



Project	Nemo Link
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Table of Contents

Context and Summary Responses	3
Question 1: Do you agree with our proposed cost allowances?	4
Question 2: Do you agree with our proposed changes to the CFFM?	7
Question 3: Do you agree with our proposed modifications to Nemo Link’s licence?	8
Question 4: Do you agree with our proposed modifications to SLC 25?	8

Context and Summary Responses

Nemo Link Limited is the developer of the Nemo Link interconnector, and is proud to say that the interconnector was delivered on-time, under budget and without any notifiable health, safety or environmental issues.

As the developer of the Nemo Link interconnector, we are fully aware of the importance of this operational asset to consumers, the electricity sector and to Nemo Link shareholders:

- The original assessment of the Nemo Link interconnector estimated it would provide significant consumer welfare.
- The interconnector links the UK and Belgian markets, producing a more integrated European electricity transmission network and facilitating greater opportunities for electricity trading and for balancing the national transmission networks (particularly with the existing and planned increases in renewable energy sources).
- Nemo Link shareholders have already invested over €0.6bn in the project.

We are also aware that Nemo Link is the first interconnector to proceed to this stage of the Cap & Floor regulatory regime:

- Nemo Link has worked closely with the regulators over several years, and has hopefully contributed to the refinement of the regulatory process for the benefit of all parties.
- Nemo Link also hopes it has played its part in contributing to a successful Cap & Floor regulatory regime, whereby other developers are encouraged to invest the large up-front sums that are required for a successful interconnector project.

As part of the Nemo Link Cap & Floor regulatory process, Ofgem published a PCR consultation document on 11 September 2019. The consultation document requests general feedback on the consultation, plus asks 4 questions relating to the specific consultation content.

This is Nemo Link's formal response to the consultation and addresses each of the consultation questions. The table below provides the high-level summary responses, with subsequent chapters providing more detail.

Question	Response
General Feedback	Overall, we found the consultation document to be well written, with a clear and logical structure.
Question 1: Do you agree with our proposed cost allowances?	Nemo Link's principal disagreement is with the repex position.
Question 2: Do you agree with our proposed changes to the CFFM?	Nemo Link welcomes the changes to the CFFM, and additionally would welcome clarity over the GBP:EUR foreign exchange rate to use for conversion to and from EUR to GBP for the costs during operations.
Question 3: Do you agree with our proposed modifications to Nemo Link's licence?	Nemo Link welcomes the proposed modifications to its license, and would also welcome the regulators consideration of some small additional modifications to achieve greater alignment with the published North Sea Link (NSL) license.
Question 4: Do you agree with our proposed modifications to SLC 25?	Nemo Link welcomes the changes to SLC 25 and the publication of revised Cap and Floor RIGs and the associated template.

Question 1: Do you agree with our proposed cost allowances?

Nemo Link has worked closely with the regulators over recent years and has provided full costing information, together with detailed supporting documentation and narrative, as part of the RIGs and PCR submission processes.

It has also responded to queries and questions that the regulators have raised in a full and timely manner. In particular, Nemo Link has provided additional supporting information and justifications for each of the items in the consultation where the regulators have a minded-to position that is lower than our submission value.

Therefore, Nemo Link has chosen to focus this part of the consultation response on the repex position, where the regulators have stated that they are not yet able to make a determination, and only make relatively short statements in other areas of proposed disallowance.

Repex

Extract from the Consultation document:

“2.48 At the PCR stage, Nemo Link submitted an estimated cost of €49.6m over the 25-year operational period. This is a significant increase from our 2014 decision, which set the allowance at €5.9m based on Nemo Link’s 2013 submission of €16.1m. Nemo Link has submitted information to us to support the PCR cost estimate, but at this stage, it has not been sufficient for us to make a determination of what would form an economic and efficient allowance. We will therefore maintain the allowance set in our 2014 decision as a placeholder value. We will be able to reconsider this figure if Nemo Link provides us with further information that better demonstrates the efficient repex cost level.

2.49 As stated in our 2014 decision, repex is treated as a standalone operational RAV addition (rather than being part of opex), meaning there is no provision for adjustments to our repex allowance following our PCR decision.”

