Guidance on the cap and floor conditions in National Grid IFA2 Limited’s electricity interconnector licence

Publication date:	18/12/2019	**Contact:**	Andrew Bullimore
		Team:	Interconnectors
		Tel:	020 3263 9825
		Email:	Cap.floor@ofgem.gov.uk

This document provides guidance on the electricity interconnector licence held by National Grid IFA 2 Limited (NGIFA2). It focuses on the licence conditions which underpin the cap and floor regime for its electricity interconnector between Great Britain (GB) and France. These licence conditions form a key part of the regulatory framework that governs the cap and floor regime applicable to IFA2. The licence confers a set of obligations and incentives on IFA2.

This guidance note explains the purpose and mechanics of each of these licence conditions, with a particular focus on the special licence conditions. The aim is to aid the readers’ understanding of the licence; it is not a formal decision or a substitute for the licence. If this guidance is unclear, or inadvertently contradicts any part of the licence, then the licence takes precedence.

This guidance is only relevant when the Authority issues a Direction to switch on Section G (Cap and Floor Conditions) of IFA2’s electricity interconnector licence. This Direction is issued after the statutory consultation and after IFA2’s licence changes have come into effect. The guidance may be updated from time to time.

Contents

Associated documents

Decision on the Initial Project Assessment of the FAB Link, IFA2, Viking Link and Greenlink interconnectors (21 July 2015)

https://www.ofgem.gov.uk/publications-and-updates/decision-initial-project-assessment-fab-link-ifa2-and-viking-link-interconnectors

Decision on the Final Project Assessment of the IFA2 interconnector to France (17 July 2018)

https://www.ofgem.gov.uk/publications-and-updates/final-project-assessment-ifa2-interconnector-france

Decision on changes to the electricity interconnector licence held by National Grid North Sea Link Limited (23 July 2018)

https://www.ofgem.gov.uk/publications-and-updates/decision-changes-electricity-interconnector-licence-held-national-grid-north-sea-link-limited

Executive Summary

The Gas and Electricity Markets Authority, GEMA (the **Authority**), may grant an electricity interconnector licence permitting the operation of an electricity interconnector.

IFA2 was granted an electricity interconnector licence on 12 November 2014, which imposes a set of obligations upon IFA2 that apply equally to all electricity interconnector licensees.

Ofgem published a final decision to grant IFA2 a cap and floor regime in July 2018.[1]

This guidance focuses on changes to IFA2's interconnector licence to give effect to our cap and floor regime, as set out in our Final Project Assessment decision in July 2018.

Our proposed cap and floor standard licence conditions together with the proposed special conditions will impose specific obligations and incentives upon IFA2 with respect to its cap and floor regime. The cap and floor regime start-date is the earlier of the full commissioning date or 1st January 2021 and end-date is 25 years from the regime start date.[2] These obligations and incentives are set out in the following parts of the licence:

- **Standard conditions**: set out obligations that are applicable to all electricity interconnector licensees.[3]
- **Special conditions:** set out specific obligations and incentives with respect to IFA2's cap and floor regime.

This guidance note explains the purpose and mechanics of these parts of the licence.

This guidance relates to all special conditions and the Standard Conditions in Section G (Cap and Floor Conditions) of the licence. The Authority will issue a Direction to activate Section G for IFA2 after the licence changes have come into effect. This guidance may be updated from time to time.

---

[1] Decision on the Final Project Assessment of the IFA2 interconnector.
https://www.ofgem.gov.uk/system/files/docs/2018/07/final_project_assessment_of_the_ifa2_interconnector_to_france.pdf

[2] In our August 2014 decision we noted that the cap and floor regime for the Window 1 projects would start from the earlier of the actual connection date or 1st January 2021.
https://www.ofgem.gov.uk/sites/default/files/docs/2014/08/decision_cap_and_floor_near_term_electricity_interconnectors.pdf

[3] With the exception of Section G (Cap and Floor Conditions) which is applicable only to licensees granted a cap and floor regime and where the Authority has issued a direction switching these conditions on in the licensees' respective licences.

1. Introduction

Background

1.1. The cap and floor regime is the regulated route for interconnector investment in GB, which sits alongside the exemption route (whereby project developers apply for exemptions from certain aspects of European Union legislation).

1.2. The regime sets a maximum (cap) and minimum (floor) level to the revenues accrued by interconnector developers. Developers sell the capacity of their interconnector in line with the requirements of the relevant European Network Codes.

1.3. The width between the cap and floor is designed so that developers are exposed to the benefits provided by the interconnector and so are incentivised to identify and develop projects in a way that maximises these benefits. Developers will receive a top-up from consumers if revenue falls below a predefined level (the floor).[4] Consumers are protected through the cap, which ensures that high returns are passed back to network users.

1.4. It is a cost-based regime that has been structured to ensure interconnector projects are compliant with legislation and designed to incentivise delivery of new electricity interconnection. It allows developers to receive reasonable but not excessive returns. Granting projects a floor underwritten by consumers reflects that it is in consumers’ interests for more interconnector capacity to be built.

1.5. Projects are granted a cap and floor regime on the basis of benefits derived through lower wholesale prices in one jurisdiction or another. Granting a floor is therefore contingent on our assessment of the benefits a project is likely to provide for consumers.

1.6. IFA2 is the second cap and floor Window 1 electricity interconnector project to complete our Final Project Assessment (FPA) stage. IFA2 is a planned 1000MW electricity interconnector between Tourbe in France and Chilling in GB. The project developers are National Grid IFA 2 Limited (**NGIFA2**), a subsidiary of National Grid plc, and Réseau de transport d’electricité (**RTE**), the French transmission system operator. Together they will jointly own and operate the interconnector.

1.7. We published our final decision to grant IFA2 a cap and floor regime in July 2018.[5]

1.8. The licence broadly comprises two parts. One part sets out the standard conditions which apply to all electricity interconnector licensees. The other part (special conditions) set out specific obligations and incentives with respect to IFA2’s cap and floor regime.

---

[4] Subject to meeting minimum conditions and requirements, such as a minimum availability threshold.
[5] Decision on the Final Project Assessment of the IFA2 interconnector to France https://www.ofgem.gov.uk/system/files/docs/2018/07/final_project_assessment_of_the_ifa2_interconnector_to_france.pdf

Overview of IFA2's cap and floor regime

1.9. IFA2's cap and floor regime is a split-regulation model. Project costs and revenues will be split equally between Great Britain (GB) and France so half of these will be covered by the IFA2's cap and floor regime.

1.10. The licence stipulates that IFA2's cap and floor regime is set for 25 years and governs the GB share of any payments that may be required between IFA2 and the GB Electricity System Operator on behalf of consumers.

1.11. We will regulate 50% of the link on the basis of costs and revenues, except where costs are specific to GB or France, as agreed by the developers and the regulators.

1.12. The cap and floor regime applies to 100% of NGIFA2's development cost; 0% of RTE's development cost; 50% of the total cost of cables, converters, site preparation (in both Chilling and Tourbe) and trading systems; 100% of GB-specific separate cost; 0% of France-specific separate cost; and 50% of revenues of the interconnector.

1.13. IFA2's cap and floor levels are constructed using a 'building block' approach. These building blocks include our assessment of efficient construction costs, a return on capital and an assessment of operating expenditure.

1.14. We have set the preliminary cap floor levels for IFA2 as follows:

(a) the preliminary cap level is set to £50.70 million per year, expressed in real 2016/17 prices; and

(b) the preliminary floor level is set to £27.57 million per year, expressed in real 2016/17 prices.

1.15. These preliminary levels will be updated in accordance with IFA2's licence[6] at the Post Construction Review (PCR) to set the final cap and floor levels. The final levels will then, subject to any further adjustments specified in IFA2's licence, remain fixed for the duration of IFA2's cap and floor regime.

1.16. An assessment, conducted in UK sterling, of IFA2's interconnector revenue (Assessed Revenue) against the cap and floor levels is carried out at the end of every five year period (the Relevant Assessment Period) of the 25 year cap and floor regime to determine if the cap or floor is triggered.

