One generator suggested that we grant an uplift to the floor if significant GB system security benefits can be demonstrated.

Two interconnector developers supported a within-period annual adjustment mechanism.

Question 3: What are your views on our proposed approach to the cost assessment process?

Most respondents thought the proposals for the cost assessment process were pragmatic.

Respondents agreed with aligning the cost assessment process with the broad approach used for Strategic Wider Works (SWW) assessments,[7] commenting that this would provide consistency. Respondents agreed with proposals for assessing interest during construction, proposals to net off firmness costs and the specific re-opener mechanism. One interconnector developer sought clarity on what this might include.

Another interconnector developer suggested introducing an ex ante capex assessment, with some limited and strictly defined ex post reassessments.

Question 4: Where do you think we may need to be flexible to accommodate the specifics of different projects and other national approaches?

Most respondents stated it was important to maintain a flexible approach to accommodate different regulatory approaches in connecting countries. Interconnector developers in particular commented that this could be problematic if there was a need to change the cost apportioning to reflect the distribution of benefits between countries.

Interconnector developers sought flexibility in considering recent history and potential legacy issues for projects, for example where future changes to connection agreements are necessary. One interconnector developer asked specifically for flexibility with cost assessment timings to fit project procurement timescales.

An interconnector developer suggested that project-specific approaches may be required to reflect the form of financing of each project.

One interest group believed it was important to retain flexibility to incorporate multipurpose projects into the regime at a later date.

Question 5: What are your views on the framework and processes set out in this document?

[7] SWW projects are large electricity transmission projects which were not funded as part of the RIIO-T1 price control.

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Most respondents felt the framework in the consultation was appropriate, achievable and consistent with our other assessment processes.

Some respondents were in favour of the eight-week application window. One interconnector developer and one TSO considered that the eight-week window might be too short for some projects, given the need to submit complex modelling results.

From the other responses, one TSO sought clarity on the role of NGET and how its input would relate to a greater role for the SO. Respondents also wanted clarity on the evidence that was required; including in the consumer welfare test to ensure the full value of interconnection is captured.

An interconnector developer suggested introducing an ex ante capex assessment, with some limited and strictly defined ex post reassessments.

One response from an interest group highlighted concerns with the process due to the risk of a potential supply chain bottleneck for 2020 delivery.

Question 6: What are your views on the timing and the information that we would require developers to submit?

Most respondents felt the timings were appropriate and achievable. One interconnector developer thought time limits should take account of financing and regulatory issues, such as regulation in connected countries. There were responses from both a TSO and an interconnector developer querying timing and interaction with the NETSO.

One response from an interconnector developer suggested that developers who have not engaged with us during the design of the regime for Nemo[8] are disadvantaged as they did not have sufficient notice of the launch of the application window.

One interconnector developer asked for clarity on how we will protect developers' intellectual property and commercially sensitive and confidential information.

Question 7: What are your views on our proposed eligibility test and the specific provisions that we are minded to include in such a test?

Interconnector developers were in favour of the type of eligibility criteria proposed. One respondent commented on the merits of using the criteria to identify projects that are ready to progress. However, three interconnector developers raised concerns with the proposed time limit for a connection date at the end of 2020. These included the risk of projects hurrying through the application window without increasing the likelihood of construction by 2020 and a risk of encouraging queues for connection agreements with the NETSO, to the detriment of near-term exemption projects also seeking connection agreements.

From the other responses, one interconnector developer raised concerns that the proposed 2020 time limit for connection may give an unfair advantage to developers that are already familiar with the process.

Another interconnector developer considered that delays outside a developer's control should not make it choose between maintaining an unrealistic connection date and forfeiting its ability to access a cap and floor regulatory model.

An interest group believed there was value in including small scale anticipatory investments to enable other sub-sea connections to the interconnector at a later date.

[8] The Nemo project is a proposed electricity interconnector between GB and Belgium. The cap and floor regime was originally developed for application to the Nemo interconnector.

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A TSO felt the eligibility criteria would help focus resources on projects most likely to deliver before 2020. It recommended an additional criterion: that the interconnector licence include a condition requiring the developer to develop and maintain the interconnector in an efficient, coordinated and economic manner.

Only one generator responded to this question, deeming the eligibility criteria to be reasonable.

Question 8: What are your views on how we intend to assess projects at the initial and final project assessment stages?

Respondents broadly supported the proposals.

An interest group stated the importance of making the process quick and streamlined. Two interconnector developers recommended coordination with regulators in the connecting country during the process, to prevent delays.

One interest group and one TSO felt including security of supply benefits in the initial project assessment would facilitate the development of projects in consumers' interests.

A TSO sought clarity on how the 'consumer interest' test would be applied in practice. In particular, it wondered which parties would be considered in the assessment of project benefits.

One interconnector developer commented on the likely preliminary nature of information in the initial project assessment. It thought this would be caused by a lack of tender information and knowledge of how interconnectors will participate in the capacity market. Another stated the importance of considering project specific information in the ex ante cap and floor determination.

An interconnector developer recommended basing any project comparisons on developer-led incentives to allow credible, commercially viable projects to be brought forward and to enable us to reduce our role as a de facto planner. This respondent also noted the importance of using transparent criteria for project assessments.

