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Offshore wind farm developers,
interconnector developers and
other interested parties

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Dear stakeholders

Decision on the methodology for the calculation of Interest During Construction (IDC) and the IDC rate to apply during 2018/19 for offshore transmission and future interconnectors granted the cap and floor regime.

Introduction

This letter sets out our decision on the IDC rates for offshore transmission and electricity interconnectors under the cap and floor regime, to apply to projects which take a Final Investment Decision (FID) during 2018/19.

Following a public consultation process and a careful consideration of stakeholders' views, we have decided the following:

- Offshore IDC – to confirm the IDC cap rate at 6.50% (pre-tax, nominal) for offshore transmission projects reaching FID during 2018/19.
- Interconnector IDC – to confirm the rate at 2.84% (real vanilla) for any cap and floor Window 2 interconnector projects reaching FID during 2018/19.[1]
- Interconnector IDC – to confirm that we are ending the approach of setting IDC for interconnector projects on a project-specific basis at the time of FID. This decision will affect Window 2 and future interconnector projects.

We have set out the input parameters of the IDC rates for OFTOs and interconnectors in Annex 1.

The sections below summarise our consultation process and provide further detail on our decisions.

Overview

On 23 January 2018, we published our consultation *'Review of the methodology for the calculation of the Interest During Construction for Offshore Transmission and future Interconnectors granted the Cap & Floor Regime'*.[2] This letter provides a summary of five

[1] The range for interconnectors is reported in vanilla RPI-real terms because the Cap and Floor Financial Model, which constitutes a central element of the regime, runs with real inputs. For a comparison of the ranges in similar terms, please refer to Annex 1.
[2] https://www.ofgem.gov.uk/ofgem-publications/127865

responses we received and how we have considered them to reach our decision. This decision affects OFTOs that expect to reach FID from 2018/19 onwards, interconnectors that have received an Initial Project Assessment (IPA) decision as part of Window 2 of the cap and floor regime and any future interconnector projects that might be approved under this regulatory framework.

We proposed to adopt the new methodology recommended by CEPA to calculate the IDC rates for both OFTOs and interconnectors going forward. For projects reaching FID in the financial year 2018/19, we proposed to apply the mid-point of the range estimated by CEPA - 5.96% (pre-tax nominal) for OFTOs and 2.24% (real vanilla) for interconnectors.[3] We also proposed to unify the framework and methodology we use to calculate the IDC rate for OFTOs and interconnectors.

We note that the CEPA report[4], supporting IDC ranges set out in the consultation document, has been updated to take into account points raised in the consultation and to correct two data processing errors identified by CEPA in its analysis. The updated report, which is published alongside this decision, replaces the original and should be considered as the main reference for our new methodology. A summary of the main updates to CEPA's original analysis is provided within the 'Objectives and scope' section of the updated report.

The updated analysis results in the lower end of the Total Market Return (TMR) range being changed from 7.50% to 7.85%. The upper end of asset beta ranges has also changed from 0.60 to 0.70 for OFTOs, and from 0.65 to 0.75 for interconnectors.

This in turn has led to an increase in OFTOs and interconnectors weighted average cost of capital (WACC):

- For OFTOs, WACC increased from a range of 4.84% - 7.07% to a range of 5.01% - 7.99%, changing the midpoint from 5.96% to 6.50%.

- For interconnectors, WACC increased from a range of 1.37% - 3.11% to a range of 1.63% - 4.04%, changing the midpoint from 2.24% to 2.84%.[5]

A summary of the impact of the updates on input parameters of the IDC rate is provided in Annex 1.

Summary of consultation responses

This section summarises the responses from stakeholders to four questions we asked in our consultation letter of 23 January 2018. These responses have helped to inform our decisions. These questions are:

1. Do you agree with aligning our approaches to the setting of IDC to ensure consistent application across these network assets?
2. Do you agree with the alternative methodology proposed by CEPA?
3. Do you agree with our minded to position to use the mid-point in the ranges produced by CEPA for OFTOs and Interconnectors?
4. Is there anything else we should consider when making our final decision?

