

National Grid North Sea Link
Limited and other interested
parties

Direct Dial: 0207 901 7017
Email: Cap.Floor@ofgem.gov.uk

Date: 30 January 2018

Dear stakeholders,

Statutory consultation on proposed changes to the electricity interconnector licence held by National Grid North Sea Link Limited to implement the cap and floor regime

We are proposing changes to the electricity interconnector licence held by National Grid North Sea Link Limited (NGNSL). These changes are required in order to implement the cap and floor regime for the North Sea Link (NSL) project. We are seeking views on these proposed changes from interested parties during this consultation.

We are proposing to introduce 11 new special conditions into NGNSL's licence that will give effect to its cap and floor regime as set out in our Final Project Assessment (FPA) decision in July 2017.¹ These special conditions set out the cap and floor levels and assessment processes that apply to the licensee. This consultation is our statutory consultation under section 11(A)2 of the Electricity Act 1989 with respect to these proposed licence modifications.

Alongside this consultation, we are also publishing an informal guidance document for NGNSL's licence conditions. It may assist NGNSL and interested stakeholders to understand the proposed new conditions. We welcome comments on this guidance document as part of this consultation.

Background and further information

The cap and floor regime

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

The cap and floor regulatory regime sets a framework for GB interconnector investment. This developer-led approach balances incentivising investment through a market-based approach, with appropriate risks and rewards for the project developers.

Each project that is granted a cap and floor regime will have special conditions inserted into its electricity interconnector licence which places specific obligations and incentives upon the licensee with respect to its cap and floor regime. As part of this consultation, we have published the draft special conditions for the NSL interconnector, discussed below.

¹ Our FPA decision on the NSL interconnector is available at: <https://www.ofgem.gov.uk/publications-and-updates/decision-final-project-assessment-nsl-interconnector-norway>

North Sea Link (NSL) interconnector

The NSL project is a 1.4GW electricity interconnector between the Norwegian and GB transmission systems, jointly developed by NGNSL and Statnett.² The project is currently under construction and is expected to enter commercial operation in 2022.

We published our NSL FPA decision in July 2017. The NSL cap and floor regime applies to NGNSL's 50% share of the cost and revenues of the project. The basis of the licence changes for NGNSL is the need to reflect elements of the cap and floor regime (specific to the NSL interconnector) that are contained within the decision.

We propose to amend the special conditions of the interconnector licence to reflect the project specific cap and floor regime applicable to NSL. These special licence conditions are likely to vary for interconnector licensees as they reflect the project specific aspects of the interconnector, as well as implementing the cap and floor regime.

The draft special conditions for NGNSL specify the preliminary cap level and floor level (£89.85m and £50.90m respectively, in 2015/16 prices). These levels are the values we specified in the July 2017 FPA decision.

Statutory Consultation

We are seeking views on:

- 1) the proposed new special conditions to be inserted into the electricity interconnector licence held by NGNSL as required under section 11(A)2 of the Electricity Act 1989; and
- 2) the guidance document for the new special conditions (the guidance itself is not subject to statutory consultation, but we welcome your views on the document as part of this consultation).

A list of our proposed licence changes, together with the reasons and effect of those proposed changes, can be found in Schedule 1B published alongside this consultation. For ease of reference, please use the response template (in Microsoft Word format, published as a subsidiary document alongside this consultation) to provide your specific comments on the proposed licence text and to suggest any alternative wording.

Please send responses by 1 March 2018 to:

Okon Enyenihi
Networks
9 Millbank
London
SW1P 3GE

Or to Cap.Floor@ofgem.gov.uk

Unless marked confidential, all responses will be published in Ofgem's library and on our website, www.ofgem.gov.uk. You can ask for your response to be kept confidential and we will respect this, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If

² Statnett is the operator of the transmission grid and the system operator of the Norwegian power system.

you would like your responses to be kept confidential, clearly mark the document/s to that effect and include the reasons for confidentiality.

If you have any questions in relation to this letter, please contact Okon Enyenihi by email (okon.enyenihi@ofgem.gov.uk) or on 0207 901 7017.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Akshay Kaul', with a horizontal line underneath it.

Akshay Kaul
Partner, Commercial Networks

Appendix 1: list of subsidiary documents published alongside this consultation

- 1) Notice of proposed insertion of new special conditions into the electricity interconnector licence held by NGNSL.
- 2) Schedule 1A – Proposed new special conditions for the electricity interconnector licence held by NGNSL.
- 3) Schedule 1B - Reasons and effects of proposed insertion of new special conditions into the electricity interconnector licence held by NGNSL.
- 4) Guidance on the cap and floor conditions in National Grid North Sea Link Limited's electricity interconnector licence
- 5) Licence consultation response template.