



Making a positive difference
for energy consumers

Interconnector developers,
investors, financiers and other
interested parties

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Dear stakeholders

Enabling a range of financing solutions under the cap and floor regime

We would like to invite interested parties, particularly those with expertise in financing infrastructure projects, to engage with us on the financing of electricity interconnectors under the cap and floor regulatory regime.

We aim to meet with stakeholders over the course of June and July. Through these meetings we intend to develop our understanding of the fit of our existing cap and floor regulatory model with different financing options, and areas in which amendments to that model may enable greater alignment in future. This is to ensure that consumers are able to benefit from the broadest range of funding solutions, thereby driving down the costs of developing interconnection. This will include accessing European funds, such as the proposed European Fund for Strategic Investments (EFSI)¹. Where there is value in doing so, dependent on interested parties' views, we may also run a workshop to discuss relevant topics.

Background

At both EU and GB level there is strong support for new cross-border electricity interconnection. The GB electricity market currently has 4GW of interconnector capacity and there are several new projects under development. Given the capital intensive nature of interconnector projects and the number of projects currently under development both in GB and across Europe, the funding requirements are significant and will require access to the broadest range of funding solutions, including project finance.

In May 2014 we consulted on our proposals² to extend the cap and floor regulatory regime, initially developed for the Nemo interconnector between GB and Belgium, to other near-term electricity interconnectors. This regime is developer led and is designed to attract the most efficient projects to apply and deliver more interconnection in accordance with relevant UK and European policy. It is also intended to seek to support a wide range of different financing options. However, during the consultation process and through discussion with stakeholders since, we have received feedback that suggests aspects of the regime might make it less suitable for certain types of financing solutions, such as project

¹ Communication on 'An investment plan for Europe': <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2014:903:FIN>

²Proposals to roll out the cap and floor regulatory regime to near-term electricity interconnectors
<https://www.ofgem.gov.uk/publications-and-updates/regulation-future-electricity-interconnection-proposal-roll-out-cap-and-floor-regime-near-term-projects>

finance. For this reason, as part of our final decision in August 2014³, we allowed developers to request adjustments to our default regime on a project specific basis, provided they can demonstrate that it would be in the interests of consumers.

Following further engagement with stakeholders and practical experience of assessing projects as part of the first application window, we now see benefit in furthering our understanding of where there may be restrictions to certain financing solutions on a more generic basis and consider what changes, if any, would ensure we do not prevent those solutions from playing a role in future development of interconnectors. This will allow us to provide greater transparency and certainty to project developers, earlier in the development process, of how the cap and floor model can work with different financing options.

Next steps

We aim to meet with stakeholders over the course of June and July. Whilst we may proactively approach stakeholders with relevant expertise ourselves, we encourage interested parties to contact us and discuss a possibility of arranging a meeting.

Below we set out some of the questions which we are likely to explore as part of the dialogue. Any interim response or views on these are welcome as well as suggestions for other topics which it would be useful to explore.

1. To what extent does the current cap and floor regime cater for different sources of finance?
2. What adjustments to the cap and floor regime might be desirable to facilitate a broader range of financing options?
3. How would these adjustments benefit consumers and how do we ensure that they create a competitive framework for all types of projects?
4. What experience do you have of comparable infrastructure regimes that might provide lessons for financing of electricity interconnectors?
5. What role do you think EU funds such as EFSI could play in supporting investment in electricity interconnection?
6. What considerations are there in dealing with cross border joint ventures and split country specific regimes, where different sources of finance are used?

If you would like to arrange a meeting or otherwise share your views with us, please notify us by 12 June 2015 either via email (cap.floor@ofgem.gov.uk) or by contacting Andrius Cialka directly on 020 7901 3124.

For the most up to date cap and floor regime description please refer to our May 2014 proposal² to roll out cap and floor regime for near-term interconnectors and August 2014 decision letter³.

Yours faithfully,

Steve Beel
Associate Partner, Electricity Transmission

³Decision to roll out cap and floor regime to near-term electricity interconnectors - <https://www.ofgem.gov.uk/publications-and-updates/decision-roll-out-cap-and-floor-regime-near-term-electricity-interconnectors>