[3] The ranges provided in the consultation document are 4.84% - 7.07% resulting in a midpoint of 5.96% for OFTOs, and 1.46% - 3.29% resulting in a midpoint of 2.24% for interconnectors (the mid-point is less transaction costs in the case of interconnectors).
[4] https://www.ofgem.gov.uk/ofgem-publications/127844
[5] The range for OFTOs in both the consultation and this decision documents includes transaction costs. The range for interconnectors (1.46% - 3.29%) in the consultation document includes transaction costs but the mid-point is considered after subtracting transaction costs. In this decision document the range for interconnectors (1.63% - 4.04%) does not include transaction costs, this is because transaction costs for interconnectors are already included elsewhere in the cap and floor regime.

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We received five responses to the consultation and all of them were non confidential. These responses were from GridLink Limited, National Grid Ventures, Scottish Power, SSE and NeuConnect Limited.

Two responses to question one agree that some level of alignment in methodology is appropriate as long as differences in risk profile and the regime maturity between the OFTO and cap and floor regimes are adequately addressed. Others considered that the nature of these network assets and the risks faced by developers make it difficult to align the methodology.

Our view is that similarities already exist in the approach to the setting of IDC rates across OFTOs and interconnectors, such as using the CAPM approach and calculating beta and gearing from a similar set of comparator firms. Our final methodology improves on this process, allowing us to consider differences in asset risks more transparently and to be forward-looking when calculating total market return. We believe that the new approach provides more clarity to project developers and allows for reliable documentation that can support comparing our parameter forecast against outturn values in the future.

All responses to question two argued that the new methodology does not adequately reflect the risk faced by developers of the different assets.

Our view is that it is standard practice to reflect the risks of development and construction as a component of beta rather than as separate line items. We believe that CEPA have used relative risk tables and comparator benchmarks to capture a broad range of risks faced by the developers of these assets and provided analysis to support the IDC estimates. We consider this approach as reasonable, more transparent and achieving consistency in approach.

All respondents argued that IDC should be set closer to the upper end of the range proposed by CEPA.

Our overarching consideration in setting a point estimate is the interest of consumers; we do, however, also have to be mindful of what is financeable. Our view is that the starting point should be the mid-point of the range. We believe that a shift away from the mid-point would transfer more risk to consumers and should only be considered if supported by compelling evidence. We believe that the evidence provided by respondents does not justify moving away from the mid-point.

On question four, some responses raised the issue of general change of policy and the linked risk to developers. Others were concerned with how the changes would affect project-financed projects and the interactions of any decision on the consultation with a decision on a delivery model for Hinkley Seabank.

These changes will not affect projects already approved as part of the first cap and floor application window (Window 1 projects). Our decision will only affect Window 2 and future interconnector projects. In our June 2017 cap and floor Window 2 IPA consultation, we indicated that the IDC policy for Window 2 projects would be different from Window 1 projects.[6] Earlier, when we published our December 2013 decision on approach to IDC for offshore transmission and Nemo Link, we committed to an annual review of IDC and also left the possibility open to review the IDC methodology for future projects.[7] We consider our decision is consistent with the intent of these previous positions. In addition, our December 2015 letter sets out guidance on enabling a range of financing solutions under the cap and floor regime.[8]

[6] https://www.ofgem.gov.uk/system/files/docs/2017/06/ofgem_window2_ipaconsultation_june_2017.pdf
[7] https://www.ofgem.gov.uk/sites/default/files/docs/2013/12/decision_on_approach_to_idc_offshore_transmission.pdf
[8] https://www.ofgem.gov.uk/sites/default/files/docs/cap_and_floor_regime_variations_open_letter.pdf

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Where relevant, we have also considered stakeholders' views on the Hinkley Seabank consultation to inform this decision.

