

Guidance on the cap and floor conditions in the electricity interconnector licence for projects seeking project finance funding solutions

Publication date: 25/02/2021

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This document describes our GB electricity interconnector licence. It focuses on the licence conditions applicable to developers of projects we have approved under our electricity interconnector cap and floor regime seeking project finance funding solutions such as project finance. These conditions confer a set of obligations and incentives on licensees and are part of our regulatory framework for cap and floor projects.

This guidance note explains the purpose and mechanics of these licence conditions, with a particular focus on the Special Licence Conditions. 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.

Standard Licence Conditions

- ✓ Cover duties and obligations applicable to all electricity interconnector licensees
- ✓ Published on our website under "Electricity interconnector licence: standard conditions"
- ✓ Issued for a term of (usually) longer than 25 years

Special Licence Conditions

- ✓ Cover extra obligations and incentives on cap and floor licensees
- ✓ Published on our website under "Special conditions for the electricity interconnector licence held by"
- ✓ Issued for a term of (usually) up to 25 years

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

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Associated documents

Decision on the Initial Project Assessment of the Greenlink interconnector (30 September 2015): <https://www.ofgem.gov.uk/publications-and-updates/decision-initial-project-assessment-greenlink-interconnector>

Decision on the Initial Project Assessment of the GridLink, NeuConnect and NorthConnect interconnectors (9 January 2018): <https://www.ofgem.gov.uk/publications-and-updates/decision-initial-project-assessment-gridlink-neuconnect-and-northconnect-interconnectors>

Decision on proposed changes to our electricity interconnector cap and floor regime to enable project finance solutions (6 May 2020): <https://www.ofgem.gov.uk/publications-and-updates/decision-proposed-changes-our-electricity-interconnector-cap-and-floor-regime-enable-project-finance-solutions>

Decision on changes to the electricity interconnector licence held by National Grid IFA2 Limited (NGIFA2) (10 June 2020): <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-decision-changes-electricity-interconnector-licence-held-national-grid-ifa2-limited-ngifa2>

Executive Summary

The Gas and Electricity Markets Authority, GEMA (the **Authority**), may grant an electricity interconnector licence permitting the operation of an electricity interconnector. This licence imposes a set of obligations upon all licensees that apply equally to all of them.

This guidance focuses on proposed changes to interconnector licence, which will give effect to the cap and floor regime for a licensee. This includes specific changes to reflect project finance solutions used for a licensee's project.¹

Our existing cap and floor standard licence conditions together with the proposed special conditions will impose specific obligations and incentives upon a licensee with respect to the cap and floor regime applicable to them.

The cap and floor Regime Start Date (RSD) definition reflects the target completion date for each project and the Authority's discretion to specify the RSD as a later date in a direction issued pursuant to a new Standard Licence Condition on "Delay to Regime Start Date caused by Pre-Operational Force Majeure".² The target completion date for our cap and floor Window 1 projects is 1st January 2021 and for Window 2 projects is 1st January 2024.

The regime length is 25 years, but the floor underwriting consumers provide may be shorter than 25 years in a scenario where the regime length is shortened due to project delays.

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 each licensee's cap and floor regime.

This guidance relates to all special conditions and the Standard Conditions in Section G (Cap and Floor Conditions) of the licence and is specific to a licensee using project finance solutions for their projects. The Authority will issue a Direction to activate Section G for each licensee

¹ Project finance is a non-recourse or limited recourse financing approach based on the projected cash flow of a relevant project.

² We expect to publish this new Standard Licence Condition on "Delay to Regime Start Date caused by Pre-Operational Force Majeure" shortly following the publication of this statutory consultation.

³ Except for 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 licensee's respective licences.

after the licence changes have come into effect. This guidance may be updated from time to time.

1. Introduction

1.1. The cap and floor regime is the regulated route for interconnector investment in GB. Ofgem created the cap and floor regime in order to encourage investment in electricity interconnectors. The regime strikes a balance between commercial incentives and appropriate risk mitigation for project developers. This means that, if developers meet certain requirements, they will receive a top-up from consumers if revenue falls below a predefined level (the floor). Consumers underwrite the risk that interconnector developers are unable to generate sufficient revenues to pay for their investment.

1.2. Alternatively, developers can obtain regulatory approval by requesting an exemption from certain aspects of the regulatory framework, including obligations around ownership unbundling and use of revenues. Under this route, developers do not benefit from any consumer underwriting as they would under our regulated regime.

1.3. The cap and floor regime sets a maximum (cap) and minimum (floor) level to the revenues accrued by interconnector developers. Under the default regime, the floor is set at a level that ensures that an interconnector can cover its annual operating expenditure and service its debt. However, in order to qualify for consumer underwriting, interconnectors must meet a minimum level of asset performance. To qualify for a floor payment in any given year, interconnectors must achieve a minimum of 80% availability.

1.4. In our May 2020 cap and floor regime variations decision, we decided to change aspects of the default regime for the Greenlink and NeuConnect interconnector projects to enable project finance solutions. Our impact assessment of the changes demonstrated that approving them for the two projects is likely to be in the interests of GB consumers.

1.5. Our May 2020 regime variations decision enables developers seeking to use project finance solutions to continue to meet annual debt repayments to lenders in years in which availability falls below the 80% minimum threshold. Consumers will top up revenues to the floor level (in the form of a temporary loan) to enable developers to meet their obligations to lenders. We have capped the additional risk to consumers (cumulative outstanding temporary loans) at four times the maximum possible annual floor payment for each project, which cannot be exceeded over the regime duration. Developers are required to repay the temporary loan in full from future revenues above the floor level before they can recover their equity investment and any dividends.

1.6. The cap is set to ensure that equity investors receive sufficient, but not excessive, returns. In order to incentivise maximum availability, the cap can increase or decrease by +/- 2% depending on availability performance. The width between the cap and floor levels is

designed so that developers are exposed to the benefits that the interconnector provides and so are incentivised to identify and develop projects in a way that maximises these benefits. Consumers are protected through the cap, which ensures that high returns are passed back to network users.

1.7. The regime 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.

1.8. Ofgem assess whether granting a cap and floor regime to an interconnector project is in the interests of GB consumers. If so, we then regulate and monitor projects under the regime.

1.9. We implement the decision from our assessment by setting out the necessary changes in the special licence conditions issued to a licensee. We consult on these special licence conditions with the aim of amending the licence we issued to developers ahead of the needs case assessment stage.

1.10. This guidance document updates our most recent IFA2 interconnector project licence guidance published in June 2020 to reflect our regime variations decision published in May 2020.

1.11. Appendix 1 of this document provides an overview of the Greenlink and NeuConnect interconnectors.

Types of licence conditions

Standard conditions

1.12. 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 on a licensee with respect to our cap and floor regime.

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

1.14. We do not normally propose to change these Standard Conditions nor consult on them alongside our consultation on licence changes (special conditions) for a cap and floor project licensee.

Special conditions

1.15. Special conditions are licensee specific and as such the special conditions discussed in this guidance will apply only to the project(s) we have listed in Appendix 1 of this document. The special conditions set out a licensee’s cap and floor regime. More details about cap and floor regime 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.⁴

2.2. We do not discuss each 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 regime⁵ that are currently applicable to all electricity interconnector licensees that are granted a cap and floor regime.

2.3. We do not normally propose changes to the standard conditions as part of our implementation of the cap and floor regime for a project.