1.17. The cap level comes into force on the Regime Start Date or such earlier date as specified by the Authority. The floor level comes into force on the Floor Start Date, which is

[6] Special condition 2: Cap Level and Floor Level.

the date the interconnector is fully commissioned or such earlier date as may be specified in writing by the Authority whichever occurs earlier.[7]

1.18. The Floor Start Date follows a successful completion of a proving period and will be retrospectively applied from the date when the successful proving period started. Even where delays are outside the control of the developer, we will start the 25-year cap and floor period at the latest from 1st January 2021, in which case the latest regime end date will be 31st December 2045. This means that if delays push the operational date beyond the latest Regime Start Date, the duration in which the Floor Level is in force would be reduced by the length of the delay.

1.19. Any revenue earned above the cap in any relevant assessment period is returned to the GB Electricity System Operator (the ESO). The ESO would then reduce the network charges for network users in GB. If revenue falls below the floor in any relevant assessment period then IFA2 would be compensated by the ESO who recovers costs through the transmission network charges.

1.20. Each relevant assessment period will be considered separately. Cap and floor adjustments in one assessment period will not affect the adjustments for future assessment periods, and total revenue earned in one relevant assessment period will not be taken into account in future relevant assessment periods.

1.21. The regime includes a financial incentive on IFA2 to maintain the availability of the interconnector. IFA2 has an Availability Target of 96.59% availability and a Minimum Availability Target threshold of 80%. These incentives are discussed further in Chapter 3 under Special Condition 4 (Interconnector Availability Incentives).

Types of licence conditions

Standard conditions

1.22. The standard conditions set out duties and obligations applicable to all holders of an electricity interconnector licence. The standard conditions are grouped into sections. More details about these sections are provided in Chapter 2.

1.23. We are not proposing to change these Standard Conditions nor consult on this along our consultation on licence changes (special conditions) for the IFA2 project.

Special conditions

1.24. Special conditions are licensee specific and as such the special conditions discussed in this guidance will apply only to IFA2. The special conditions set out project specific detail

[7] Or if the full commissioning date has, in the Authority's opinion, been delayed by a force majeure event, such later date as the Authority may specify in writing to the licensee.

about IFA2’s cap and floor regime. More details about these special conditions are provided in Chapter 3.

2. Standard Conditions

Overview of the electricity interconnector Standard Conditions

2.1. The standard conditions apply to all electricity interconnector licensees and, unless stated otherwise, take effect from the date the licence is granted.[8]

2.2. We do not discuss each and every Standard Condition contained in the electricity interconnector licence in detail in this document. We do however set out and discuss the standard conditions relating to the cap and floor regime[9] that are currently applicable to IFA2 and that will also be applicable to other electricity interconnector licensees that are granted a cap and floor regime.

2.3. We have not proposed changes to the standard conditions as part of the implementation of IFA2's cap and floor regime.

2.4. The electricity interconnector standard conditions are grouped into the following sections.

Section A: Interpretation, Application and Payments

2.5. This section contains standard conditions relating to definitions and interpretation of words and expressions used in the licence and payments by the licensee to the Authority. It also contains the following standard condition which provides for standard conditions relating to the cap and floor regime to be switched on by an Authority direction.

Standard condition 1A (Application of Section G)

2.6. This standard condition allows the Authority to bring into effect Section G (Cap and Floor Conditions) of the standard conditions by issuing a "Section G (Cap and Floor Conditions) Direction".

2.7. Making the applicability of this condition subject to an Authority direction ensures that it is only brought into effect in the licences of relevant interconnector licensees (i.e. those granted a cap and floor regime) and has no effect in the licences of any other electricity interconnector licensees.

[8] Standard conditions 9, 10 and 11 relating to Use of Revenues, requirements to offer third party access and the approval of charging methodologies may be switched off by the Authority on successful application by the licensee for an exemption under Article 17 of EC Regulation 714/2009.
[9] Section G (Cap and Floor Conditions)

2.8. The Section G standard conditions are switched on in IFA2's licence. They are switched off by default for all other electricity interconnector licensees until the Authority issues a Section G (Cap and Floor Conditions) Direction to switch them on.

Section B: General

2.9. This section is applicable to all electricity interconnector licensees and sets out, amongst other things, obligations on the licensee to become a party to certain industry codes, the provision of information to the Authority and requirements to keep separate accounts for each electricity activity.

Section C: Revenue

2.10. This section contains only standard condition 9 (Use of Revenues) which is applicable to all electricity interconnector licensees.[10] Standard condition 9 requires licensees to submit an annual Use of Revenues statement and ensure that revenues derived from the allocation of interconnector capacity are used in accordance with Article 16(6) of EC Regulation 714/2009 (on 1st January 2020 this wil be replaced by Article 19 of EC Regulation 2019/243).[11]

2.11. The cap provides an investment route that ensures cap and floor projects such as IFA2 are compliant with Use of Revenues requirements. Standard condition 9 will therefore continue to apply to IFA2 and future cap and floor projects, alongside more detailed provisions governing each project's cap and floor regime.

Section D: Third party access

2.12. This section applies to all electricity interconnector licensees and contains standard conditions relating to the licensee's obligation to provide third party access to its interconnector. It also sets out requirements on the licensee to secure the Authority's approval of the rules for access to its interconnector and the associated charging methodology.[12]

Section E: British electricity trading and transmission arrangements

2.13. The conditions in this section have ceased to have ongoing effect within the licence from the BETTA go-live date of 1st April 2005.

Section F: Other provisions

2.14. This section is applicable to all electricity interconnector licensees and contains standard conditions that set obligations regarding the development and operation of the licensee's interconnector and requirements to notify the Authority of changes that may affect

[10] Unless the licensee has been granted an exemption from compliance with these conditions.
[11] EC Regulation 714/2009 on conditions for access to the network for cross-border exchanges in electricity
[12] The rules setting out the terms for access to the licensee's interconnector, together with the associated charging methodology, must be approved by the Authority.

the licensee's eligibility for certification. This section also contains a standard condition prohibiting discrimination and cross-subsidies as well as general provisions on the disclosure of information and regional co-operation.

Section G: Cap and Floor Conditions

2.15. Section G contains standard conditions relating to reporting requirements and governing payments between a relevant licensee and the GB Electricity System Operator.

2.16. Section G is switched off by default for all electricity interconnector licensees until such time that the Authority issues a Section G (Cap and Floor Conditions) Direction to switch them on.

Standard condition 24 (Definitions)

2.17. This condition sets out particular defined words and expressions that are used in Section G and gives their meaning.

Standard condition 25 (Cap and Floor Regulatory Instructions and Guidance)

2.18. This standard condition establishes the group of documents collectively referred to as the Cap and Floor Regulatory Instructions and Guidance (Cap and Floor RIGs). These documents include instructions and guidance on what data interconnector licensees must report and how, and the templates they must complete.

2.19. The Cap and Floor RIGs is the primary means by which we ensure that interconnector licensees collect and provide to us the information we require to monitor their performance and, where appropriate, make adjustments to the revenue the licensee is allowed to earn under the cap and floor regime.

2.20. This standard condition requires IFA2 (and other electricity interconnector licensees granted a cap and floor regime) to record information in line with the Cap and Floor RIGs and provide such information to the Authority on the relevant dates.

2.21. A similar set of the Cap and Floor RIGs documents will apply to all electricity interconnector licensees which ensures that a consistent approach to reporting requirements is applied to all electricity interconnector licensees granted a cap and floor regime. The Cap and Floor RIGs documents for IFA2 will be updated with IFA2 project specific conditions and published.

Standard condition 26 (Provision of information to the GB System Operator)

2.22. This standard condition requires relevant licensees to liaise with the GB System Operator to inform its Transmission Network Use of System (TNUoS) charge setting process.

2.23. It stipulates that a relevant licensee must provide best estimates of revenue under its cap and floor regime (ie above cap or below floor payments) and continue to review these estimates and inform the GB Electricity System Operator of any significant changes. This standard condition also requires relevant licensees to inform the Authority of such estimates and any revisions to those estimates.

2.24. The intent of this standard condition is to ensure that GB System Operator has available the necessary information to facilitate its forecasting and setting of TNUoS charges.

3. Special Conditions

Special conditions applicable to IFA2

3.1. This section provides an overview of the special conditions that underpin IFA2's cap and floor regime. It gives details of each of the special conditions that, together, implement the project specific elements of IFA2's cap and floor regime. Amongst other things the special conditions set out how:

(a) IFA2's cap and floor levels are calculated;
(b) its assessed revenue is calculated;
(c) the different revenue adjustment components are determined;
(d) any Within Period Adjustment requests are considered and calculated; and
(e) availability of IFA2's interconnector affects its cap and floor levels.