A more detailed summary of the responses and our views are provided as Annex 2 to this decision.

Our decision

Following our analysis of the five responses to our 23 January 2018 consultation and the updated CEPA report we have decided the following:

For OFTOs:

- to apply our minded-to position to use a midpoint in the range proposed by CEPA.[9] That is to set capped rates of IDC for the 2018-19 financial year (April 2018 to March 2019) at 6.50% (pre-tax, nominal);

- to continue to apply a cap rather than a fixed rate to the IDC for offshore transmission; and

- to fix IDC at FID based on the IDC rate for that financial year, and for the duration of the project, so that IDC will be fixed until construction of the project is complete.

For interconnectors:

- to apply our minded-to position to use a midpoint in the range proposed by CEPA. That is to set the rate of IDC for the 2018-19 financial year (April 2018 to March 2019) at 2.84% (vanilla real WACC); and

- to move to annual updates of IDC in respect of projects that have received an IPA decision as part of Window 2 of the cap and floor regime and for future interconnectors beyond Window 2.

What this decision means for Window 2 and future interconnectors

The decision means changing the timing of setting interconnector IDC from individual assessments at the date of FID for each project to an annual update applicable to all projects reaching FID in that financial year. The IDC will be fixed until construction of the project is complete. We expect the same treatment will apply to interconnectors considered under any future cap and floor regime application windows.

We will continue to review the IDC cap rate for OFTOs and the rate for interconnectors annually. This will ensure that it remains flexible and responsive to market movements. Changes resulting from such reviews will not affect projects that have already reached FID. Any decision to make a change to the rate will be communicated prior to the change coming into force, following consultation where appropriate, to give developers time to factor this into their FID.

Yours sincerely,

Cathryn Scott
Director, Wholesale Markets & Commercial

[9] The relevant range is now the range provided in the updated CEPA report, published alongside this decision.

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Annex 1: Input parameters of IDC rates

This annex sets out input parameters of IDC. Parameters from the original CEPA report are presented in black font, where these have been updated in the new report, they are presented in blue font.

Parameter	**Ofgem 17/18***	**2018-19 proposed range (OFTOs)**	**2018-19 proposed range (ICs)****
Risk-free rate (nominal)	3.12%	0.50% - 0.75%	0.50% - 0.75%
Equity Risk Premium (ERP)	4.40%	~~7.00% - 7.75%~~ 7.35% - 7.75%	~~7.00% - 7.75%~~ 7.35% - 7.75%
Total Market Return (TMR)	7.52%	~~7.50% - 8.50%~~ 7.85% - 8.50%	~~7.50% - 8.50%~~ 7.85% - 8.50%
Equity beta	0.93	~~0.72 – 0.96~~ 0.72 – 1.12	~~0.80 – 1.04~~ 0.80 - 1.20
Gearing	41.2%	37.5%	37.5%
Asset beta	0.55	~~0.45 – 0.60~~ 0.45 – 0.70	~~0.50-0.65~~ 0.50 – 0.75
Post-tax Cost of Equity (nominal)	7.21%	~~5.54% - 8.19%~~ 5.79% - 9.43%	~~6.10% - 8.81%~~ 6.38% - 10.05%
Cost of Debt	3.86%	~~1.50% - 2.00%~~ 1.45% - 1.90%	~~1.60% - 1.85%~~ 1.85% - 2.35%
Pre-tax nominal WACC	**6.83%**	**~~4.84% - 7.07%~~** **5.01% - 7.99%**	**~~5.31% - 7.49%~~** **5.62% - 8.64%**
RPI inflation	2.78%	3.00%	3.00%
Real vanilla WACC, pre-uplift	**2.97%**	**~~1.00% - 2.79%~~** **1.13% - 3.50%**	**~~1.37% - 3.11%~~** **1.63% - 4.04%**
Additional uplifts	1.45%	n/a	n/a[10]
Real vanilla WACC, post-uplift	**4.42%**	**~~1.00% - 2.79%~~** **1.13% - 3.50%**	**~~1.37% - 3.11%~~** **1.63% - 4.04%**

*= 2017-18 values refer to our consultation on IDC published in December 2016[11], with the exception of the Vanilla WACC (nominal and real) parameter, which have been calculated using the same inputs of the consultation but with a different formula, as explained in section 8.2.1 of the CEPA report.
** = the cost of debt reported in the table does not include the transaction costs as proposed by CEPA in the attached report. See footnote 4 of this document for more details.