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".

⁴ 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 pursuant to the relevant GB domestic law.

⁵ Section G (Cap and Floor Conditions)

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

2.8. The Section G standard conditions are switched on in licence by the Authority's direction. They are switched off by default for all 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.⁶ Standard condition 9 requires a licensee to submit an annual Use of Revenues statement and ensure that revenues derived from the allocation of interconnector capacity are used in accordance with the relevant provisions of the GB domestic law.

2.11. The cap provides an investment route that ensures cap and floor projects are compliant with Use of Revenues requirements. Standard condition 9 applies to a licensee, alongside more detailed provisions governing each project's cap and floor regime.

Section D: Third party access

2.12. This section applies to all 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.⁷

Section E: British electricity trading and transmission arrangements

⁶ Unless the licensee has been granted an exemption from compliance with these conditions.

⁷ The rules setting out the terms for access to a licensee's interconnector, together with the associated charging methodology, must be approved by the Authority.

2.13. The conditions in this section have ceased to have an 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 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 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 (GB ESO).

2.16. Section G is switched off by default for all 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 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 a licensee 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 licensees. This is to ensure that we can apply a consistent approach to the reporting requirements for all licensees granted a cap and floor regime. We will update the Cap and Floor RIGs documents for a licensee with the project specific conditions and publish the RIGs.

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

2.22. This standard condition requires a relevant licensee 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 System Operator of any significant changes. This standard condition also requires a relevant licensee 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 the GB System Operator has available the necessary information to facilitate its forecasting and setting of TNUoS charges.

3. Special Conditions

Special conditions applicable to the licensee(s) listed in Appendix 1

3.1. This section provides an overview of the special conditions that underpin cap and floor regime for licensee(s) listed in Appendix 1. It gives details of each of the special conditions that, together, implement the project specific elements of a licensee's cap and floor regime. Amongst other things the special conditions set out how we:

- (a) calculate licensee's cap and floor levels;
- (b) assess licensee's revenue;
- (c) determine the different revenue adjustment components;
- (d) determine licensee's interconnectors cap and floor levels considering availability of a licensee's interconnector; and
- (e) implement our May 2020 regime variations decision.

3.2. The licence sets out two time horizons relevant to the cap and floor regime:

- Financial Year – which means any of the individual years of the regime (a total of 25 financial years); and
- Relevant Year t - which means any of the individual assessment years of the regime (a total of 26 Relevant Years).

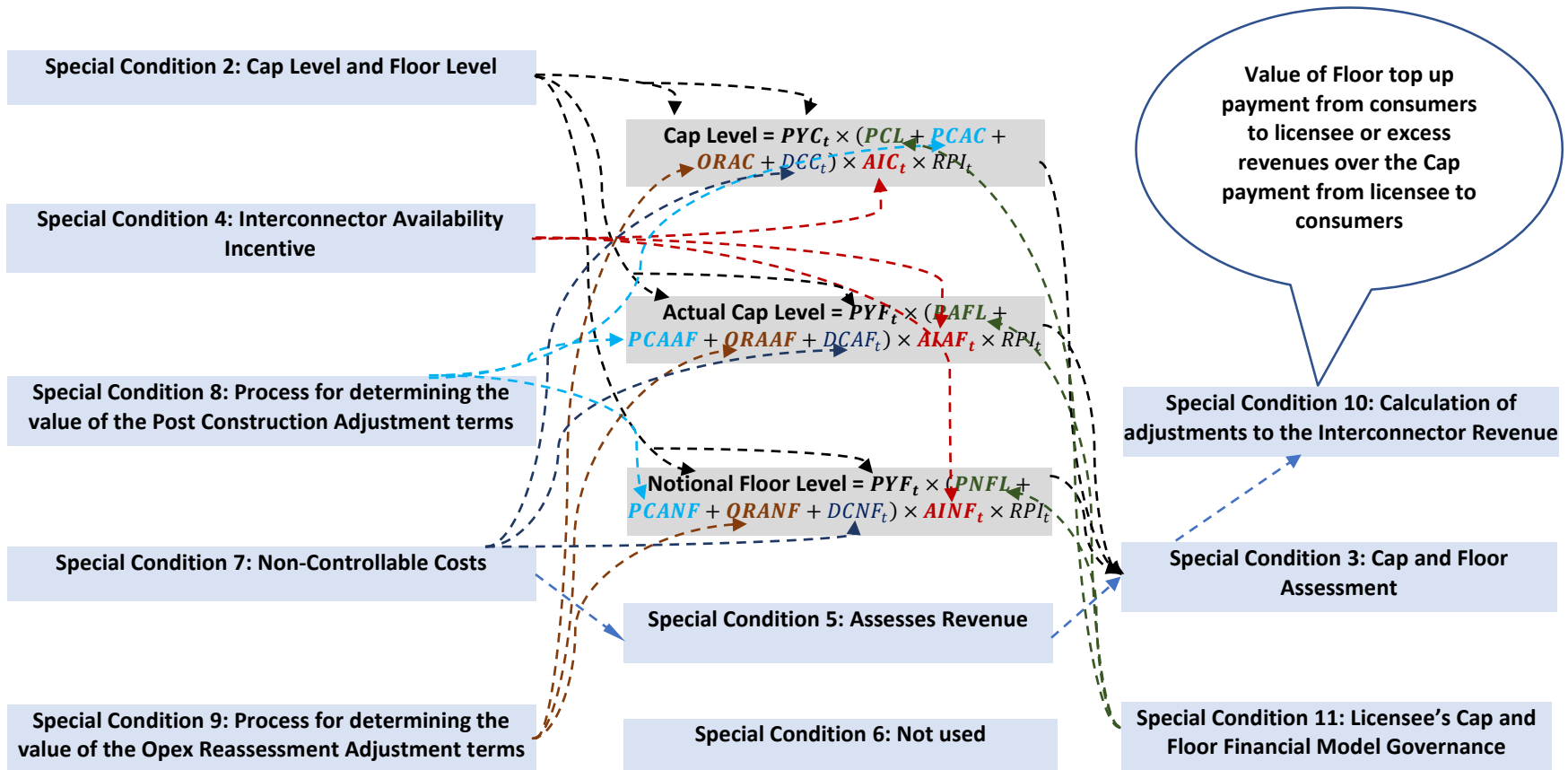
Overview of key special condition interactions

3.3. Diagram 1 below illustrates how the key special conditions interact to calculate cap, notional floor and actual floor levels and to determine the value of any end of assessment period adjustments to the levels.

3.4. End of assessment period adjustments are any payments due to the GB ESO where a licensee's assessed revenue is above the cap or, conversely, any payments due to licensee from the GB ESO where licensee's assessed revenue is below the notional floor and/or actual 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 interactions between special conditions



Special condition 1 (Definitions and Interpretation)

3.6. This condition sets out 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 a licensee’s interconnector revenue is assessed at the end of each relevant assessment year of the regime duration.

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

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

3.9. The cap level, notional floor level and actual floor level terms (CL_t , NFL_t and AFL_t) against which a licensee’s interconnector revenue is assessed (as applicable) at the end of each relevant assessment year is calculated in accordance with the following formulae:

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

$$(b) NFL_t = PYF_t \times (PNFL + PCANF + ORANF) \times AINF_t \times RPI_t; \text{ and/or}$$

$$(c) AFL_t = PYF_t \times (PAFL + PCAAF + ORAAF) \times AIAF_t \times RPI_t$$

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 Sterling 2020/21 prices).