3.2. There are three time horizons relevant to IFA2's cap and floor regime:

- Relevant year *t* - which means any of the individual years of the regime;
- Relevant assessment period *ap* - which means any of the discrete 5 year blocks of the regime; and
- Relevant partial assessment period *pap* – which means the relevant part of a discrete 5 year block.

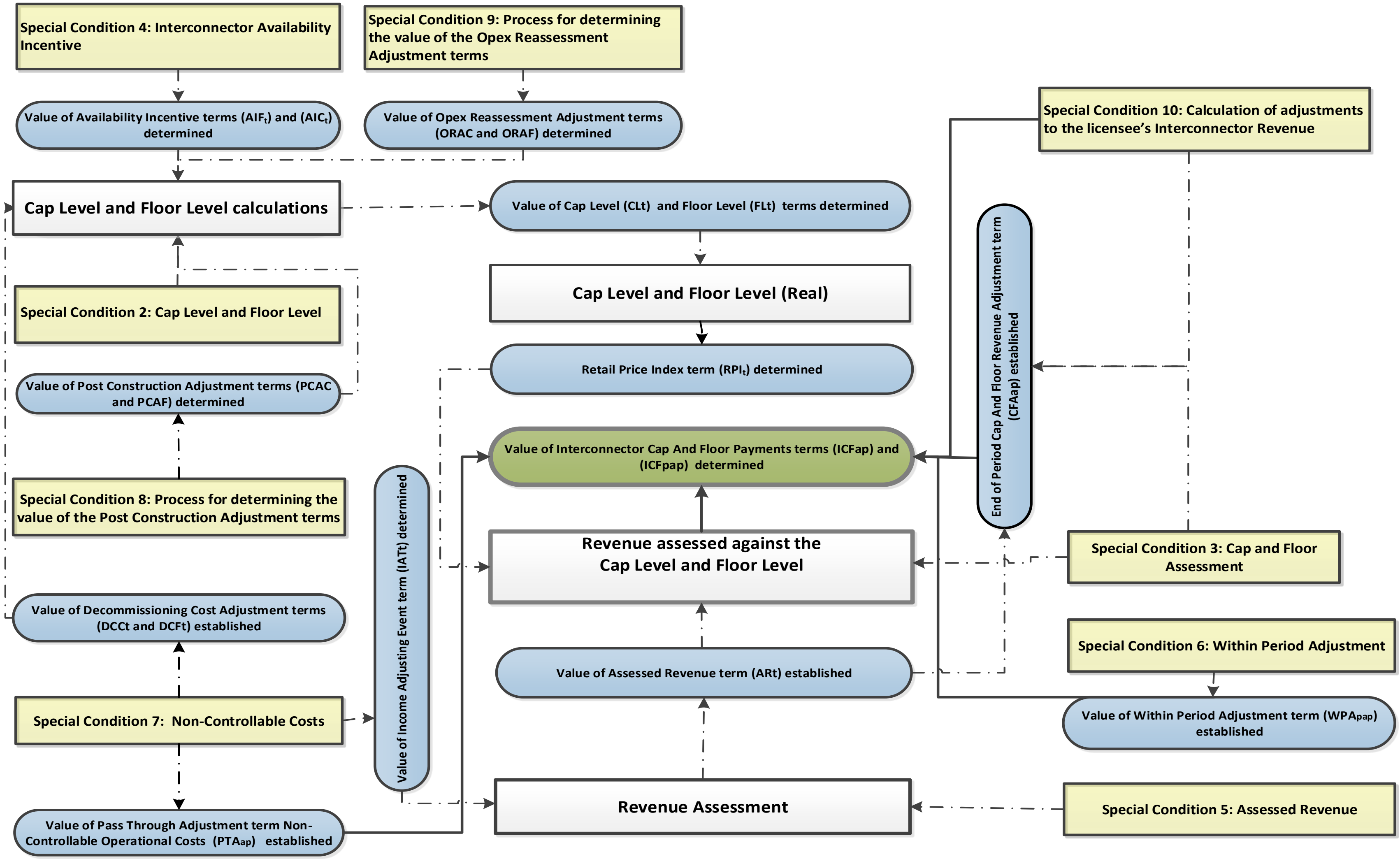
Overview of key special condition interactions

3.3. Diagram 1 below illustrates how the key special conditions interact to calculate IFA2's cap and floor levels and determine the value of any end of period adjustments.

3.4. End of period adjustments are any payments due to the GB SO where IFA2's assessed revenue is above the cap or, conversely, any payments due to IFA2 from the GB SO where IFA2's assessed revenue is below the floor.

3.5. Further details about the process and calculation through which the terms shown in Diagram 1 are derived are provided under the relevant special conditions within this guidance document.

Diagram 1: Flowchart representing the key special condition interactions



Special condition 1 (Definitions and Interpretation)

3.6. This condition sets out particular defined words and expressions that are used in the special conditions and gives their meaning.

Special condition 2 (Cap Level and Floor Level)

3.7. This condition sets out the formulae for calculating the cap level and floor level terms against which IFA2's interconnector revenue is assessed at the end of each relevant assessment period of the regime duration.

3.8. This condition also sets out how various components that may adjust the cap level and floor levels are calculated. The condition is structured as follows:

Part A: Calculation and entry into force of the cap and floor levels

3.9. The cap and floor level terms (CL_t and FL_t) against which IFA2's interconnector revenue is assessed at the end of each relevant assessment period is calculated in accordance with the following formulae:

(a) $CL_t = PYC_t \times (PCL + PCAC + ORAC) \times AIC_t \times RPI_t$

(b) $FL_t = PYF_t \times (PFL + PCAF + ORAF) \times AIF_t \times RPI_t$

3.10. In the above formulae, any terms containing a subscript t are calculated annually. Any terms without a subscript t are determined once only (and set in 2016/17 sterling)

3.11. In these formulae:

Term	Description
AIC_t	reflects IFA2's incentive to perform above its Availability Target of 96.59% availability with an up to 2% increase (or decrease) to the cap on allowed revenue. This term adjusts the cap level depending on performance and has a value in the range of 0.98 and 1.02
AIF_t	reflects requirement on IFA2 to achieve a Minimum Availability Target (MAT) threshold of 80% for any floor payments to be considered. Should availability fall below this threshold then IFA2 may lose eligibility for floor

	payments[13]. This term adjusts the floor level depending on performance and has a value either zero or 1.00
CL_t	means IFA2's cap level for Relevant Year *t*
FL_t	means IFA2's floor level for Relevant Year *t*
PCAC and PCAF	means the Post Construction Adjustment At Cap and Post Construction Adjustment At Floor terms which account for the difference between the Authority's: (a) estimate, assumed in the preliminary cap and floor levels (set at the FPA stage), of the costs associated with developing, constructing, operating, maintaining and decommissioning IFA2's interconnector; and (b) assessment, at the Post Construction Review stage, of the economic and efficient costs associated with developing, constructing, operating, maintaining and decommissioning IFA2's interconnector
PCL and PFL	means the preliminary cap and floor levels set by the Authority. These are derived from the Cap and Floor Financial Model (CFFM), based on our IFA2 FPA decision document[14]
RPI_t	Adjusts the cap and floor levels by the GB Retail Price Index term which takes into account GB inflation rate
PYC_t and PYF_t	adjusts the cap and floor levels to account for any Partial Years at the beginning and end of IFA2's cap and floor regime.
ORAC and ORAF	means the Opex Reassessment Adjustment At Cap (ORAC) and the Opex Reassessment Adjustment At Floor (ORAF) terms and account for the difference between the Authority's:

[13] Unless the Authority determines that the cause of the outage resulting in availability falling below the MAT was an Exceptional Event and that when that outage is discounted the interconnector has in fact met the MAT.
[14] Page 2 of Decision on the Final Project Assessment of the IFA2 interconnector which can be found at: https://www.ofgem.gov.uk/publications-and-updates/final-project-assessment-ifa2-interconnector-france

	(a) assessment at the Post Construction Review stage of the economic costs associated with operating and maintaining IFA2's interconnector; and (b) reassessment, at the Opex Reassessment stage, of the economic and efficient costs associated with operating and maintaining IFA2's interconnector.