[10] As signalled in Ofgem's IPA decision on Window 2 of the cap and floor regime, a development/construction risk premium will not be applied. See section 4.1.2 of the CEPA report for more details.
[11] https://www.ofgem.gov.uk/system/files/docs/2016/12/minded-to_letter_idc_for_ic_and_ofto.pdf.

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Annex 2: Summary of IDC consultation responses and our views

Question	Issue	Our view
Q1 Do you agree with aligning our approaches to the setting of IDC to ensure consistent application across these networks?	**1.1 Alignment of approach to IDC** a) These network assets are different in their regulatory treatment, engineering, scale of project and risk profiles - these risk factors and how they affect the different projects have not changed. Therefore, there is no reason for aligning the IDC approach across these assets. b) The CEPA report does not provide enough justification to support a differentiation of risk and the follow-on costs of capital between these network assets. c) One response queries that there have been policy changes between design and implementation of cap and floor regime and that the CEPA analysis fails to recognise this risk.	a) We have reviewed the regimes and consider that a greater degree of alignment is possible whilst recognising differences in risk profile and the regime maturity between these assets. We have made reasonable adjustments where necessary (project horizon, relative risk etc.) to account for differences and believe that the new approach strengthens our overall regulatory framework. b) We believe that the CEPA analysis provides detailed relative risk tables between asset classes to justify our decisions. We note that any analysis of differences does require judgement and believe that by using benchmarks the extent of any subjectivity is reduced. c) We aim to be consistent in our enactment of the cap and floor regime across projects (recognising differences in stated policy between Window 1 and Window 2). We believe the clear process we followed for IDC in prior years should greatly reduce any perceived risk of changes between policy design and implementation.
Q2 Do you agree with the alternative methodology proposed by CEPA?	**2.1: Removal of interconnector risk uplifts** a) Some respondents consider that the new methodology does not adequately reflect the development and construction risk faced by interconnectors. b) Taking away the additional uplifts as a distinct item while adding an uplift to the beta lacks transparency. c) The uncertainty around EU/UK energy trading arrangements suggest that the development risk uplifts should be maintained - removing the uplifts may	a) We think that it is better to reflect development and construction risks within beta rather than as separate line items. We note that CEPA have used relative risk tables and comparator benchmarks to support their analysis. b) We believe that the method of adding both uplifts directly to WACC adds more subjectivity than our proposed approach - it was unclear what the uplifts are relative to. Our approach clarifies