3.11. In these formulae:

Term	Description
AFL_t	means licensee’s actual floor level for Relevant Year t
AIC_t	reflects licensee’s incentive to perform above its Availability Target (%) 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

Term	Description
AIAF _t	reflects requirement on licensee to achieve a Minimum Availability Target (MAT) threshold of 80% for any actual floor payments to be considered. Should availability fall below this threshold then a licensee may lose eligibility for floor payments ⁸ . This term adjusts the floor level depending on performance and/or the need for licensee to meet debt obligations to lenders and has a value either zero or 1.00 subject to the requirements set out in the licensee’s licence
CL _t	means licensee’s cap level for Relevant Year <i>t</i>
NFL _t	means licensee’s notional floor level for Relevant Year <i>t</i>
PCAC, PCANF and PCAAF	<p>means the Post Construction Adjustment At Cap, Post Construction Adjustment At Notional Floor and Post Construction Adjustment At Actual Floor terms which account for the difference between the Authority’s:</p> <ul style="list-style-type: none"> (a) estimate, assumed in the preliminary cap, notional floor and actual floor levels (set after a project’s Financial Close), of the costs associated with developing, constructing, operating, maintaining and decommissioning a licensee’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 a licensee’s interconnector
PCL, PNFL and PAFL	means the preliminary cap, notional floor and actual floor levels set by the Authority. These are derived from the Cap and Floor Financial Model (CFFM1), based on our costs determination in our FPA decision for the project and financial parameters agreed between each licensee and its lenders at financial close under the Authority’s oversight and approval

⁸ 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.

Term	Description
RPI _t	adjusts the cap, notional floor and actual floor levels by the GB Retail Price Index term which takes into account GB inflation rate
PYC _t and PYF _t	adjusts the cap, notional floor and actual floor levels to account for any Partial Years at the beginning and end of licensee’s cap and floor regime.
ORAC, ORANF and ORAAF	<p>means the Opex Reassessment Adjustment At Cap (ORAC) and the Opex Reassessment Adjustment At Notional Floor (ORANF) and the Opex Reassessment Adjustment At Actual Floor (ORANF) terms and account for the difference between the Authority’s:</p> <ul style="list-style-type: none"> (a) assessment at the Post Construction Review stage of the economic costs associated with operating and maintaining licensee’s interconnector; and (b) reassessment, at the Opex Reassessment stage, of the economic and efficient costs associated with operating and maintaining licensee’s interconnector

When the cap and floor levels come into force

3.12. The derived cap and floor levels, for projects we approved in our **Window 1** application window, will come into force as follows:

- (a) the cap level shall come into force on the Regime Start Date which means the earlier of:
 - i. the successful completion of such procedures and tests in relation to the licensee’s Interconnector as set out in Paragraph 7(a) of special condition 2 of this licence; and
 - ii. 1st January 2021, or such later date as the Authority may specify in the direction issued pursuant to Standard Licence Condition [XX] Delay to Regime Start Date caused by Pre-Operational Force Majeure
- (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.⁹

⁹ 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 impacted by the events or circumstances referred to in paragraphs 7 **a**

3.13. The derived cap and floor levels, for projects we approved in our **Window 2** application window, will come into force as follows:

(a) the cap level shall come into force on the Regime Start Date which is the earlier of:

- i. the successful completion of such procedures and tests in relation to the licensee's Interconnector as set out in Paragraph 7(a) of special condition 2 of this licence; and
- ii. 1st January 2024, or such later date as the Authority may specify in the direction issued pursuant to Standard Licence Condition [XX] Delay to Regime Start Date caused by Pre-Operational Force Majeure; 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.¹⁰

3.14. 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.¹¹

3.15. The licence intent is to have a 60 day proving period whereby licensee 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.

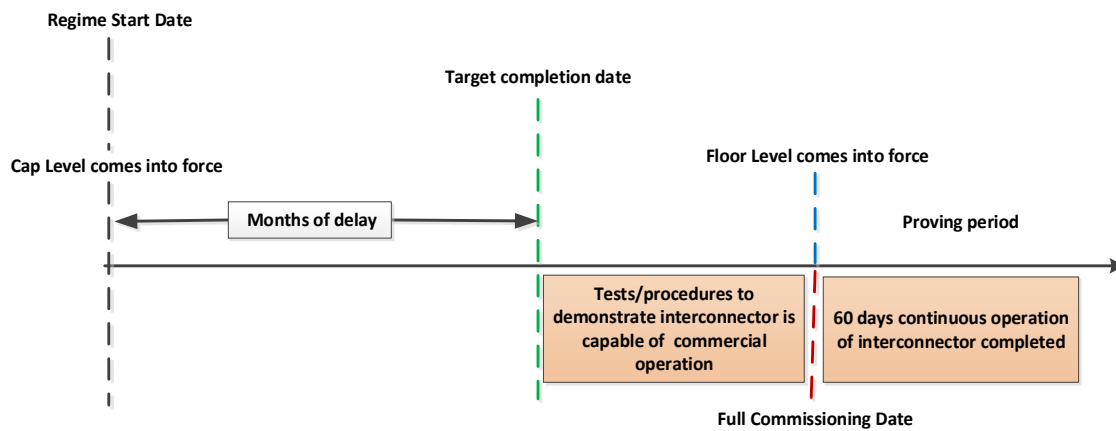
3.16. Any interruption in the proving period will result in the 60 day clock restarting. The only exception to this is where the interruption was caused by an event or circumstance permitted under the licence. In such a case, the clock is paused on the date and time of the event and resumes on the date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

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

¹⁰ 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 affected by the events or circumstances referred to in paragraphs 7 and 8 of Special Condition 2 Part A to the licence.

¹¹ This test is built into the definition of 'Full Commissioning Date' in the licence and requires a 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

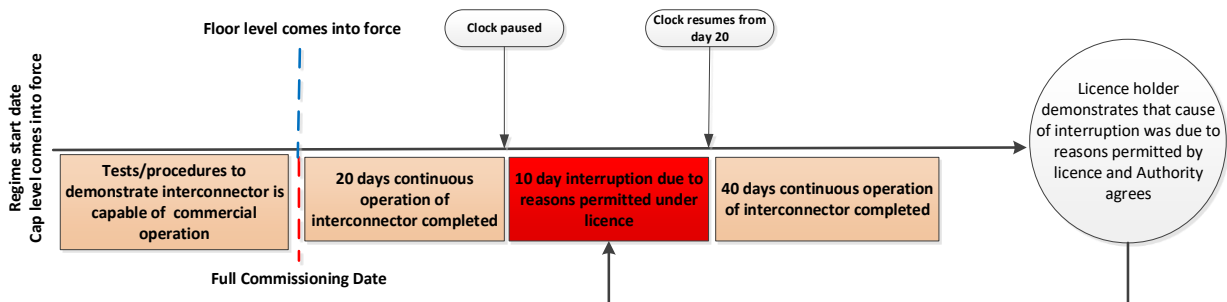


3.18. Under this scenario, full commissioning occurs after the regime start date which means the regime has started and the cap level has come into force. The cap level comes into force before the asset is proven, and therefore, earlier than the floor level.

3.19. This is because it is the regime intent that a licensee 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 licensee and allows energy consumers to realise the benefits of the project in line with the timeframe for delivery set out at the needs case assessment stage.