When the cap and floor levels come into force

3.12. The derived cap and floor levels come into force as follows:

(a) the cap level shall come into force on the Regime Start Date which the earlier of the full commissioning date or 1st January 2021[15]; and

(b) the floor level shall come into force on the floor start date which shall be the date the interconnector is fully commissioned or such earlier date as may be specified in writing by the Authority.[16]

3.13. In establishing the start date for application of floor payments, and to ensure consumers do not take on liability until assets are proven, the licence includes a full commissioning test.[17]

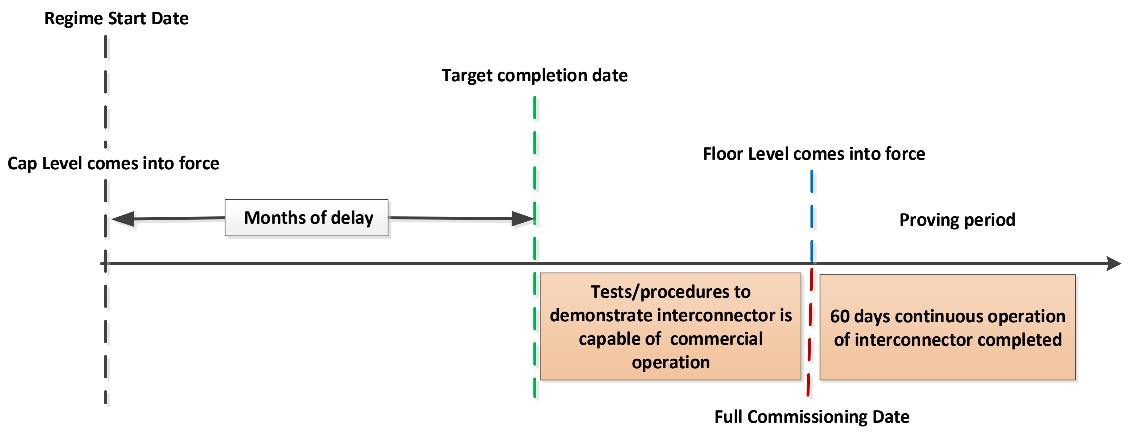
3.14. The licence intent is to have a 60 day proving period whereby IFA2 demonstrates that its interconnector is available for the use of conveyance of electricity at rated capacity. Where 60 days of continuous operation is successfully completed the full commissioning date is backdated to the start of the 60 day continuous operation period.

3.15. Any interruption in the proving period will result in the 60 day clock restarting. The only exception to this is where the interruption was caused by an event or circumstance permitted under the licence. In such a case, the clock is paused on the date and time of the event and resumes on the date and time that normal operation recommences after the period of interruption.

3.16. Diagram 2 illustrates the case where full commissioning occurs after the regime start date and there is no interruption to continuous operation.

[15] If the interconnector is expected to be operational later than 1st January 2021, the 25-year duration of the Floor Level may be reduced by the length of the delay. Relief for delays to the regime start date for force majeure will be considered on a case-by-case basis and confirmed at the Post Construction Review (PCR).
[16] The licence provides for the Authority to specify an earlier floor start date if, in the Authority's opinion, the date the interconnector is fully commissioned has been effected by the events or circumstances referred to in paragraphs 8 and 9 of Special Condition 2 Part A to the licence.
[17] This test is built into the definition of 'Full Commissioning Date' in the licence and requires the licensee's interconnector to be technically available to operate at rated capacity for a period of 60 continuous days.

Diagram 2: An illustration of the case in which full commissioning occurs after the regime start date and there is no interruption to continuous operation

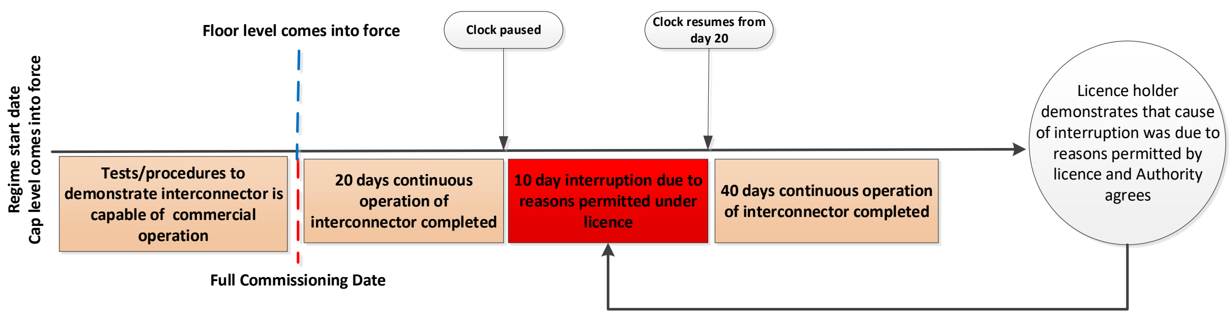


3.17. Under this scenario, full commissioning occurs after the regime start date which means the regime has started and the cap level has come into force. The cap level comes into force before the asset is proven, and therefore, earlier than the floor level.

3.18. This is because it is the regime intent that IFA2 is incentivised to complete and commission the project on or before the regime start date. This ensures that any risks and costs associated with construction delays sit with IFA2 and allows energy consumers to realise the benefits of the project in line with the initial 2020 timeframe for delivery.

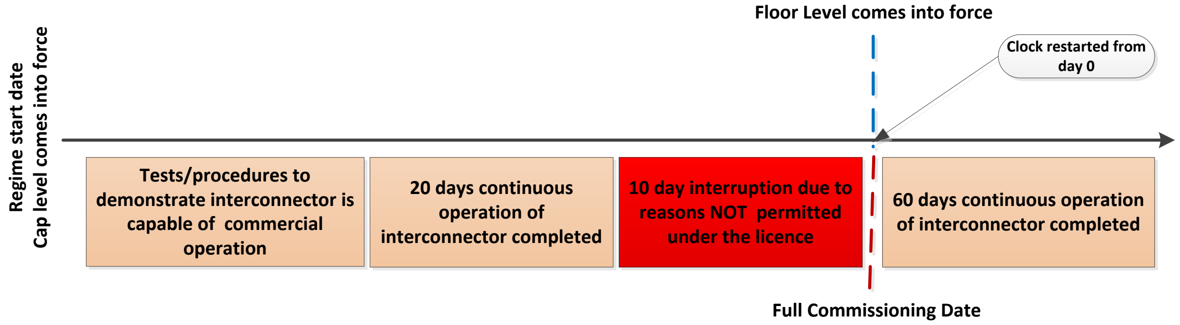
3.19. Diagram 3 and Diagram 4 illustrate the effect on the full commissioning date of an interruption caused by circumstances permitted by the licence versus an interruption not permitted by the licence.

Diagram 3: An illustration of the case in which there is an interruption to 60 days continuous operation due to reasons permitted by licence



3.20. Under this scenario a 10-day interruption occurs after 20 days of continuous operation as a result of an event or circumstance that is permitted by the licence. The 60 day clock is paused on day 20 at the time the event occurred and resumes on the date and time that normal operations recommences. The remaining 40 days of continuous operation is then completed successfully.

Diagram 4: An illustration of the case in which there is an interruption to 60 days continuous operation due to reasons not permitted by licence



3.21. Under this scenario, a 10-day interruption occurs after 20 days of continuous operation as a result of an event or circumstance that is not permitted by the licence. The 60 day clock is stopped at day 20 and restarted from zero after the period of interruption. The 60 days of continuous operation is then achieved.

Parts B to F: Calculation of other adjustment components terms

3.22. The remaining parts of this condition set out the calculations for other adjustment components that are used in the calculation of the cap and floor levels. This includes the Post Construction Adjustment terms (PCAC and PCAF) and the Opex Reassessment Adjustment terms (ORAC and ORAF). These adjustments are discussed further under special conditions 8 and 9, respectively.

Part G: Calculation of Partial Years

3.23. This part provides for adjustments where the cap and floor start date(s) commence part way through the Regime Start Date or/and part way through IFA2's reporting year.

