

Nemo Link Limited, National Grid
Interconnectors Limited, National
Grid Electricity Transmission Plc,
electricity interconnector
licensees, future cap and floor
applicants and other interested
parties

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Date: 22 August 2016

Dear stakeholders

Statutory consultation on proposed changes to the standard conditions of the electricity interconnector licence, the electricity interconnector licences held by Nemo Link and NGIL and the electricity transmission licence held by NGET to implement the cap and floor regime and use of revenues compliance

In February 2016 we consulted on an informal basis (the February Consultation) on proposed changes to the standard conditions of the electricity interconnector licence, the electricity interconnector licences held by Nemo Link Limited (Nemo Link) and National Grid Interconnectors Limited (NGIL) as well as the electricity transmission licence held by National Grid Electricity Transmission Plc (NGET). These changes are required in order to implement the cap and floor regime and NGIL's use of revenues compliance related provisions.

We are now proceeding to statutory consultation under section 11(A)2 of the Electricity Act 1989 with respect to these proposed licence modifications. The proposed licence modifications:

- 1. introduce new standard conditions into the electricity interconnector licence to implement the cap and floor regime.** These conditions will be switched off by default and will be switched on (via a direction from the Authority) for licensees that are granted a cap and floor regime. These new cap and floor standard conditions give effect to, amongst other things:
 - a condition that establishes the Cap and Floor Regulatory Instructions and Guidance (Cap and Floor RIGs); and
 - a requirement for cap and floor licensees to notify the GB System Operator (SO) of best estimates of revenue against their cap and floor levels (to inform the SO's estimates of transmission charges).
- 2. introduce new special conditions into the electricity interconnector licence held by Nemo Link that will give effect to Nemo Link's specific cap and floor regime.** These special conditions set out the cap and floor levels and assessment processes that apply specifically to Nemo Link.
- 3. introduce new special conditions into the electricity interconnector licence held by NGIL with respect to the Interconnexion France Angleterre (IFA) interconnector.** These special conditions put in place a mechanism for NGIL, where surplus funds cannot be used in accordance with one of the allowed uses specified in

the Use of Revenues requirements under its licence, to return monies back to consumers by reducing network charges from the SO.

4. **amend the special conditions of the electricity transmission licence held by NGET to give effect to its role in processing payments to/from interconnector licensees.**¹ This will require NGET to amend its transmission charges to reflect payments to/from interconnector licensees granted a cap and floor regime and also reflect payments from NGIL in accordance with its Use of Revenues requirements. We anticipate using similar arrangements to those proposed here for NGIL to allow NGET to receive payments from interconnector licensees which have a cap on revenues imposed in any exemption order.²

As part of the February Consultation we also published and sought views on draft:

- (a) guidance on the cap and floor conditions in Nemo Link's electricity interconnector licence; and
- (b) Cap and Floor RIGs.

These documents are not part of this statutory consultation. We would like to thank stakeholders for the feedback provided on these documents and anticipate publishing updated versions of these documents alongside our final decision on the proposed licence changes.

Response to the February Consultation

We received eight responses to the February Consultation, all of which were non-confidential. These have been published on the Ofgem website. A summary of the consultation responses, together with our views on the points raised and, where appropriate, related changes to licence drafting are provided in the schedules specified below.

Since the February Consultation we have also made, but not noted, minor amendments across all the proposed licence changes to aid clarity and correct formatting and/or cross-referencing issues.

The reasons and effects for each of the proposed licence changes are set out in the relevant schedules specified below.

Statutory Consultation

Statutory consultation notices together with relevant schedules have been published alongside this letter as follows:

Appendix 1 – Notice of proposed insertion of new special conditions into the electricity interconnector licence held by Nemo Link	Schedule 1A – Proposed new special conditions for the electricity interconnector licence held by Nemo Link Schedule 1B – Reasons and effects of proposed insertion of new special conditions into the electricity interconnector licence held by Nemo Link Schedule 1C – Summary of February Consultation responses on proposed new special conditions for the electricity interconnector licence held by Nemo Link
Appendix 2 - Notice of proposed modifications to the standard conditions of the electricity interconnector licence	Schedule 2A – Proposed modifications to the electricity interconnector licence standard conditions

¹ We will also propose associated updates to the onshore transmission owner regulatory reporting packs as part of the RIGs development process.

² Issued under standard condition 12 (Application of Conditions 9, 10 and 11: Exemption Orders) of the electricity interconnector licence.

	Schedule 2B – Reasons and effects of proposed modifications to the electricity interconnector licence standard conditions Schedule 2C – Summary of February Consultation responses on proposed modifications to the standard conditions of the electricity interconnector licence
Appendix 3 - Notice of proposed insertion of new special conditions into the electricity interconnector licence held by NGIL	Schedule 3A - Proposed new special conditions for the electricity interconnector licence held by NGIL Schedule 3B – Reasons and effects of proposed insetion of new special conditions into the electricity interconnector licence held by NGIL Schedule 3C – Summary of February Consultation responses on proposed new special conditions for the electricity interconnector licence held by NGIL
Appendix 4 - Notice of proposed modifications to the special conditions of the electricity transmission licence held by NGET	Schedule 4A - Proposed modifications to special conditions 1A and 3B of the electricity transmission licence held by NGET Schedule 4B – Reasons and effect of proposed modifications to the special conditions of the electricity transmission licence held by NGET Schedule 4C – Summary of February Consultation responses on proposed modifications to the special conditions of the electricity transmission licence held by NGET

For ease of reference, please use the response template (Appendix 5 and online in MS Word format) to provide your specific comments on the proposed licence drafting and to propose any alternative wording.

Please send responses by 23 September 2016 to:

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London
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Or to Cap.Floor@ofgem.gov.uk

Unless marked confidential, all responses will be put in Ofgem’s library and on our website, www.ofgem.gov.uk. You can ask for your response to be kept confidential and we will respect this, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you would like your responses to be kept confidential, clearly mark the document/s to that effect and include the reasons for confidentiality.

If you have any questions in relation to this letter please contact Ikbal Hussain by email (ikbal.hussain@ofgem.gov.uk) or on 0207 901 7049.

Yours sincerely,



Stephen Beel
Partner, Competitive Networks