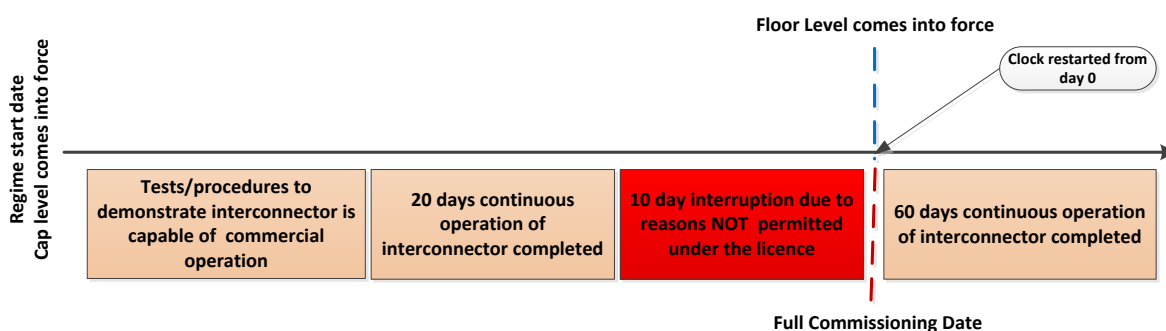
3.20. Diagram 3 and Diagram 4 illustrate the effect on the full commissioning date of an interruption caused by circumstances permitted by the licence versus an interruption not permitted by the licence.

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



3.21. Under this scenario a 10-day interruption occurs after 20 days of continuous operation as a result of an event or circumstance that is 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



3.22. 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

3.23. 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, PCANF and PCAAF) and the Opex Reassessment Adjustment terms (ORAC, ORANF and ORAAF). These adjustments are discussed further under special conditions 8 and 9, respectively.

Part G: Calculation of Partial Years

3.24. 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 a licensee’s reporting year.

3.25. The Cap Start Date is the official Regime Start Date and the Floor Start Date is the Full Commissioning Date, unless specified otherwise. 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.

3.26. To align the Regime Start Date to a financial year start date of 1st April, we divide the 25 year regime duration into 26 assessment periods (26 Relevant Years):

- the length of the first assessment period of the regime will start from the Regime Start Date and end on 31st March of that financial year;
- the length of each of the next 24 assessment period of the regime will run as regular financial years (starting from 1st April and ending on 31st March of the following year); and
- the last assessment period of the regime will start from 1st April and end 25 years after the Regime Start Date (this means that the first and last assessment periods of the regime should equal a full financial year).

3.27. It should be noted that the overall length of the 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.

3.28. However, the overall length of the regime with regards to the Floor Level may be less than 25 years if the interconnector is fully commissioned later than the Regime Start Date. In this scenario, the 25-year duration of the floor component of the regime may be reduced by the length delay beyond 1st January 2021 (for Window 1 projects) and 1st January 2024 (for Window 2 projects).

Special Condition 3 (Cap and Floor Assessment)

3.29. This condition sets out how the value of any cap and floor revenue adjustments for each year is calculated. This is done by comparing a licensee's Assessed Revenue (AR_t) for each year against the cap, notional floor and actual floor levels (as applicable).

3.30. A licensee can inform Ofgem at any time prior to the date falling 10 days after Financial Close of its election whether to have the licensee's Assessed Revenue assessed against the Cap Level and the Notional Floor Level and/or against the Cap Level and the Actual Floor Level (as applicable). This election will then apply for the regime duration.

3.31. If the licensee does not inform Ofgem of its choice prior to the date falling 10 days after Financial Close, we will consider that the licensee has elected to have the licensee's Assessed Revenue assessed against the Cap Level and the Notional Floor Level. Our decision will apply for the Regime Duration.

Part A: Calculation of the End of Year Cap And Notional Floor Revenue Adjustment term (CNFA_t) and End of Year Cap And Actual Floor Revenue Adjustment term (CAFA_t)

3.32. This part calculates the Cap and Floor Revenue Adjustment term (CNFA_t and CAFA_t) for a relevant year taking into account the REC_t, RSNF_t and RSAF_t.

3.33. The CNFA_t and CAFA_t terms (as applicable) are components that provide for the adjustment (whether upwards or downwards) of the Interconnector Revenue as a consequence of our assessment of the licensee's Assessed Revenue against the Cap Level and the Notional Floor Level and/or the Actual Floor Level (as applicable) for each year.

3.34. 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 licensee to consumers and positive values represent a payment due to licensee from consumers).

Parts B and C: Calculation of the End of Year Payment terms (REC_t, RSNF_t and RSAF_t)

3.35. Parts B and C of this condition calculate components that input into the calculation of the CAFA_t and CAFA_t terms by comparing the Assessed Revenue for a relevant year (AR_t) against the Cap Level term for that relevant year (CL_t), the Notional Floor Level term for a relevant year (NFL_t) and Actual Floor Level term for that relevant year (AFL_t) (as applicable).

3.36. Part D to I are suspended for a licensee seeking the project finance solutions route.

3.37. Part J of this condition sets the number of assessment periods (over the 25 year regime duration) to 26. The licence identifies each of the assessment periods as a Relevant Year, making a total of 26 Relevant Years within the 25 year regime. The first and the last Relevant Years are each shorter than twelve months but together equal 12 months. Each of the 24 Relevant Years in the middle equal 12 months.

3.38. We have implemented this structure to align the end of our assessment periods to the end of a typical financial year and to ensure that no individual assessment period is more than 12 months. This arrangement may work better for a licensee expecting to service its debt financing obligations annually and in cycles that are no longer than 12 months.

Special Condition 4 (Interconnector Availability Incentive)

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

3.40. The availability incentive is a combination of obligations and incentives. The obligations require a licensee to maintain and repair its interconnector; the incentives encourage a licensee to maintain the availability of its interconnector.

Part A: Obligations

3.41. Part A of this condition sets out the obligations on a licensee to make interconnector capacity 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.

3.42. To complement this obligation, the licence places several reporting requirements a licensee. 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 a licensee to minimise the effect of the interconnector outage; and
- the expected timescale for repair of the interconnector outage.

3.43. Part A of the licence sets out, in addition, what a licensee should do if a licensee is unable to satisfy all the reporting requirements within the expected timeline for submission.

Part B: Availability incentive adjustment at the cap

3.44. Part B of this condition specifies the financial incentive on a licensee to maintain availability of its interconnector.

3.45. The incentive is based on a licensee's performance against its Availability Target. A licensee's Availability Target is set out in our Final Project Assessment (FPA) decision for the licensee's interconnector. This target is specified in megawatt hours (MWh) in any relevant year.

3.46. A licensee's Availability Target (MWh) is calculated based on the following formula:

$$\text{Availability Target (MWh)} = 8766 \times RC \times \text{Availability Target (\%)}$$

3.47. In this calculation:

Term	Description
8766	means the number of hours in each Relevant Year and is calculated in accordance with the following formula: $8766 = 365.25 \times 24$
Availability Target (%)	means the Availability Target (AT) expressed as a percentage of operational time
RC	means the Rated Capacity of a licensee’s interconnector and has a value specified in MW

3.48. Each year, the actual availability of a licensee’s interconnector is determined by information supplied by the licensee as part of its Annual Cap and Floor RIGs submission. Once determined, we will compare the actual availability to the Availability Target. The incentive rewards a licensee with an up to 2% increase in the level of revenue at the cap level if it exceeds the Availability Target and penalises a licensee by an up to 2% decrease in the level of revenue at the cap where availability falls below the Availability Target.¹²

3.49. 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

3.50. Part C of this condition sets out the minimum level of Actual Availability that a licensee’s interconnector must achieve to receive end of period payments at the floor. The applicable Minimum Availability Target (MAT) is set out in MWh in any relevant year.