3.24. The Cap Start Date is the official Regime Start Date and the Floor Start Date is the Full Commissioning Date. The relevant annual period for reporting is the financial year – a period of 12 months beginning on 1st April of each year and ending on 31st March of the following year.

3.25. To align the Regime Start Date to a financial year start date of 1st April:

- the length of the first year of the regime will start from the Regime Start Date and end on 31st March 2022;

- the length of each of the next 23 years of the regime will run as regular financial years (starting from 1st April and ending on 31st March of the following year);[18] and

- the last year of the regime will start from 1st April 2045 and end 25 years after the Regime Start Date (this means that the last year of the regime maybe reduced).

3.26. It should be noted that the overall length of IFA2's regime remains 25 years with regards to the Cap Level. This is because the Cap Level has the same start date as the Regime Start Date.

3.27. However the overall length of IFA2's regime with regards to the Floor Level may be less than 25 years if the interconnector is fully commissioned later than the latest Regime Start Date. In this scenario the 25-year duration of the floor component of the regime may be reduced by the length of IFA2's delay beyond 1st January 2021.

Special Condition 3 (Cap and Floor Assessment)

3.28. This condition sets out how the value of any end-of-period cap and floor revenue adjustments for each of the five years of a relevant assessment period is calculated. This is done by comparing IFA2's Assessed Revenue (AR_t) for each year of a relevant assessment period against the cap and floor levels, discounted at the operational discount rate[19] set at the Final Investment Decision (FID), on a Net Present Value (NPV) neutral basis.

Part A: Calculation of the End of Period Cap And Floor Revenue Adjustment term (CFA_{ap})

3.29. This part calculates the End of Period Cap And Floor Revenue Adjustment term for relevant assessment period *ap* (CFA_{ap}) by taking into account the final end of period position (REC_{ap} and RSF_{ap}) and netting off the impact of any Within Period Adjustments (WPAN). This is because any Within Period Adjustment must be trued-up at the end of a relevant assessment period.

3.30. In all cases, a downward adjustment results in a negative value and an upwards adjustment results in a positive value (ie negative values represent a payment due from IFA2 to consumers and positive values represent a payment due to IFA2 from consumers).

Parts B and C: Calculation of the Notional End of Period Payment terms (REC_{ap} and RSF_{ap})

3.31. Parts B and C of this condition calculate components that input into the calculation of the CFA_{ap} term by comparing the Assessed Revenue Net Present Value term for relevant

[18] the 25 year cap and floor regime is divided into five assessment periods knows as "Relevant Assessment Period" and is defined in Part J of special condition 3 of the licence. Each assessment period is made up of five "Relevant Years" as defined in the licence.
[19] The Operational Discount Rate for IFA2 is equal to 3.95%.

assessment period *ap* (ARN_{ap}) against the Cap Level Net Present Value term for relevant assessment period *ap* (CLN_{ap}) and the Floor Level Net Present Value term for relevant assessment period *ap* (FLN_{ap}).

3.32. Parts D to G provide inputs to the calculations in Parts A, B and C.

3.33. In relevant years where IFA2 has missed its MAT and thus is not qualified for floor payments (ie floor level is zero for the given year), Part H provides for only revenue in excess of what the floor level would have been had it met the MAT to be taken forward in to the calculation of the assessed revenue NPV.

Special Condition 4 (Interconnector Availability Incentive)

3.34. This licence condition provides for adjustments to the cap and floor levels depending on technical performance. The condition also places obligations on IFA2 in the event of an interconnector outage.

3.35. The availability incentive is a combination of obligations and incentive. The obligations require IFA2 to maintain and repair its interconnector; the incentive encourages IFA2 to maintain the availability of its interconnector.

Part A: Obligations

3.36. Part A of this condition sets out the obligations on IFA2 to make interconnector capacity[20] available in accordance with the relevant standard conditions of its licence and to take reasonable steps consistent with Good Industry Practice to minimise the effect and duration of any interconnector outage.

3.37. To complement this obligation, the licence places a number of reporting requirements on IFA2. It must report to the Authority any interconnector outage expected to last more than 21 days, including details of:

- the impacts on its users and whether, in its opinion, the interconnector outage has been caused (in whole or in part) by an Exceptional Event;
- any interim work or other actions taken by IFA2 to minimise the effect of the interconnector outage; and
- the expected timescale for repair of the interconnector outage.

Part B: Availability incentive adjustment at the cap

[20] Defined in standard condition 1 (Definitions and Interpretation) of the electricity interconnector licence.

3.38. Part B of this condition specifies the financial incentive on IFA2 to maintain availability of its interconnector.

3.39. The incentive is based on IFA2’s performance against its Availability Target. IFA2’s Availability Target is to achieve 8,467,079 MWh of interconnector availability in any relevant year.[21]

3.40. The number 8,467,079 is calculated in accordance with the following formula:

$$8\,467\,079 \;= 8766 \;\times RC \;\times 96.59\%$$

3.41. In this calculation:

Term	Description
8766	means the number of hours in each Relevant Year and is calculated in accordance with the following formula: 8766 = 365.25 × 24
96.59%	means 96.59 percent and is the Availability Target (AT) expressed as a percentage of operational time
RC	means the Rated Capacity of IFA2’s interconnector and has a value of 1,000MW

3.42. Each year, the actual availability of IFA2’s interconnector (as determined by information supplied by IFA2 as part of its Annual Cap and Floor RIGs submission) will be compared to the Availability Target. The incentive rewards IFA2 with an up to 2% increase in the level of revenue at the cap level if it exceeds the Availability Target and penalises IFA2 by an up to 2% decrease in the level of revenue at the cap where availability falls below the Availability Target.[22]

3.43. This means that the cap (as calculated in accordance with Part A of special condition 2) is adjusted by a factor of between 0.98 and 1.02 depending on the value of the Availability Performance At Cap (APC_t) term.

Part C: Availability incentive adjustment at the floor

3.44. Part C of this condition sets out the minimum level of Actual Availability that IFA2’s interconnector must achieve to receive end of period payments at the floor. The applicable Minimum Availability Target (MAT) is 7,012,800 MWh in any relevant year.[23]

[21] Which equates to 96.59% availability.
[22] One-for-one percentage point increase/decrease in the cap level.
[23] Which equates to an 80% availability threshold.

3.45. The number 7,012,800 is calculated in accordance with the following formula:

$$7\,012\,800 = 8766 \times RC \times 80\%$$

3.46. In this calculation:

Term	Description
8766	means the number of hours in each Relevant Year and is calculated in accordance with the following 8766 = 365.25 × 24
80%	means 80 per cent and is the Minimum Availability Target (MAT) expressed as a percentage of operational time.
RC	means the Rated Capacity of IFA2’s Interconnector and has a value of 1,000MW

3.47. The AIF_t term has a value of either 1.00 or zero depending on IFA2's performance against the MAT. In the event that IFA2:

- meets or exceeds the MAT (ie the value of APF_t term is greater than or equal to 1.00) in any Relevant Year then value of the AIF_t term is 1.00; or

