

To interconnector developers and  
other interested stakeholders

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Date: 30 November 2017

Dear colleagues,

### **Cap and floor regime: Open letter on procedural changes to our Final Project Assessment stage**

In August 2014 we confirmed our cap and floor regime as the regulated route for interconnector development in Great Britain (GB).<sup>1</sup> We set out an assessment framework for cap and floor projects, which included three stages – our Initial Project Assessment (IPA), Final Project Assessment (FPA) and Post-Construction Review (PCR). This letter provides an update on the FPA stage of our process.

#### **Background**

Our cap and floor regime assessment framework stated that we intend to consult for eight weeks at the IPA stage, and then for a further four weeks at the FPA stage.<sup>2</sup> To date, we have consulted on three assessments – the IPAs for our first and second application windows, and the FPA of the NSL interconnector to Norway.

We published a consultation on our FPA of the NSL project in October 2016 and made our decision in July 2017.<sup>3</sup> We received four public consultation responses, which we published alongside our decision. The majority of our engagement throughout the consultation period was bilaterally with National Grid as the GB developer of NSL. Stakeholder feedback on our NSL FPA was reasonably limited.

#### **Our proposal**

Following an internal review of our processes, we are proposing to consult at the FPA stage only if there are significant changes from the information we published at the IPA stage.

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<sup>1</sup> Our decision to roll out a cap and floor regime for electricity interconnectors is available at: <https://www.ofgem.gov.uk/publications-and-updates/decision-roll-out-cap-and-floor-regime-near-term-electricity-interconnectors>

<sup>2</sup> The expected timing of our cap and floor assessment process was explained in Chapter 4 of our cap and floor rollout consultation, available here: <https://www.ofgem.gov.uk/publications-and-updates/regulation-future-electricity-interconnection-proposal-roll-out-cap-and-floor-regime-near-term-projects>

<sup>3</sup> Our consultation on the FPA of the NSL interconnector can be found here: <https://www.ofgem.gov.uk/publications-and-updates/final-project-assessment-nsl-interconnector-norway>

In situations where there are no significant changes, our default approach will be to engage bilaterally with the relevant project developers during our FPA assessment, and then to publish our FPA decision without a public consultation.

We would still expect to consult for four weeks in situations where:

- project costs have materially increased;
- we think the expected impacts of the project have changed significantly since our IPA decision;
- the project has requested variations to the default regime design that we are minded to approve;
- the project does not meet the conditions that were attached to our IPA decisions; or
- the project has otherwise changed significantly.<sup>4</sup>

We recognise that this proposal gives stakeholders less opportunity for input in some circumstances. However, we note that some aspects at the FPA stage – such as updating financial parameters and setting a target for the availability incentive – are reasonably mechanistic and are undertaken in line with a policy framework that has already been decided.

We think this change will minimise the administrative process where little stakeholder feedback is expected (ie where our FPA stage is straightforward). This will allow interconnector stakeholders to focus resources and input on the more significant stages of our assessment framework.

We will continue to consult on decisions taken at our IPA stage and at the PCR stage. We will also continue to consult on licence changes that give effect to our cap and floor decisions, in line with statutory requirements.

### **Next steps**

If you have any views on our proposal to no longer consult at the FPA stage unless required on a case-by-case basis, please get in touch with Stuart Borland on 020 7901 7134 or by email at [cap.floor@ofgem.gov.uk](mailto:cap.floor@ofgem.gov.uk).

Yours faithfully,

**Kate Kendall**

**Head of Commercial Delivery, Networks**

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<sup>4</sup> We attach a number of conditions to our positive IPA decisions. An example of these is included in Chapter 10 of our recent consultation on the IPA stage for our second cap and floor application window: <https://www.ofgem.gov.uk/publications-and-updates/cap-and-floor-regime-initial-project-assessment-gridlink-neuconnect-and-northconnect-interconnectors>