3.51. The MAT for a licensee’s interconnector is calculated in accordance with the following formula:

¹² One-for-one percentage point increase/decrease in the cap level.

$$\text{Minimum Availability Target (MAT)} = 8766 \times RC \times 80\%$$

3.52. In this calculation:

Term	Description
8766	means the number of hours in each Relevant Year and is calculated in accordance with the following $8766 = 365.25 \times 24$
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 a licensee’s interconnector and has a value in MW ¹³

3.53. The $AINF_t$ and $AIAF_t$ terms both have a value of either 1.00 or zero depending on a licensee's interconnector performance against the MAT. If a licensee’s interconnector:

- 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 $AINF_t$ term and $AIAF_t$ 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 $AINF_t$ and $AIAF_t$ is zero. This means that the floor level falls to zero and consequently a licensee is not eligible for floor payments with respect to that Relevant Year.

3.54. Part C also implements aspects of our regime variations decision of May 2020 by allowing an exception to the immediate paragraph above. The exception allows the value of the $AINF_t$ term and $AIAF_t$ term to be set to 1.00 even in years where the APF_t is less than 1.00 following the rules set out in paragraph 16 of special condition 4 of the licence.

¹³ The RC for a licensee’s project is provided in Appendix 1 to this document.

3.55. This exception allows GB consumers to make temporary floor top up payments (a form of temporary loan) to a licensee in years where the value of the APF_t term is less than 1.00 to enable a licensee to service its debt obligations. A licensee, benefitting from this exception, is required to repay immediately, from its interconnector's future revenues, any floor top up GB consumers paid to them under the above exception.

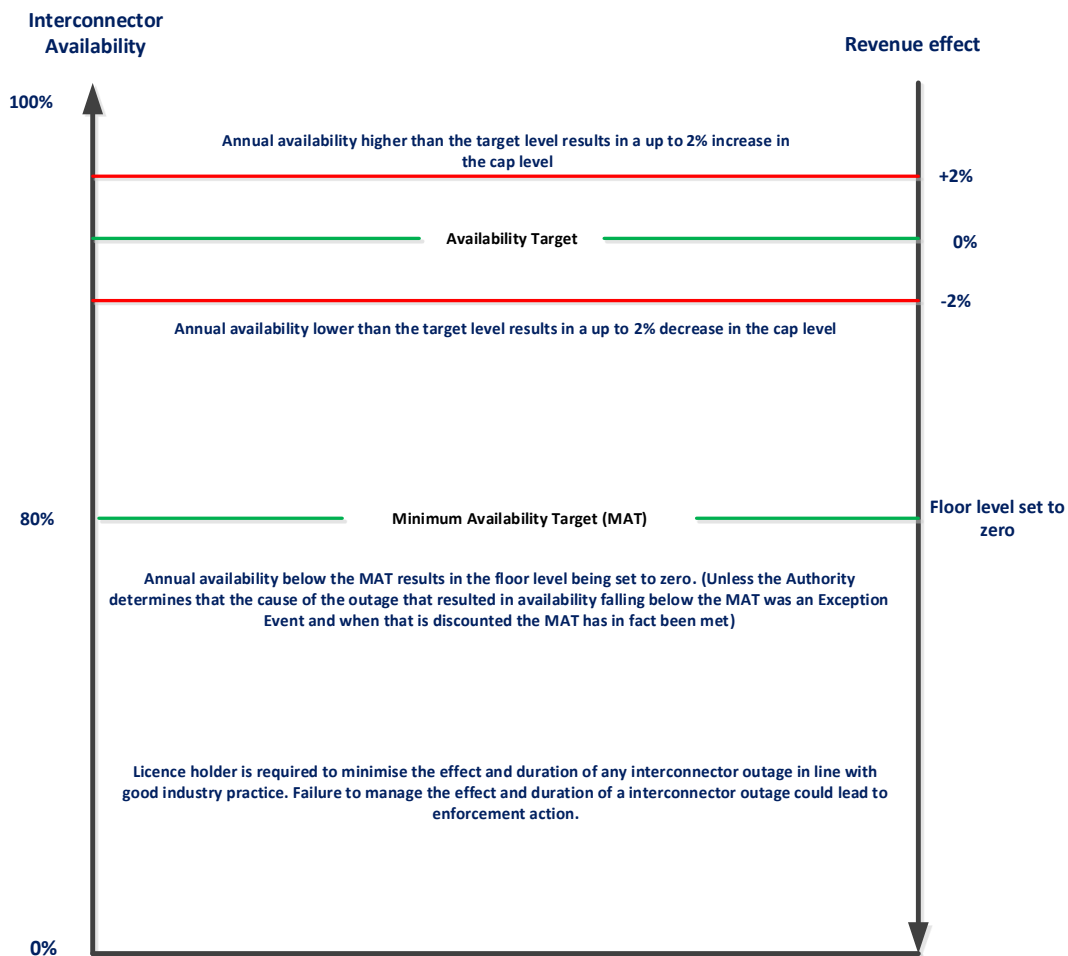
3.56. The condition places a maximum cap of four times the value of the NFL_t term and/or the AFL_t term (as applicable) on any outstanding temporary loans from consumers to ensure that consumers are protected. This protection is necessary in a scenario where future revenues earned by the licensee's interconnector are consistently below the floor (during the regime duration) and therefore insufficient to repay GB consumers in full.

3.57. 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 $AINF_t$ term and $AIAF_t$ term to discount the MWh value (Availability Reduction Value) of the interconnector outage caused by that Exceptional Event.

3.58. Specifically, this means that where a licensee has not met the MAT due to 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 a licensee's eligibility for floor payments being reinstated if, after discounting the Availability Reduction Value, from the calculation of a licensee's Actual Availability, the licensee meets or exceeds the MAT.

3.59. Diagram 5 below illustrates how interconnector availability affects a licensee's revenue.

Diagram 5: An illustration of how interconnector availability affects a licensee's revenue.



Part D: Calculation of Actual Availability

Part D of this condition sets out the formula for calculating the Actual Availability of a licensee’s interconnector. The Authority can specify certain events of curtailment by the GB 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

3.60. Part E provides for a licensee’s eligibility to receive an end of period floor payment in any relevant year where it does not meet the MAT¹⁴ to be reinstated by the Authority where:

¹⁴ 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.

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

3.61. If the Authority determines that an Exceptional Event has not occurred, then a licensee's eligibility to receive an end of period floor payment will not be reinstated for that relevant year.

Special condition 5 (Assessed Revenue)

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

3.63. 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)

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

- the allocation of interconnector capacity;

- participation in the GB capacity market¹⁵;
- the provision of ancillary services in GB and/or the country connected to GB by the licensee's interconnector;
- constraint payments received from the ESO in GB and the ESO in the country connected to GB by the licensee's interconnector; and
- insurance receipts (such as business interruption insurance).