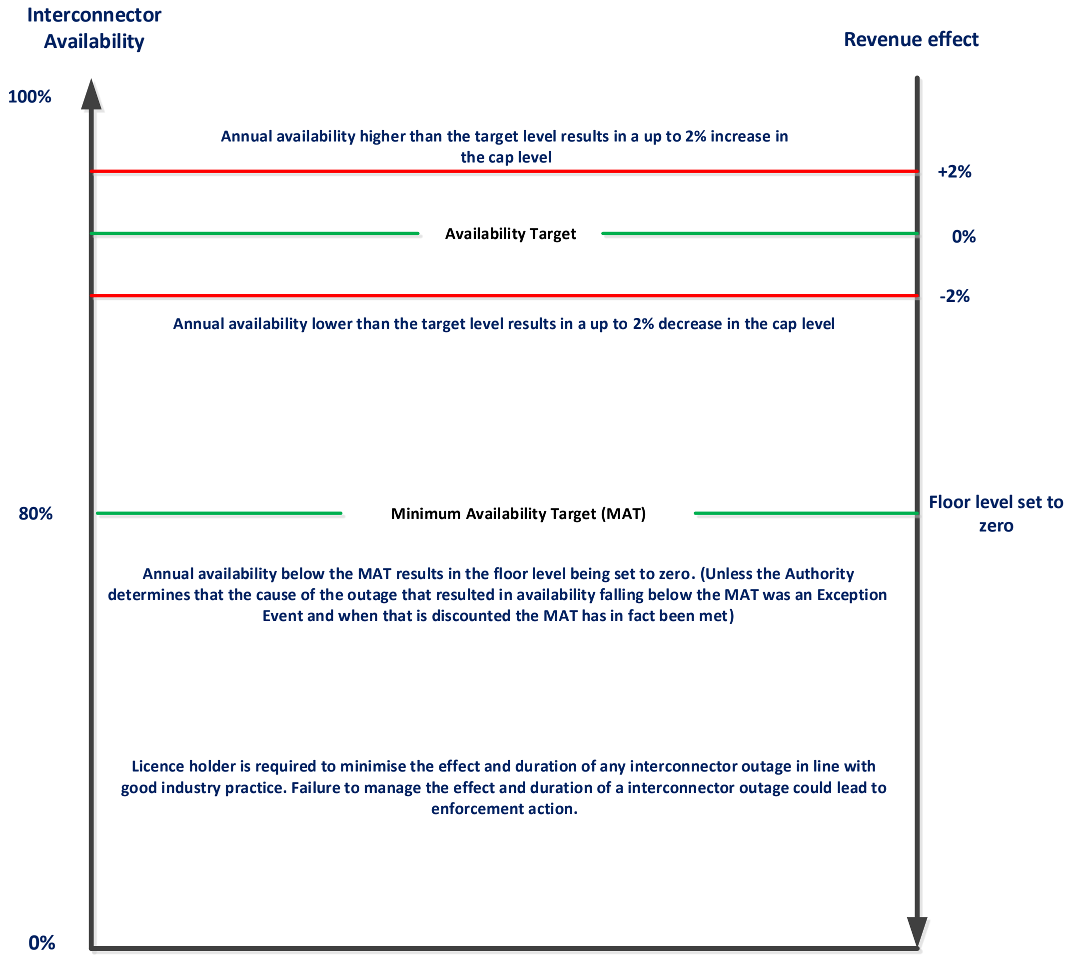
- fails to meet the MAT (ie the value of the APF_t term is less than 1.00) then the value of the AIF_t is zero. This means that the floor level falls to zero and consequently IFA2 is not eligible for floor payments with respect to that Relevant Year.

3.48. If an Exceptional Event has occurred in the Relevant Year then Part E of this condition provides for an adjustment to the calculation of the AIF_t term to discount the MWh value (Availability Reduction Value) of the interconnector outage caused by that Exceptional Event.

3.49. Specifically, this means that where IFA2 has not met the MAT due an interconnector outage caused by an Exceptional Event its interconnector is deemed to have been available for the proportion of the outage caused by that Exceptional Event. This may result in IFA2’s eligibility for floor payments being reinstated if, after discounting the Availability Reduction Value, from the calculation of IFA2’s Actual Availability, IFA2 meets or exceeds the MAT.

3.50. Diagram 5 below illustrates how interconnector availability affects IFA2’s revenue.

Diagram 5: An graphical illustration of how interconnector availability affects IFA2's revenue.



Part D: Calculation of Actual Availability

Part D of this condition sets out the formula for calculating the Actual Availability of IFA2's interconnector. The Authority can specify certain events of curtailment by the ESO that can be deducted, as an 'Allowed Outage', from the calculation of total Interconnector Outage.

Part E: Process to be followed where the MAT is not met

3.51. Part E provides for IFA2's eligibility to receive an end of period floor payment in any relevant year where it does not meet the MAT[24] to be reinstated by the Authority where:

- IFA2 has given notice to the Authority under this condition that the cause of the interconnector outage, that resulted in its actual availability falling below the Minimum Availability Target, was an Exceptional Event; and

- such notice is accompanied by:

    - a proposed value for the reduction in availability (in MWh) caused by the Exceptional Event (the Availability Reduction Value);
    - information necessary to demonstrate that the Availability Reduction Value was caused by an Exceptional Event; and

    - such information as may be necessary to demonstrate that when the Availability Reduction Value is excluded from the calculation of the actual availability of its interconnector, then it has in fact met the Minimum Availability Target; and

- the Authority directs that the Exceptional Event has been appropriately mitigated and managed by IFA2 and the Authority either accepts the Availability Reduction Value proposed by IFA2 or specifies an alternative Value.

3.52. In the event that the Authority determines that an Exceptional Event has not occurred then IFA2's eligibility to receive an end of period floor payment will not be reinstated for that relevant year.

Special condition 5 (Assessed Revenue)

3.53. This condition calculates the value of the Assessed Revenue (AR_t) term for the purposes of assessing the amount of revenue IFA2 has earned in a relevant assessment period compared against the cap and floor levels calculated in accordance with its licence.

3.54. This condition also sets out the calculation for the Gross Revenue (GR_t) and Market Related Costs (MRC_t) components that are used in the calculation of the AR_t term.

Part A: Calculation of the Assessed Revenue term (AR_t)

3.55. Assessed revenue is all sources of revenue earned (or received) from:

- the allocation of interconnector capacity;

---

[24] And where it considers its assessed revenue (calculated in accordance with special condition 5 of the licence) is below the floor for that relevant year.

- participation in the GB capacity market[25];
- the provision of ancillary services in GB and/or France;
- constraint payments received from the GB or France SOs; and
- insurance receipts (such as business interruption insurance).

3.56. The Authority may specify in writing other sources of revenue that are to be considered an additional revenue source.

3.57. IFA2 must notify the Authority if it considers it may have an additional revenue source.

3.58. Market-related costs are netted off the calculation of gross congestion revenue. Market-related costs are:

- error accounting costs;
- firmness costs; and
- trip contract costs.

Special condition 6 (Within Period Adjustment)

3.59. The condition sets out the grounds on which IFA2 may submit a request for a revenue adjustment **within** a relevant assessment period.

3.60. The condition also sets out the process that IFA2 must follow, and the information it must provide, when making such requests. It also sets out the process for determining the value of any such within period adjustment (WPA).

3.61. IFA2 may only request a WPA where it has:

- a cumulative NPV shortfall of assessed revenue against the floor level; or
- a cumulative NPV excess of assessed revenue against the cap level; and
- considers a WPA to be required on the grounds of:

    (a) financeability; or

    (b) pre-empting a material cap and floor adjustment at the end of a relevant assessment period.

3.62. A WPA request may be for a:

- **upward adjustment[26]** to interconnector revenue (where IFA2 has a cumulative NPV shortfall against the floor); or

[25] After deduction of any capacity provider penalty charges.
[26] Not exceeding the size of the NPV shortfall against the floor.

- **downward adjustment**[27] to interconnector revenue (where IFA2 has a cumulative NPV excess against the cap).

3.63. The Authority shall determine and specify in writing to IFA2 the value of any within period adjustment.

[27] Not exceeding the size of the NPV excess against the cap.

Special condition 7 (Non-Controllable Costs)

3.64. This condition provides for adjustments (whether upwards or downwards) to:

- IFA2's Interconnector Revenue as a result of changes in IFA2's Non-Controllable Operational Costs (the Pass Through Adjustment (PTA_{ap}));

- The calculation of IFA2's assessed revenue as a result of an Income Adjusting Event (Determination of the Income Adjusting Event costs term (IAT_t)); and

- The cap and the floor levels as a result of changes in legislative requirements for decommissioning IFA2's interconnector (Determination of the Decommissioning Cost Adjustment At Cap and Decommissioning Costs Adjustment At Floor terms (DCC_t and DCF_t)).