Nemo Link’s response:

Nemo Link’s response to the consultation position on repex is in three parts:

- a) Response to the statement that “the information has not been sufficient for us to make a determination”.
- b) The nature of the information provided to support the repex submission.
- c) Comment on the ‘minded-to’ position.

a) Response to the statement that “the information has not been sufficient for us to make a determination”

Nemo Link has diligently followed the PCR process in full and provided all the information requested by the regulators in a timely manner:

- The repex programme and supporting information was submitted in December 2018.
- Nemo Link received and responded to repex questions in June 2019.
- Nemo Link received and responded to two rounds of repex questions in August 2019.

b) The nature of the information provided to support the repex submission

The PCR submission included the repex programme, supported by budgetary cost estimates from the relevant supplier organisations (it is not realistic to have formal tenders for works that are many years in the future).

In response to questions from the regulators, Nemo Link provided additional supporting information, which included information published by an industry body (CIGRE) and information relating to other interconnectors.

In an effort to provide the regulators with sufficient information to make a determination (as referenced in the consultation document), a respected industry third party has provided its independent opinion on the submitted repex programme and costs. Their report has been submitted to the regulators during the course of this consultation period.

c) Comment on the ‘minded-to’ position

Nemo Link was disappointed that the regulators chose to use their 2014 value in this consultation document, as this value is not relevant to the well-supported information that Nemo Link has provided as part of the PCR process.

However, we note that the current consultation document does state that this value is a “placeholder value” and that the regulators “will be able to reconsider this figure”.

Therefore, as part of this consultation response, Nemo Link respectfully requests that the regulators reconsider their position based on the totality of information provided in support of the repex submission (i.e. the PCR submission, the responses to the follow-up questions posed by the regulators, and the opinion provided by the independent, industry respected third party which has been submitted to the regulators during the consultation period).

Opex: CACM and Day Ahead power exchange related costs

Extract from the Consultation document:

“2.45 Nemo Link submitted a total allowance over the 25-year period of €7.4m for CACM and day ahead power exchange related costs. We recently published our decision on approach to cost sharing and cost recovery under the CACM Regulation.²¹ Amongst other things, the decision specifies that enduring arrangements for cost sharing and cost recovery for efficiently incurred, reasonable and proportionate development and operational CACM related costs shall apply to new interconnectors from the date they commence commercial operations. The decision also sets out how the total share of relevant costs attributable to interconnectors should be shared between them.

2.46 Whilst we intend to accept the submitted allowance for now we note that it was submitted ahead of our recent decision on cost sharing and cost recovery under the CACM Regulation. We therefore expect to update this allowance once we have received a revised value from Nemo Link that takes into account our recent decision.”

Nemo Link’s response:

Nemo Link will provide a revised value to the regulators for the CACM related costs that takes into account Ofgem’s recent decision on cost sharing and cost recovery under CACM regulation.

Opex: Real Wage Growth

Extract from the Consultation document:

“2.40 Nemo Link’s PCR submission provided an annual increase in real wages of 1.5% over the 25-year period. We take the view that the 1.5% rate is at the high end of possible estimates in light of historic data and current wage growth trends, and hence we are minded to use a 1% rate. This reduces the annual average wage growth cost from €1.0m to €0.6m, and the total cost over the full 25 years is reduced from €24.7m to €15.8m. Nemo Link may request reassessment of these costs at the opex reassessment stage, which would take effect for the remainder of the regime duration if approved.”

Nemo Link’s response:

Nemo Link’s view is that its proposal for a real wage growth of 1.5% was reasonable and not at the high end of possible estimates:

- Nemo Link’s PCR submission value of 1.5% was supported by long term historic data.
- Nemo Link also notes that the latest UK real wage growth is above 2.0%, based on Office of National Statistics (ONS) data.

Capex: Delay to Start-Up (DSU) Insurance

Extract from the Consultation document:

“DSU insurance was procured but does not provide consumers with additional benefit; this is in line with treatment of insurance for IFA2”.