	reduce the number of projects that are being reviewed for feasibility. d) The construction risk uplift mitigates the risk of Ofgem disallowing costs. As no project to date have reached the Post Construction Review (PCR) stage developers do not know precisely how the cap and floor levels will be affected by disallowed costs and the level of IDC.	this by adding an uplift to the beta. c) The commercial incentive to build interconnectors with neighbouring markets may not be materially affected by EU Exit. This is evidenced in the number of projects approved under our C+F Window 2. We will continue to work with stakeholders to provide clarity where necessary. d) We note that our disallowance of costs is for any costs which are considered to be inefficient. Because no project to date has reached the PCR stage, this should not be a reason for a construction uplift. Our established assessment process for the Offshore regime, and FPAs completed for interconnectors, should give developers an understanding of how costs are typically assessed.
	2.2: Total market return a) The comparator group used by CEPA does not reflect the risk profile of an interconnector project. As an example, the financial performance of these companies is driven mainly by the construction phase, rather than the full life cycle involvement of interconnector developers. b) Further clarity on why the proposed comparators have changed so substantially from those used for Window 1 projects. c) The Dividend Growth Model (DGM) approach involves subjectivity as evident in the range of estimates of total market returns presented in table 3.1 and figure 6.2 of the CEPA report. d) Ofgem has set out insufficient detail of the DGM model, its parameters and the substantial issues with the DGM's highly subjective approach. e) Ofgem should hold a separate consultation specifically on whether any change to its established total market return approach is warranted. f) Using historic data rather than forward-	a) We aim to reflect within the IDC rate risks faced by developers during the pre-operational phase. Risks faced during operational period are captured within the operational phase rate of return. We believe that CEPA have followed a sensible approach in selecting the comparators and note that the results have changed slightly in the updated analysis following consultation. b) The previous comparators were integrated utilities. We consider that focusing on construction and engineering companies is more appropriate (when setting IDC) than using these comparators. c) We believe CEPA have set out an approach and justified the input assumptions. As a model, the DGM results have been used by the CMA and Ofwat. d) It is unclear what additional detail would be helpful in addition to the annex on the DGM specification provided in the CEPA analysis.

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	looking measures is more appropriate because forward-looking measures are forecasts only and not necessarily reflective of the returns that are acceptable to investors. g) Aggregate returns obtained from combining the build and operational phases should be crosschecked with that found using conventional return indicators or with the operational phase cost of capital revealed in the OFTO auctions. h) A focus on UK returns may be inappropriate when the investors are operating in an international market.	e) We do not see the need for a separate consultation when the issues involved (IDC and TMR) are very closely related. We believe that this is the case here. f) We consider that the DGM has benefits (relative to the long-run historic average approach) for estimating TMR today. Focusing on a long-run historic average could over-estimate or under-estimate the current TMR when there is a break in the trend. g) We agree that this is one way of crosschecking the IDC and have sought to undertake a high level cross-check with cost of capital revealed in OFTO auctions. With conventional return indicators, we are still faced with the problem of finding a suitable comparator benchmark. h) We consider it appropriate to focus on where the asset is generating returns i.e. UK.
	2.3: Equity and Asset beta a) Beta uplift for interconnectors is only slightly above that of OFTOs and does not reflect the different risk profile identified within Annex B of the CEPA report. b) Construction companies have a diversified risk portfolio – as they typically have a broader scope of activity. The projects being considered are generally one-offs and not readily diversified by the ultimate investors. c) The evidence for the bottom of the asset beta range starting at below 0.5 appears weak and is based in part on two observed data points in recent years (which could be outliers) and an arbitrary linkage by CEPA to the Scottish TOs. d) There is no evidence provided as to whether the inclusion of a premium for marine construction risk aligns with actual experience. The construction of transmission assets for an offshore windfarm is a very specific construction activity and presents major risks not applicable to onshore	a) We note that while the adjustment is small in asset beta terms, this does feed through into a material cost of equity difference. b) We believe that the regimes protect developers against extreme risks relative to the exposure faced by the comparator group. c) We do not consider the Scottish TOs to be arbitrary. These are regulated companies with portfolios involving a high proportion of construction activity. d) CEPA have not been able to find suitable comparators that focus on marine-based construction of similar assets. However, our knowledge of offshore construction activities has highlighted the additional risks this causes. We believe that these additional risks have been reflected in the beta range used.