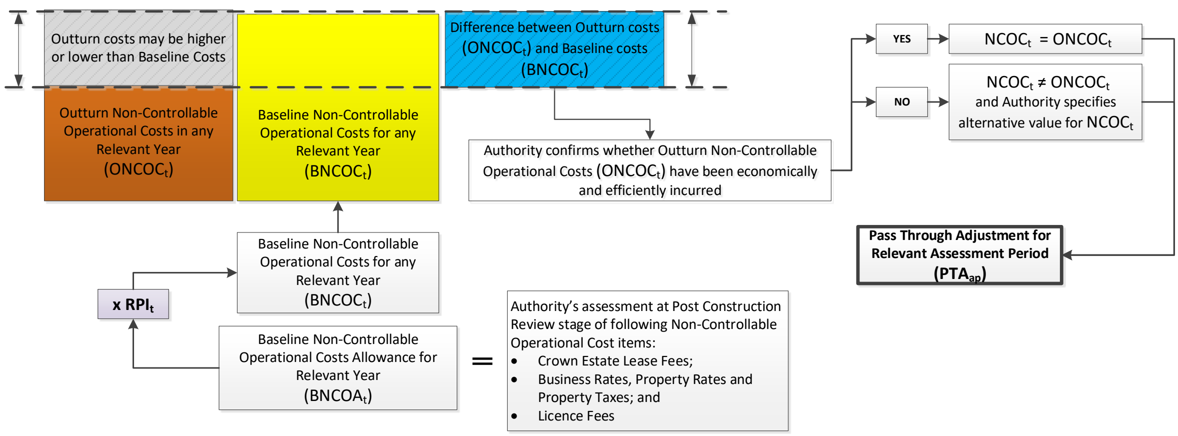
Part A: Calculation of the Pass Through Adjustment term (PTA_{ap})

3.65. This licence condition adjusts IFA2's revenue for certain operational costs that may arise but are not controllable by the licensee. The difference (whether positive or negative) between the baseline allowance[28] of these 'non-controllable operational costs' and the outturn is passed through to consumers and represents the value of the PTA_{ap} term. The non-controllable operational costs are defined as the following:

(a) Crown Estate Lease Fees;
(b) Property Rates;
(c) Licence Fees.

3.66. Diagram illustrates how the PTA_{ap} term is calculated.

Diagram 6: A flowchart illustrating how the Pass Through Adjustment term (PTAap) is calculated.



[28] The baseline allowance is the costs assumed in the cap and floor levels.

3.67. Pass through adjustments are made at the end of an assessment period on an NPV neutral basis.

Part D: Determination of the Income Adjusting Event term (IAT_t)

3.68. IFA2's licence provides for some risk sharing with consumers for force majeure events. This mechanism is the IAT_t term.

3.69. The events or circumstances which are defined as force majeure are specified in IFA2's licence. This definition has been based on the definition from the Electricity System Operator Transmission Owner Code (STC),[29] with the following exceptions:

- Certain provisions, including strike, lockout or other industrial disturbance, are not included in the definition of force majeure.

- Legislative change is not included in the definition of force majeure. This is because the cap and floor regime has other mechanisms to protect from legislative change, specifically:

    - the floor itself provides protection to IFA2 from potential negative impacts on its revenue arising from legislative change – including the European Network Codes and further development of interconnection;

    - the decommissioning costs adjustment term (discussed below) provides protection to IFA2 from changes in legislative requirements relating to the costs of decommissioning.

  The regime intent is not to provide further protection from legislative change for IFA2.

3.70. The licence also imposes a materiality threshold for force majeure events (> 5% of the Floor Level).

3.71. Where IFA2 considers an income adjusting event to have occurred, then it shall give written notice (including a proposed value for the IAT_t term) to the Authority as soon as is reasonably practicable after the occurrence of the event. In any case such notice must be given no later than three months after the end of the Relevant Year in which the event occurs or such later date as the Authority may notify to the licensee.

3.72. The Authority will take the final decision on whether the trigger event/circumstance was a force majeure event, and whether IFA2's proposed IAT_t term represents the economic and efficient costs of response to the event/circumstance.

[29] For further information please see National Grid's website: http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/System-Operator-Transmission-Owner-Code/

3.73. Once the Authority has specified the value of the IAT_t term, the calculation of the licensee’s assessed revenue for that year shall be adjusted to net off the impact of the IAT_t term (ie to net off the economic and efficient costs associated with the event).

3.74. Further details on the relevant definitions and processes for determining the IAT_t term are set out in IFA2’s licence.

Part E: Determination of the Decommissioning Cost Adjustment At Cap and Decommissioning Costs Adjustment At Floor terms (DCC_t and DCF_t)

3.75. IFA2 is liable for its decommissioning obligations. The value of the cap and floor levels is based on the Authority’s assessment, at the Post Construction Review stage, of the legislative requirements relating to the decommissioning of the IFA2’s interconnector and the economic and efficient costs associated with such requirements. However, legislative requirements could change before the end of IFA2’s cap and floor regime and could lead to additional or reduced decommissioning costs which IFA2 would not have foreseen.

3.76. The licence provides for adjustments to the cap and floor levels (whether upwards or downwards) in the event that a change in legislative requirements results in additional or reduced decommissioning costs agreed by the Authority.

3.77. Where IFA2 considers, and can provide evidence to support additional decommissioning costs[30], IFA2 may give written notice to the Authority of such occurrence and must include in that notice, its proposed values for the DCC_t and DCF_t terms. The licence sets out further details of what the notice must contain and the process to be followed.

3.78. Where IFA2 incurs a lower decommissioning costs than the allowance provided for in the cap and floor levels, IFA2 is obligated to notify the Authority of such occurrence and must include in that notice, its proposed values for the DCC_t and DCF_t terms.

3.79. The Authority shall then direct and notify IFA2 in writing whether:

(a) there has been a relevant change in legislative requirements and whether any or all of the costs specified in IFA2’s notice were caused by the change in legislative requirements; and

(b) if so, the periods, if any, over which the adjustment terms DCC_t and DCF_t terms determined by the Authority should apply.

[30] For example, updates to Department for Business, Energy and Industrial Strategy (BEIS) guidance on decommissioning.

3.80. Where the Authority issues a direction specifying that there has been a relevant change in legislative requirements and costs were incurred or saved by IFA2 as a result, the formula for calculating IFA2’s cap and floor specified in special condition 2 is replaced by the following alternative formulae:

$$CL_t = PYC_t \times (PCL + PCAC + ORAC + DCC_t) \times AIC_t \times RPI_t$$

$$FL_t = PYF_t \times (PCL + PCAF + ORAF + DCF_t) \times AIF_t \times RPI_t$$

3.81. The above formulae add the DCC_t and DCF_t terms to the calculation of the cap and floor levels, respectively.

3.82. Should there be any further changes in legislative requirements concerning decommissioning after the Authority’s direction, IFA2 may give further notice to the Authority in accordance with the process described in the licence.

Special condition 8 (Process for determining the value of the Post Construction Adjustment (PCA) terms)

3.83. This condition establishes the process for determining the value of the Post Construction Adjustment terms (PCAC and PCAF). The values of these terms are determined by the Authority in accordance with the process set out in the licence and represents the difference between the Authority’s:

(a) estimate, assumed in the preliminary cap and floor levels, of the costs associated with developing, constructing, operating, maintaining and decommissioning IFA2’s interconnector; and

(b) assessment, at the Post Construction Review stage, of the economic and efficient costs associated with developing, constructing, operating, maintaining and decommissioning of IFA2’s interconnector.

3.84. The PCAC and PCAF terms make adjustments (whether upwards or downwards) to IFA2’s cap and floor levels to account for the difference between the:

- preliminary cap and floor levels (PCL and PFL terms) set by the Authority; and
- actual cap and floor levels (CL_t and FL_t terms), following the Post Construction Review stage.

3.85. The licence provides for the value of PCAC and PCAF terms to be submitted by IFA2 once construction of the interconnector is substantively complete, prior to commencement of the operation phase or such other date as may be agreed with the Authority.[31]

3.86. IFA2 may submit a request to the Authority[32] setting out its proposed value for the PCAC and PCAF terms together with any necessary supporting information and in accordance with any process set out by the Authority.

3.87. Any such request must include the following information:

(a) IFA2's proposed values for the PCAC and PCAF terms;

(b) details of how the proposed values have been calculated; and

(c) any other relevant information as may be specified by the Authority to facilitate its determination of IFA2's proposed values for the PCAC and PCAF terms.

3.88. The Authority will confirm in writing if all required information has been received and if not specify, within three months of receipt, what information remains outstanding.[33]

3.89. The Authority shall determine whether it considers the proposed values for the PCAC and PCAF terms:

(a) to be acceptable; or

(b) specify alternative values for the PCAC and PCAF terms,

within a period of 12 months from the date that the Authority confirms it has received all the required information.

3.90. Once determined, the Authority will specify the values of the PCAC and PCAF terms in a direction. The determined PCAC and PCAF values take effect from the Regime Start Date.