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

3.66. A licensee must notify the Authority if it considers it may have an additional revenue source.

3.67. 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)

3.68. This special condition is not used for a licensee seeking project finance solutions to finance its interconnector project.

¹⁵ After deduction of any capacity provider penalty charges.

Special condition 7 (Non-Controllable Costs)

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

- a licensee's Interconnector Revenue as a result of changes in licensee's Non-Controllable Operational Costs (the Pass Through Adjustment (PTA_{ap}));
- The calculation of a licensee'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 a licensee's interconnector (Determination of the Decommissioning Cost Adjustment At Cap, Decommissioning Costs Adjustment At Notional Floor and/or Decommissioning Costs Adjustment At Actual Floor terms (DCC_t , $DCNF_t$ and/or $DCAF_t$)) (as applicable).

Part A: Calculation of the Pass Through Adjustment term (PTA_t)

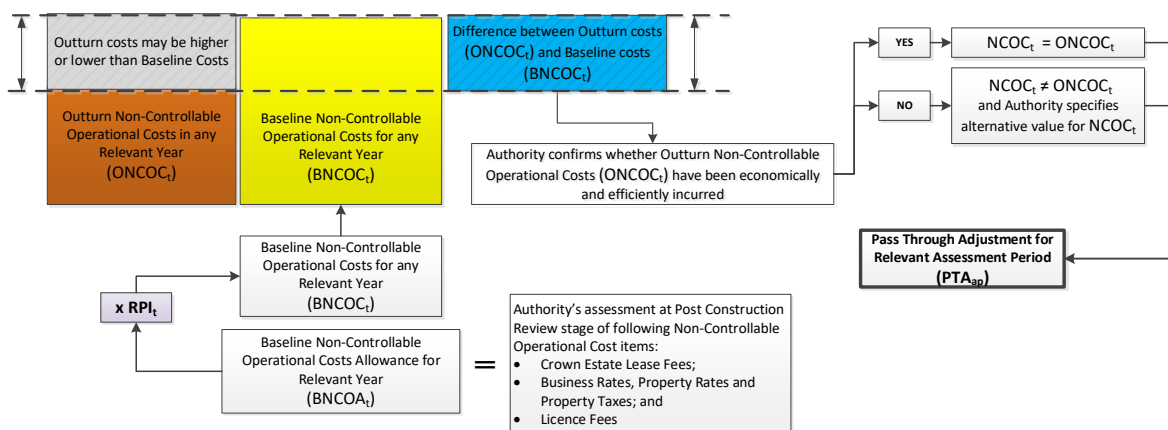
3.70. This licence condition adjusts a licensee's revenue for certain operational costs that may arise but are not controllable by the licensee. The difference (whether positive or negative) between the baseline allowance¹⁶ of these 'non-controllable operational costs' and the outturn is passed through to consumers and represents the value of the PTA_t term. The non-controllable operational costs are defined as the following:

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

3.71. Diagram illustrates how the PTA_t term is calculated.

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

¹⁶ The baseline allowance is the costs assumed in the cap and floor levels.



3.72. Pass through adjustments are made at the end of an assessment period which is every relevant year.

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

3.73. The cap and floor licence provides for some risk sharing with consumers for force majeure events. This mechanism is the IAT_t term.

3.74. The events or circumstances which are defined as force majeure are specified in a licensee's licence. This definition has been based on the definition from the Electricity System Operator Transmission Owner Code (STC),¹⁷ with the following exceptions:

- Certain provisions 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 a licensee from potential negative impacts on its revenue arising from legislative change;
 - the decommissioning costs adjustment term (discussed below) provides protection to a licensee from changes in legislative requirements relating to the costs of decommissioning.

3.75. The regime intent is not to provide further protection from legislative change for a licensee.

¹⁷ For further information please see National Grid's website: <http://www2.nationalgrid.com/UK/Industry-information/Electricity-codes/System-Operator-Transmission-Owner-Code/>

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

3.77. Where a licensee 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 the licensee.

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

3.79. 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).

3.80. Further details on the relevant definitions and processes for determining the IAT_t term are set out in a licensee's licence.

Part E: Determination of the Decommissioning Cost Adjustment At Cap, Decommissioning Cost Adjustment At Notional Floor and Decommissioning Cost Adjustment At Actual Floor terms (DCC_t , $DCNF_t$ and $DCAF_t$)

3.81. A licensee 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 licensee's interconnector and the economic and efficient costs associated with such requirements. However, legislative requirements could change before the end of a licensee's cap and floor regime and could lead to additional or reduced decommissioning costs which the licensee would not have foreseen.

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

3.83. Where a licensee considers and can provide evidence to support additional decommissioning costs¹⁸, the licensee may give written notice to the Authority of such

¹⁸ For example, updates to Department for Business, Energy and Industrial Strategy (BEIS) guidance on

occurrence and must include in that notice, its proposed values for the DCC_t , $DCNF_t$ and $DCAF_t$ terms (as applicable). The licence sets out further details of what the notice must contain and the process to be followed.

3.84. Where a licensee incurs a lower decommissioning costs than the allowance provided for in the cap and floor levels, the licensee is obligated to notify the Authority of such occurrence and must include in that notice, its proposed values for the DCC_t , $DCNF_t$ and/or $DCAF_t$ terms (as applicable).

3.85. The Authority shall then direct and notify the licensee in writing whether:

- (a) there has been a relevant change in legislative requirements and whether any or all the costs specified in the licensee’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 , $DCNF_t$ and/or $DCAF_t$ terms determined by the Authority should apply.

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

- (a) $CL_t = PYC_t \times (PCL + PCAC + ORAC + DCC_t) \times AIC_t \times RPI_t$; and
- (b) $NFL_t = PYF_t \times (PNFL + PCANF + ORANF + DCNF_t) \times AINF_t \times RPI_t$; and/or
- (c) $AFL_t = PYF_t \times (PAFL + PCAAF + ORAAF + DCAF_t) \times AIAF_t \times RPI_t$

3.87. The above formulae add the DCC_t , $DCNF_t$ and $DCAF_t$ terms to the calculation of the cap notional floor and actual floor levels, respectively.

3.88. Should there be any further changes in legislative requirements concerning decommissioning after the Authority’s direction, a licensee 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)

decommissioning.

3.89. This condition establishes the process for determining the value of the Post Construction Adjustment terms (PCAC, PCANF and/or PCAAF) (as applicable). 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, notional floor and/or actual floor level, of the costs associated with developing, constructing, operating, maintaining and decommissioning a licensee'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 a licensee's interconnector.

3.90. The PCAC, PCANF and/or PCAAF terms adjust (whether upwards or downwards) a licensee's cap, notional floor and actual floor level to account for the difference between the:

- preliminary cap, notional and/or actual floor levels (PCL, PNFL and/or PAFL terms) set by the Authority; and
- final cap level, notional floor level and/or actual floor level (CL_t, NFL_t and AFL_t terms), following the Post Construction Review stage.

3.91. The licence provides for the value of PCAC, PCANF and/or PCAAF terms to be submitted by a licensee 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.¹⁹

3.92. A licensee may submit a request to the Authority²⁰ setting out its proposed value for the PCAC, PCANF and/or PCAAF terms (as applicable) together with any necessary supporting information and in accordance with any process set out by the Authority.