One interconnector developer stated market-based factors such as supply chain constraints should not lead to the discounting of projects. It recommended putting the onus for managing these risks on developers, who must provide clear information on their risk management approach and the likely impacts on project value and viability.

A generator recommended that we highlight the projects expected to progress to the final assessment stage after the consultation on the initial project assessment.

Two interconnector developers noted the merits of aligning the final project assessment between receiving final offers from manufacturers and before contracts are signed.

Question 9: What are your views on the need for and timing of future windows?

Most respondents, including interconnector developers, generators, interest groups and one TSO, were broadly in favour of retaining the option of future windows to enable additional projects to be brought forward. They also highlighted possible implications of the timing and conclusions of our ITPR project on the need for and timing of future windows.

Several interconnector developers sought clarity on the possibility of future windows, including the timings and eligibility requirements. One TSO supported the option of future windows to reduce incentives for interconnector developers to inappropriately push forward timescales or drive forward connection dates ahead of 2020. An interconnector developer favoured this approach to provide flexibility for projects that involve more complex analysis in the initial application and project development phase.

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One interconnector developer queried whether the use of a second window would reduce certainty on achieving a pre-2020 commissioning target.

A generator was not in favour of a second window, considering a single window to be sufficient for Projects of Common Interest that are required to have a pre-2020 commissioning date.

Question 10: What are your views on the options to protect consumers from the risk of a needs case changing between our decision to award a cap and floor and a project's final investment decisions?

Of those that responded, most interconnector developers opposed making the risk of a change in the needs case fall on developers. One respondent considered any such steps would be unreasonable unless developers were not actively progressing projects. Instead it favoured a requirement for interconnector developers to report the impact of delays to us. In contrast, a TSO believed the risk should be borne by interconnector developers, as it deemed them to be best placed to manage these risks.

Another TSO recommended imposing time limits for submitting information to ensure decisions are based on up-to-date and relevant information. It also thought an option to re-open the assessment process would provide a clear process for developers while protecting the needs of consumers.

One interconnector developer proposed that changes to the needs case in relation to the distribution of benefits between GB and the connecting country should be resolved by redetermining the original cost allocation between the two countries. The respondent recommended that, where any changes affect the entire project, we should ensure development costs are reimbursed, with a reasonable expected return on development expenditure.

Another interconnector developer believed the design of the cap and floor would give interconnector developers an incentive to assess the merits of progressing, redesigning or withdrawing a project if the needs case changes. The developer recommended upholding any decision to award the cap and floor where the socio-economic case still brings benefits to consumers.

Another expressed concerns that we would put the risk of a long-term need for interconnection on developers, while ourselves deciding what that long-term need was. The respondent thought it was important that interconnector developers be exposed to the needs case first, to ensure that projects without a strong needs case are not progressed.

An interconnector developer sought clarity on the process if eligible capital expenditure is awarded ahead of the Final Investment Decision.

Question 11: What are your views regarding the next steps?

Respondents broadly supported our proposals for the next steps.

Among those who responded to this question, interconnector developers welcomed the opportunity to engage with us. An interconnector developer believed that clear and transparent communication between interconnector developers and the SO was required to deliver the desired coordination and determine roles and responsibilities. A TSO raised the possibility of including coordination obligations within the interconnector license.

One interconnector developer favoured case-by-case applications rather than an application window. Another interconnector developer preferred the developer-led aspect of the cap and floor regime (to a centrally identified approach to interconnection) given the upfront

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investment needed and the level of information required for a central body to assess project costs and benefits.

A TSO noted that changes to the Connection and Use of System Code (CUSC) may be required in order to allow transfer of funds between interconnectors and the SO, and therefore needed to deliver projects under the cap and floor regime. The same respondent highlighted the possibility of extending the SO-TO Code to interconnector licensees as part of our ITPR project. An interconnector developer welcomed the opportunity to discuss the implications of licence changes on timescales with us.

An interest group recommended finalising the regime as soon as possible to enable projects to progress. A second interest group suggested that we should hold a workshop on interconnection and the assessment of the benefits of projects. It felt this should incorporate the lessons learned from the SWW process and provide a timeline from our decision to 2020 that includes the approval process, checks and sign-off.

Generators that responded were satisfied with the proposed next steps and did not state a preference as to which would be most effective.

Additional comments

There were a number of comments on the cap and floor regime received in addition to the questions set out above.

Responses from generators, one interconnector developer and one interest group commented on the interaction of cap and floor regime with other policy areas including EMR, ITPR and the Capacity Market. Respondents recommended aligning proposals for cap and floor with work by DECC to allow interconnected capacity to participate in the Capacity Market from 2015 to ensure any interactions are considered.

One generator stated that decisions on EMR for non GB generators will be made shortly and this would confirm which non-GB generators will be eligible for CfDs. The generator recommended further analysis to assess the overall impact on GB consumers and generators.

One TSO and one interconnector developer sought clarity on roles and responsibilities for the SO. One TSO believed the ITPR consultation had highlighted possible concerns for respondents around conflict of interest. To address this, the TSO welcomes engagement with us to develop options if required.

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