3.91. The values of the PCAC and PCAF terms then remain fixed, in real terms, for the duration of IFA2's cap and floor regime. In the absence of a determination by the Authority the values of the PCAC and PCAF terms are set to zero.

---

[31] This is specified in the licence as the date on which between 85 per cent and 95 per cent of development and capital expenditure, excluding interest during construction (and any snagging retention) has been committed to the development and construction of its interconnector. The Authority may agree to an earlier or later submission date if sufficient evidence is provided to justify that date..

[32] IFA2 is required to give the Authority no less than 6 months' notice that it intends to submit a proposed value for the PCAC and PCAF terms for determination by the Authority under this condition.

[33] The Authority may at any time following this confirmation, where it concludes that the information provided by IFA2 is not sufficient for the purposes of making a determination, send a further notification setting out what additional information is required. In such circumstances the 12 month period for making a determination is paused and restarted on receipt of the required information.

Special condition 9 (Process for determining the value of the Opex Reassessment Adjustment terms)

3.92. The Opex Reassessment Adjustment terms (ORAC and ORAF) make an adjustment (whether upwards or downwards) to the cap and floor levels.

3.93. The values of these terms are proposed by IFA2 and determined by the Authority in accordance with the process set out in the licence, and account for the difference between the Authority's:

(a) assessment at the Post Construction Review stage of the economic costs associated with operating and maintaining IFA2's interconnector; and

(b) reassessment, at the Opex Reassessment stage, of the economic and efficient costs associated with operating and maintaining IFA2's interconnector.

3.94. A determination by the Authority of the value of the ORAC and ORAF terms may be conducted:

(a) **at IFA2's request** - in which case IFA2 must submit a request to the Authority setting out the proposed value for the ORAC and ORAF terms together with all relevant and up to date cost information that the Authority may require to complete its reassessment; or

(b) **where the Authority considers it appropriate** - in which case the Authority will specify the information IFA2 is required to provide[34] to allow the Authority to complete is assessment.

3.95. In any case, a determination may only be conducted once and cannot occur until at least 10 years after the start of IFA2's cap and floor regime.

3.96. The Authority shall review the information submitted by IFA2 and send a written notification within three months confirming whether it has:

(a) received all the information required to allow it to make its determination[35]; or

(b) not received all the information required and specify what further information is required.

[34] This information must be provided by IFA2 within three months of the Authority's request.

[35] The Authority may at any time following this confirmation, where it concludes that the information provided by IFA2 is not sufficient for the purposes of making a determination, send a further notification setting out what additional information is required. In such circumstances the 12 month period for making a determination is paused and restarted on receipt of the required information.

3.97. The Authority shall determine the value of the ORAC and ORAF terms within a period of 12 months from the date that the Authority confirms that it has received all the required information.

3.98. Once determined, the Authority will specify the values of the ORAC and ORAF terms in a direction. The determined ORAC and ORAF values take effect from the date stated in the direction. This effective date is the start of the next Relevant Year.

3.99. The value of the ORAC and ORAF terms then remains fixed for the remainder of IFA2's cap and floor regime. In the absence of a determination by the Authority the values of the ORAC and ORAF terms is set to zero.

Special condition 10 (Calculation of adjustments to the licensee's Interconnector Revenue)

3.100. This condition pulls together the various revenue adjustment components calculated in other special conditions of the licence (ie the CFA_{ap}, WPA_{pap} and PTA_{ap} terms) and applies the following:

- the true up term (which provides an opportunity to true-up forecasting or reporting errors from previous years); and
- the ICF_t methodology; which takes into account:
  (a) the time lag in the GB charging cycle (so applies the operational discount rate for an additional period); and
  (b) any differences in reporting years[36]

3.101. This determines the final sum to be paid between IFA2 and the GB SO in any given relevant year. Further information is provided below.

Part A: Calculation of the Interconnector Cap and Floor Revenue Adjustment terms for each Relevant Assessment Period and each Relevant Partial Assessment Period (ICF_{ap} and ICF_{pap})

3.102. The calculation of the Interconnector Cap And Floor Revenue Adjustment term for each Relevant Assessment Period (ICF_{ap}) sums up the Cap and Floor Adjustment term (CFA_{ap}) and Pass Through Adjustment term (PTA_{ap}) for a relevant assessment period.

3.103. The calculation of the Interconnector Cap And Floor Revenue Adjustment term for each Relevant Partial Assessment Period (ICF_{pap}) sums up the Cap and Floor Adjustment term

[36] IFA2's reporting year is the same as the reporting year for the TNUoS charging cycle which runs from 1 April to 31 March.

(CFA_{ap}) and Pass Through Adjustment term (PTA_{ap}) for the relevant partial assessment period.

3.104. The calculation also allows for a true-up, if needed, to reconcile any reporting or forecasting errors from previous years.

Part B: Calculation of the True-up term (TRU_t)

3.105. In the event that forecasting or reporting errors occur in the calculation of the value of the ICF_t term for Relevant Year *t-1*, the licence provides for IFA2 to submit, for approval by the Authority, a value for the True-up term (TRU_t) that is calculated so as to reconcile such errors for Relevant Year *t*.[37]

3.106. IFA2's proposed value for the TRU_t must be submitted no later than 15 months after the end of Relevant Year *t-1* and at the same time as IFA2's Annual Cap and Floor RIGs Submission for Relevant Year *t*.[38] (The licence does however set out that, where the licensee cannot make its submission within that timescale, it may request the Authority to grant a timescale extension).

3.107. The Authority may either approve IFA2's proposed value for the TRU_t term or specify an alternative value.

Part C: Calculation of the Interconnector Cap And Floor Revenue Adjustment term for Relevant Year *t* (ICF_t)

3.108. The value of the Interconnector Cap And Floor Revenue Adjustment term for relevant year *t* (ICF_t) equates to a revenue adjustment as follows:

- a downward adjustment of revenues[39] (where the ICF_t term is a **negative** value), or
- an upward adjustment of revenues (where the ICF_t term is a **positive** value)

3.109. The value of the ICF_t term is calculated in accordance with an ICF_t methodology which IFA2 is required to establish and maintain under this licence condition. The methodology converts the ICF_{ap} and ICF_{pap} values discussed above into values that take account of the relevant payment timescales prescribed in the CUSC and the Operation Discount Rate.

3.110. IFA2 is required to notify the value of this term to the GB Electricity System Operator under standard condition 26 (Provision of information to the GB Electricity System Operator) of its licence. Such notifications to the GB Electricity System Operator need to be in a reporting year that runs from 1st April to 31st March the following calendar year.

[37] Together with how the value of the TRU_t term has been calculated, details of the errors identified and how the proposed TRU_t term reconciles these errors.
[38] Where IFA2 cannot make its submission within this timescale, it may request the Authority to grant a timescale extension.
[39] Upward/downward revenue adjustments result in a corresponding increase/decrease in the TNUoS charges set by the GB Electricity System Operator which then flows through to consumers.

Special Condition 11 (IFA2 Cap And Floor Financial Model Governance)

3.111. This condition establishes the governance process for the IFA2 Cap and Floor Financial Model (the "IFA2CFFM"), including the process for introducing amendments to the IFA2CFFM.

Part A: General governance provisions

3.112. Part A of this condition clarifies that the IFA2CFFM is not part of the licence and provides ways to resolve conflicts between the licence and the IFA2CFFM.

3.113. IFA2 must notify the Authority about any identified conflict between the licence and the IFA2CFFM.

3.114. Pre-defined updates to the IFA2CFFM made by the Authority as part of the normal process for determining Assessed Revenue are differentiated from modifications to the IFA2CFFM to correct conflict or errors of functionality.

Part B: Modifications of the IFA2CFFM

3.115. Part B sets out how modifications to the IFA2CFFM to correct conflicts or errors of functionality may be carried out.

3.116. It allows for modification to the IFA2CFFM to either be agreed bilaterally between the Authority and IFA2 or be put to a public consultation.

Part C: Availability and updating of IFA2CFFM

3.117. Part C requires the Authority to publish any modifications to the IFA2CFFM and keep it publicly available in the up-to-date version on the Authority's website.

Part D: Interpretations

3.118. Part D defines the Cap and Floor financial model applicable to IFA2 – the IFA2CFFM.