Nemo Link’s response:

DSU insurance formed part of the package of insurances that provided protections against construction related risks, and helped underpin the business case for the Nemo Link investment, and thereby supported the overall consumer benefit for the project.

Furthermore, the understanding at the time of procuring the DSU insurance in 2015 was that consumers would also benefit from any insurance pay-outs resulting from any successful DSU insurance claim.

Capex: Trading Desk costs

Extract from the Consultation document:

“Trading desk costs prior to operations were determined to be market related costs, and therefore not eligible as capex”

Nemo Link’s response:

By way of context, the Trading Desk services referenced in the consultation document relate to the commissioning phase of the construction period i.e. the months prior to the start of commercial operations.

These Trading Desk services and related costs were a necessary part of the commissioning phase and, as the regulators have referenced in the consultation document, the mitigation actions of the Trading Desk during this period avoided imbalance costs that could have reached €26.6m.

As the regulators are minded to consider these as 'market related costs' and not eligible for capex, we request that these costs can be considered as 'market related costs against revenues' within the next RIGs submission. If this is not possible, Nemo Link requests that these costs are included within the controllable opex allowances to ensure they are considered once during the regime.

Question 2: Do you agree with our proposed changes to the CFFM?

Nemo Link welcomes the changes to the CFFM in most areas. Nemo Link believes the splitting of the original model into two distinct models mirroring the construction and operational stages of the interconnector is sensible. The changes made to the models also provide developers with additional certainty as to how the Cap and Floor regime will be enacted. Nemo Link also welcomes the publication of the associated handbooks to ensure a standardised approach to all interconnectors can be used.

Nemo Link would welcome clarity over the GBP:EUR foreign exchange rate to use for conversion to and from EUR to GBP for the costs during operations needed to finalise the PCR adjustments to the Preliminary Cap and Floor values.

Nemo Link appreciates that there are many different possibilities for this value and so would welcome a clear policy statement in this area. This policy could then be used for the Nemo Link PCR process, and for other developers that follow. Nemo Link believes that an approach more aligned to a dataset around the commencement of commercial operations would be more appropriate. Nemo Link makes three suggestions below which it hopes the regulators will consider:

1. Use the XUMAERS rate for the month of the start of commercial operations (in this case Jan 19).
2. Use a mean average of the XUMAERS rates for the month of the start of commercial operations with three months each side of this date (in this case Oct 18 – Apr 19 inclusive).
3. Use a mean average of the XUMAERS rates for the month of the start of commercial operations with six months each side of this date (in this case Jul 18 – Jul 19 inclusive).

Nemo Link believes these suggestions are a better way of estimating a foreign exchange value at the start of operations than potentially using dates (such as 'submission of PCR data' or 'associated consultation') which are arbitrary in nature and the length of which from the start of operations will likely vary by interconnector.

Nemo Link is able to re-submit costs to reflect the revised exchange rate assumption, and this could be completed rapidly if required, and so would not significantly impact upon the consultation and decision process.

Question 3: Do you agree with our proposed modifications to Nemo Link's licence?

Nemo Link welcomes the proposed modifications to its license, and we would also welcome the regulators' consideration of some small additional modifications to achieve greater alignment with the published North Sea Link (NSL) license.

Nemo Link reviewed the amendments in the last published version of Special Conditions to the NSL license. Below are the locations in the Nemo Link license where it is proposed that the wording is updated to reflect the amended wording in the NSL license. Nemo Link believes this will help align the licenses and help minimise the potential for any future differences in interpretation, and thereby help to ensure equal treatment between the interconnectors:

1. Page 35: Special Condition 4, Part E, Paragraph 21a.
2. Page 38: Special Condition 4, Part G, Paragraph 32a.
3. Page 55: Special Condition 7, Part C, Paragraph 13.
4. Page 56: Special Condition 7, Part D, Paragraph 17b.
5. Page 77: Special Condition 11, Part A, new paragraph between current Paragraphs 3 & 4 (which, for reference, has been flagged to the regulators).

Question 4: Do you agree with our proposed modifications to SLC 25?

Nemo Link welcomes the changes to SLC 25 and the publication of revised Cap and Floor RIGs and the associated template.