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	construction work.	
	2.4: Assessment of relative risks a) CEPA have not provided a detailed analysis for construction companies it presented. Furthermore, the relative assessment between competitive proxy, OFTOs and interconnector in Annex B.2 does not support CEPA's result of risk profiles between the three regimes.	a) In terms of the balance of risks, we believe that these are aligned with the beta figures chosen. We note that CEPA have updated the comparator set taking into account responses from the IDC consultation and the Hinkley Seabank consultation.[12] The updated result is presented in section 6.3.1 – 6.3.4 of the updated report.
	2.5: Geometric vs. Arithmetic return a) Page 38 of the CEPA report notes that the geometric return from DMS is used, however, page 12 notes that a blend of the arithmetic and geometric means is preferred.	a) The report states that CEPA prefers a blend of arithmetic and geometric for forward-looking estimates and would place by comparison more weight on geometric when considering historic evidence. The DGM approach followed by CEPA results in a TMR range of 7.85% - 8.5% - CEPA simply notes that the high end of this range aligns with the geometric return TMR produced by DMS.[13]
	2.6: Cost of debt and risk free rate a) Including debt with tenors up to 10 years and using debt rate trailing averages greater than one year to account for development as well as construction period. b) A reduction in the tenor of cost of debt benchmark is inappropriate because construction finance is not utilised during the construction phase only. It often may incorporate a 2-3 year amortization tail following commercial operations. c) Larger and more complex projects may require longer construction periods even though all reach financial close at the same date. The tenor proposed for risk free rate, total market return and cost of debt should reviewed again.	a) It is unclear to us that debt is raised for pre-construction activities and the need to extend the tenor. If developers provided information around raising ten year debt, then we may consider such a change when setting IDC rates for future years. b) It is hard to justify an adjustment on the basis that construction finance "may" incorporate a longer tail. Any adjustment may need to be read across to the assumed financing for operations. c) CEPA presents ranges for what we consider to be the 'typical project' – where there are reasons justified for departing from these base assumptions, we will consider these in future. We

[12] https://www.ofgem.gov.uk/publications-and-updates/hinkley-seabank-minded-consultation-delivery-model
[13] The TMR range in the original CEPA report published alongside the consultation is 7.5% - 8.5%, this has been updated to 7.85% - 8.5% as explained in our decision letter.

	d) The construction of transmission assets and general infrastructure have different risk profile due to the significant offshore and electrical elements. Any indices used should reflect the nature of the works, otherwise an argument for using an index within the calculations is weak. e) Developers seek to raise financing covering the asset life therefore splitting financing into a construction bridge loan and an expected refinancing thereafter creates additional uncertainty and cost. f) The overall risk profile of interconnector projects during the construction phase would not qualify as investment grade. This is because the initial years lack business and financial metrics that ratings agencies will use to assign investment grade rating. g) Recommend the use of actual cost of debt at Final Project Assessment (FPA). h) Switching from a two-year trailing average cost of debt calculation to a shorter-term average places too great an emphasis on short-term market rate volatility.	note that some of these concerns have been addressed in the updated CEPA report. d) Rating agencies have methodologies to compare the risk of companies across different sectors – it is unclear why this is inappropriate if the credit rating is correct. e) We consider that developers still have the option to raise financing effectively. The CEPA report explains why they focus on the two different phases to account for the nature of activities and to be consistent across regimes. f) Our understanding is that ratings agencies look at more factors for project financed operations in general than they do for companies with established business and financial metrics. g) While we are open to considering this approach as indicated in our 15 December 2015 letter (where consumer benefits can be demonstrated),[14] we note that setting it as a default option could create perverse incentives on projects to present inefficient actual costs at FPA. h) We consider that a one-year average reduces volatility and provides a current estimate of costs. Where market rates change materially over a time horizon, a two-year average risks being out of line with current market evidence.
	2.7: Gearing a) The proposed gearing of 37.5% is significantly more than what offshore developers are able to achieve during construction.	a) We agree with the value proposed by CEPA and note that this is close to the previous approach. The value is also backed up by evidence of gearing from comparators.
	2.8: IDC calculation period a) IDC should not end immediately at the	a) We believe that projects should earn IDC until the end of the

[14] https://www.ofgem.gov.uk/sites/default/files/docs/cap_and_floor_regime_variations_open_letter.pdf