3.93. Any such request must include the following information:

- (a) licensee's proposed values for the PCAC and PCAF terms;
- (b) details of how the proposed values have been calculated; and

¹⁹ 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.

²⁰ A licensee is required to give the Authority no less than 6 months' notice that it intends to submit a proposed value for the PCAC, PCANF and PCAAF terms for determination by the Authority under this condition.

- (c) any other relevant information as may be specified by the Authority to facilitate its determination of a licensee's proposed values for the PCAC, PCANF and/or PCAAF terms (as applicable).

3.94. The Authority will confirm in writing if all required information has been received and if not will specify, within three months of receipt, what information remains outstanding.²¹

3.95. The Authority shall determine whether it considers the proposed values for the PCAC, PCANF and/or PCAAF terms:

- (a) to be acceptable; or

- (b) specify alternative values for the PCAC, PCANF and/or PCAAF terms,

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

3.96. Once determined, the Authority will specify the values of the PCAC, PCANF and/or PCAAF terms (as applicable) in a direction. The determined PCAC, PCANF and/or PCAAF values take effect from the Regime Start Date.

3.97. The values of the PCAC, PCANF and/or PCAAF terms would then remain fixed, in real terms, for the duration of a licensee's cap and floor regime. In the absence of a determination by the Authority the values of the PCAC, PCANF and/or PCAAF terms are set to zero (as applicable).

²¹ The Authority may at any time following this confirmation, where it concludes that the information provided by a licensee 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)

3.98. The Opex Reassessment Adjustment terms (ORAC, ORANF and/or ORAAF) make an adjustment (whether upwards or downwards) to the cap level, notional floor level and actual floor level (as applicable).

3.99. The values of these terms are proposed by a licensee 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 a licensee's interconnector; and
- (b) reassessment, at the Opex Reassessment stage, of the economic and efficient costs associated with operating and maintaining a licensee's interconnector.

3.100. A determination by the Authority of the value of the ORAC, ORANF and/or ORAAF terms (as applicable) may be conducted:

- (a) **at a licensee's request** - in which case a licensee must submit a request to the Authority setting out the proposed value for the ORAC, ORANF and/or ORAAF terms (as applicable) 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 a licensee is required to provide²² to allow the Authority to complete its assessment.

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

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

- (a) received all the information required to allow it to make its determination²³; or

²² This information must be provided by a licensee within three months of the Authority's request.

²³ The Authority may at any time following this confirmation, where it concludes that the information provided by a licensee is not sufficient for the purposes of making a determination, send a further notification setting out what

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

3.103. The Authority shall determine the value of the ORAC, ORANF and/or ORAAF terms (as applicable) within a period of 12 months from the date that the Authority confirms that it has received all the required information.

3.104. Once determined, the Authority will specify the values of the ORAC, ORANF and/or ORAAF terms (as applicable) in a direction. The determined ORAC, ORANF and/or ORAAF terms values take effect from the date stated in the direction. This effective date is the start of the next Relevant Year.

3.105. The value of the ORAC, ORANF and/or ORAAF terms (as applicable) then remains fixed for the remainder of a licensee's cap and floor regime. In the absence of a determination by the Authority the values of the ORAC, ORANF and/or ORAAF terms (as applicable) is set to zero.

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

3.106. This condition pulls together the various revenue adjustment components calculated in other special conditions of the licence (ie the CFA_t and PTA_t terms); adjusts these components to reflect required and extra repayments ($RTSN_t$ and $ETSN_t$) by a licensee of any outstanding temporary floor top up loans that consumers have provided to date to licensees; 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 any relevant period); and
 - (b) any differences in reporting years²⁴

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.

²⁴ A licensee's reporting year may be the same or differ from the reporting year for the TNUoS charging cycle which runs from 1 April to 31 March.

3.107. This determines the final sum to be paid between a licensee and the GB ESO 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 (ICF_t)

3.108. The calculation of the Interconnector Cap And Floor Revenue Adjustment term for each Relevant assessment year (ICF_t) sums up the following terms:

- Cap and Notional Floor Adjustment term ($CNFA_t$) and/or Cap and Actual Floor Adjustment term ($CAFA_t$) (as applicable);
- Pass Through Adjustment term (PTA_t);
- Repayment of Temporary Support Notional term ($RTSN_t$) and/or Repayment of Temporary Support Actual term ($RTSA_t$) (as applicable); and
- Extra Repayment of Temporary Support Notional term ($ERTSN_t$) and/or Extra Repayment of Temporary Support Actual term ($ERTSA_t$) (as applicable).

3.109. The calculation also allows for a true-up term (TRU_t), if needed, to reconcile any reporting or forecasting errors from previous years.

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

3.110. 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 a licensee 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 .²⁵

3.111. A licensee'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 a licensee's Annual Cap and Floor RIGs Submission for Relevant Year t .²⁶

3.112. The Authority may either approve a licensee's proposed value for the TRU_t term or specify an alternative value.

²⁵ 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.

²⁶ Where a licensee cannot make its submission within this timescale, it may request the Authority to grant a time extension.

Part C: Obligation on licensee regarding the calculation of the Interconnector Cap And Floor Revenue Adjustment term for Relevant Year t (ICF_t)

3.113. 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 revenues²⁷ (where the ICF_t term is a **negative** value), or
- an upward adjustment of revenues (where the ICF_t term is a **positive** value)

3.114. The value of the ICF_t term is calculated in accordance with an ICF_t methodology which a licensee is required to establish and maintain under this licence condition. The methodology converts the value of the ICF_t term discussed above into a value that takes account of the relevant payment timescales prescribed in the CUSC and the Operation Discount Rate.

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

Part D and E: Calculation of the Revenue Excess At Notional Floor Level term ($RENFL_t$) and/or Revenue Excess At Actual Floor Level term ($REAFL_t$); Calculation of the Repayment Of Temporary Support Notional term ($RTSN_t$) and/or the Repayment Of Temporary Support Actual term ($RTSA_t$)

3.116. Parts D and E of the condition set out how to determine a licensee's interconnector excess revenues over the values of the AFL_t and the NFL_t terms. A licensee is required to use these excess revenues to repay any outstanding floor top up support (loans) that GB consumers provided to them in past years.

3.117. A licensee who selected AFL_t as the relevant floor level for its revenue assessment will have to make extra repayment to ensure that the overall impacts on consumers (of this selection) broadly equals what would have been the case had the licensee selected NFL_t as the applicable floor level benchmark.

Part F: Calculation of the Outstanding Temporary Support Notional term ($OTSN_t$), Capped Outstanding Temporary Support Notional term ($CAPOTSN_t$) and/or the

²⁷ 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.

Outstanding Temporary Support Actual term (OTSA_t) and the Capped Outstanding Temporary Support Actual term (CAPOTSA_t); and the Outstanding Temporary Support Before Equity Distribution term (OTSBED_t)

3.118. Part F of the condition allows for the calculation of any outstanding temporary support floor top up payments (loan) consumers made to a licensee. The values of the terms (OTSN_t and OTSA_t) tallies the outstanding loan value that a licensee would have to repay GB consumers.

3.119. The CAPOTSN_t and CAPOTSA_t terms allow for a cap to be placed on the maximum values of OTSN_t and OTSA_t terms. The value of the OTSN_t term must not exceed four times the value of the NFL_t term (CAPOTSN_t) in the Relevant Year t in which the assessment is being carried out. Also, the value of the OTSA_t term must not exceed four times the value of the AFL_t term (CAPOTSA_t) in the Relevant Year t in which the assessment is being carried out.

3.120. In addition, Part F sets out how the value of the OTSBED_t term is determined. The value of this term must be zero before a licensee can distribute any dividend or other distributions, on account of any interests the licensee has in the Licensee's Interconnectors. This will consider any funds set aside in a ring-fenced account for the benefit of GB consumers.

3.121. Part F also allow the Authority to extend relevant provisions of the licence into the Post Regime Duration Period to ensure that the licensee can repay consumers in full if necessary (until the values of the OTSN_t, OTSA_t and OTSBED_t terms are zero, as applicable).

Part G: Calculation of the Temporary Support Notional term (TSN_t) and/or the Temporary Support Actual term (TSA_t)

3.122. Part G of the license sets out how to determine the amount of temporary support (floor top up payments) that consumers can provide to a licensee in any given year. The values of these payment terms (TSN_t and TSA_t) are calculated as applicable.

3.123. Part H of the licence is not used.

Part I: Obligation on the licensee to maintain a methodology for the calculation of specific terms

3.124. This part of the licence requires the licensee to, as soon as practicable, establish and maintain a methodology for the calculation of the values of key terms in the licensee's license. The licensee must propose the methodology and the governance process (for maintaining the methodology) to the Authority for approval.

3.125. The methodology and governance process proposed and submitted by the licensee to the Authority must consider all the relevant requirements as set out in that part of the licence.

Special Condition 11 (A licensee's Cap And Floor Financial Model Governance)

3.126. This condition establishes the governance process for a licensee's Cap and Floor Financial Models (the "CFFM1" and "CFFM2"), including the process for introducing amendments to CFFM1 and CFFM2.

Part A: General governance provisions

3.127. Part A of this condition clarifies that CFFM1 and CFFM2 are not part of the licence and provides ways to resolve conflicts between the licence and CFFM1 and CFFM2. In addition, it sets out specific financial parameters, calculated by the Authority with the CFFM1 and CFFM2, that will form part of the license conditions.

3.128. A licensee must notify the Authority about any identified conflict between the licensee's licence and the licensee's CFFM1 and CFFM2.

3.129. Pre-defined updates to the CFFM1 and CFFM2 made by the Authority as part of the normal process for determining Assessed Revenue are differentiated from modifications to the CFFM1 or CFFM2 to correct conflict or errors of functionality.

Part B: Modifications of the CFFM1 and CFFM2

3.130. Part B sets out how modifications to the CFFM1 and CFFM2 to correct conflicts or errors of functionality may be carried out.

3.131. It allows for modification to the CFFM1 and CFFM2 to either be agreed bilaterally between the Authority and the licensee or be put to a public consultation.

Part C: Availability and updating of CFFM1 and CFFM2

3.132. Part C requires the Authority to publish any modifications to the CFFM1 and CFFM2 and keep it publicly available in the up-to-date version on the Authority's website.

Part D: Interpretations

3.133. Part D sets out the definition of terms specified in the special condition.

Appendix 1: Overview of cap and floor regime for the Greenlink Interconnector Limited and NeuConnect Britain Limited

3.134. In our May 2020 cap and floor regime variations decision, we decided to change aspects of the default regime for the Greenlink and NeuConnect interconnector projects to enable project finance solutions. Our impact assessment of the changes demonstrated that approving them for the two projects is likely to be in the interests of GB consumers.

3.135. Greenlink is a cap and floor Window 1 electricity interconnector project. It is a planned 500MW electricity interconnector between Ireland and GB. The project developer is Greenlink Interconnector Limited ("GIL").

3.136. NeuConnect is a cap and floor Window 2 electricity interconnector project. It is a planned 1400MW electricity interconnector between Germany and GB. The project developer is NeuConnect Britain Limited ("NBL").

3.137. GIL's and NBL's cap and floor regime is a split-regulation model. Project costs and revenues will be split equally between GB and Ireland (in the case of Greenlink) and between GB and Germany (in the case of NeuConnect). So, half of Greenlink's costs and revenues will be covered by the GIL's cap and floor regime and half of NeuConnect's cost and revenues will be covered by the NBL's cap and floor regime.

3.138. The licence stipulates that the cap and floor regime for both projects is set for 25 years and governs the GB share of any payments that may be required between either GIL or NBL and the GB Electricity System Operator on behalf of consumers.

3.139. We regulate 50% of GIL's interconnector and NBL's interconnector based on costs and revenues, except where costs are specific to GB or Ireland or Germany (as applicable), as agreed by a licensee and the regulators.

3.140. The cap and floor levels is determined based on a 'building block' approach. These building blocks include our assessment of efficient construction costs; a return on capital or allowance to enable competitive and transparent lending terms agreed between a licensee and its lender (under the Authority's oversight and approval); and our assessment of operating expenditure.

3.141. We will set the preliminary cap and floor levels for GIL and NBL after our Final Project Assessment (FPA) decision and as soon as the licensees have secured the necessary financing

to construct and operate their projects. We will update the CFFM1 (which we have published alongside this licence guidance) based on our costs determination as set out in our FPA decision for each project and the financial parameters both licensees are able to secure from lenders.

3.142. We will set the preliminary cap level, preliminary notional floor level and preliminary actual floor level to values expressed in millions per year real 2020/21 Sterling prices in the relevant cells of the “Cap Floor Levels” sheet of the CFFM1 for GIL and the CFFM1 for NBL (which we have published alongside this licence guidance and as part of our statutory licence modifications consultation for the licensees).

3.143. These preliminary levels will be updated in accordance with the licensee’s licence²⁸ at the Post Construction Review (PCR) to set the final cap, notional floor and actual floor levels. The final levels will then, subject to any further adjustments specified in the licensee’s licence, remain fixed for the duration of the licensee’s cap and floor regime.

3.144. An assessment, conducted in UK sterling, of the licensee’s interconnector revenue (Assessed Revenue) against the cap, notional floor and actual floor levels is carried out at the end of every assessment period (the Relevant Year) of the 25 year cap and floor regime to determine if the cap or notional floor or actual floor is triggered.

3.145. The cap level, notional floor level and actual floor level come into force as specified in a licensee’s licence.

3.146. Any revenue earned above the cap in any relevant assessment period is returned to the GB ESO. The GB ESO would then reduce the network charges for network users in GB. If revenue falls below the floor in any relevant assessment period, then the licensee would be compensated by the GB ESO who recovers costs through the transmission network charges.

3.147. Each relevant assessment period (Relevant Year) 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 considered in future relevant assessment periods.

3.148. The regime includes a financial incentive for a licensee to maintain the availability of the interconnector. We will set out the Availability Target (%) for each licensee in our FPA

²⁸ Special condition 2: Cap Level and Floor Level.

decision for the licensee’s project. The regime specifies a Minimum Availability Target threshold of 80% for all cap and floor projects. These incentives are discussed further in Chapter 3 under Special Condition 4 (Interconnector Availability Incentives).

3.149. The applicable Minimum Availability Target (MAT) for the Greenlink interconnector is 3,506,800 MWh in any relevant year and the NeuConnect interconnector is 9,817,920 MWh in any relevant year.²⁹ The MAT may take into account the necessary adjustment to reflect partial years as set out in Part G of special condition 2 of a licensee’s licence.

²⁹ Which equates to an 80% availability threshold.