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	start of commercial operations to accommodate any delays preventing the wind farm from fully utilising the cable. b) IDC should cover the retention of 10% of the total construction contract value for at least 6-months following commercial operations to cover other contractual agreements. c) The determination of IDC on an annual basis versus at financial close introduces additional uncertainty for development projects.	construction period. Delays caused by factors outside a developers control may be considered on a case by case basis. b) It is not clear what makes up other contractual agreements. Our view is that developers should aim to end construction period contractual agreements within the construction period to minimise any risk to them and consumers. c) On the contrary, we believe that setting IDC for a period of a year provides certainty for investment decisions occurring within that year. We believe that providing a clear approach to setting IDC also offers an extra level of certainty.
	2.9: Grandfathering of existing CfD a) Projects which have already been awarded CfD should be grandfathered by virtue of having reached FID by 31 March 2018. This is because developers will have based their CfD bids on their expectation that IDC will be based on the methodology adopted by Ofgem for past projects.	a) The new approach to IDC calculation takes effect this financial year 2018/19 and should not affect projects reaching FID by 31 March 2018.
Q3 Do you agree with our minded to position to use the mid-point in the ranges produced by CEPA for OFTOS's and ICs?	**3.1: Using mid-point of the range** a) When a range of values is produced, for use on a number of projects with different characteristics, it is more appropriate to use a value at the top of the range rather than the mid-point. Other regulators have selected upper quartile point estimates rather than the mid-point. Ofgem should adopt this approach.[15] b) The ranges proposed by CEPA are very wide. Setting the IDC cap at the mid-point will benefit some developers and not others. c) Since the rate set by Ofgem is a cap, it should be set closer to the upper end of the range.	a) We believe that the mid-point of the range is a natural starting point. Using a higher figure would benefit all developers while placing a disproportionate share of the risk on GB consumers. Our decision to use the midpoint is consistent with most regulatory decisions made in the UK in recent years. b) We consider this approach to be superior to starting with a point estimate. We note that we have committed to reviewing IDC yearly and would expect developers to present evidence that the IDC allowance were holding back beneficial projects. We would then consider making

[15] https://www.oxera.com/Latest-Thinking/Agenda/2015/Aiming-high-in-setting-the-WACC-framework-or-guess.aspx

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		adjustments accordingly. c) We consider that the IDC rate being a cap is no justification for selecting a higher point estimate. The range was set taking into consideration that the IDC rate is a cap.
Q4 Is there anything else we should consider when making our final decision?	**4.1: Policy changes** a) The consultation should avoid any policy changes that will affect projects already under development, as this could discourage further development of the projects. b) Policy changes should recognise the needs and demands of privately financed projects versus TSO supported projects to attract new investment into the market. c) Ofgem should calibrate the proposed approach against other models and seek to understand any differences. d) It is not easy to reproduce Ofgem's calculation in the CAPM due to lack of information on how tax effects are treated within the calculation.	a) We agree that policy changes can affect projects under development. We have made the changes in IDC methodology applicable to only Window 2 and future interconnectors and OFTOs reaching FID in 2018/19. b) We have involved stakeholders throughout the regime development and have made provisions (as discussed in 2.6(h)) based on their feedback to encourage a broad range of financing arrangements. We will continue to do so. c) We note that the CEPA study benchmarked DGM against other approaches. d) Tax effects are considered outside the WACC calculation - this allows Ofgem to calculate vanilla WACC consistently across all applicable investors regardless of their tax situation. Detail for interconnector projects is available in the December 2014 Nemo decision documents.[16]
	4.2: Consultation response deadline a) The IDC consultation response deadline should have been aligned with the consultation on proposed delivery model for Hinkley Seabank. b) Limited consultation time have prevented close scrutiny of CEPA's methodology and analysis.	a) We have taken into account issues raised in the Hinkley Seabank consultation in reaching our decision. b) Our consultation period is consistent with our statutory responsibility.

[16] https://www.ofgem.gov.uk/sites/default/files/docs/2014/12/final_cap_and_floor_regime_design_for_nemo_master_-_for_publication_1.pdf

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