

National Grid IFA2 Limited,
electricity interconnector
licensees, cap and floor
applicants and other interested
parties

Direct Dial: 020 3263 9825
Email: Cap.Floor@ofgem.gov.uk

Date: 18 December 2019

Dear stakeholders,

Statutory consultation on proposed changes to the electricity interconnector licence held by National Grid IFA 2 Limited to implement the cap and floor regime

We are proposing changes to the electricity interconnector licence held by National Grid IFA 2 Limited (**NGIFA2**). These changes are required in order to implement the cap and floor regime for the Interconnexion France-Angleterre 2 (IFA2) project. We are seeking views on these proposed changes from interested parties during this consultation.

We are proposing to introduce new special conditions into NGIFA2's licence that will give effect to its specific cap and floor regime as set out in our Final Project Assessment (**FPA**) decision in July 2018.¹ These special conditions set out the cap and floor levels and assessment processes that apply to NGIFA2. This consultation is our statutory consultation under section 11A(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 NGIFA2's licence conditions. It may help NGIFA2 and interested stakeholders to better understand the proposed new conditions. We welcome comments on this guidance document as part of this consultation.

Background

The cap and floor regime

The cap and floor regime is the regulated route for new electricity interconnector investment in GB, which sits alongside the exemption route (whereby project developers apply for exemptions from certain aspects of European 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 in to its electricity interconnector licence which place 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 IFA2 interconnector, discussed below.

¹ Our FPA decision on the IFA2 interconnector is available at:
https://www.ofgem.gov.uk/system/files/docs/2018/07/final_project_assessment_of_the_ifa2_interconnector_to_france.pdf

Interconnexion France-Angleterre 2 (IFA2) interconnector

The IFA2 project is a 1GW electricity interconnector between the French and GB transmission systems, jointly developed by NGIFA2 and Réseau de Transport d'Électricité (RTE)². The project is currently under construction and is expected to enter commercial operation in 2020.

We published our IFA2 FPA decision in July 2018. The IFA2 cap and floor regime applies to NGIFA2's 50% share of the cost and revenues of the project.

IFA2 is the second cap and floor project to go through our FPA process and the third cap and floor project to require licence changes to implement its cap and floor conditions.³ There are specific licence provisions that apply to projects being granted a cap and floor regime; these special conditions are tailored for each licensee to reflect provisions specific to that project and the inclusion of project-specific regime parameters.

The proposed special conditions for NGIFA2 specify the preliminary cap level and preliminary floor level (£50.7m and £27.6m respectively, in 2016/17 prices). These levels are the values we specified in the July 2018 FPA decision.

The proposed special conditions being consulted upon use the North Sea Link (NSL) cap and floor special conditions⁴ that were implemented in July 2018 as a starting point. Notable variations to the text from this starting point for the IFA2 special conditions are clearly highlighted in Schedule 1A to this consultation and include:

- An amendment to the Regime Start Date definition to reflect the date specified in the IFA2 FPA decision. This amendment enables a non-specific regime start date that is the earlier of the actual commissioning date (defined as the Full Commissioning Date in the proposed special conditions) and 1st January 2021.
- Amendments to the descriptions of regulatory periods to accommodate a non-specific regime start date. These include the first and last Relevant Years, the first and last Relevant assessment periods, and the Regime End Date. We do not propose to amend the end-point of the first Relevant Year nor the starting point of the last Relevant Year.
- The addition of a formula to clarify how RPI is defined.
- The inclusion of a licence provision to enable limited and justifiable flexibility in when the licensee may submit a request to the Authority for determination of the Post Construction Adjustment term.
- The amendment of the Trip Contrast Cost definition to allow, at the sole discretion of the Authority, the recovery of costs for other energy imbalances.
- The addition of several definitions and the amendment of some existing definitions to provide further clarity.

² RTE is the French transmission system operator (TSO).

³ The Nemo Link interconnector project was the first cap and floor project to have its licence amended for the same reason in November 2016, and was followed by the North Sea Link (NSL) interconnector in July 2018.

⁴ The NSL licence change consultation and decision is available at: <https://www.ofgem.gov.uk/publications-and-updates/decision-changes-electricity-interconnector-licence-held-national-grid-north-sea-link-limited>

Please note that variations from the NSL special conditions to reflect specific IFA2 regime parameters, such as cap and floor values and availability targets, are not highlighted in Schedule 1A.

Statutory consultation

We are seeking views on:

- 1) the proposed new special conditions to be inserted into the electricity interconnector licence held by NGIFA2 as required under section 11A(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).

Our proposed licence changes, together with the reasons and effect of those proposed changes, can be found in Schedules 1A and 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 24 January 2020 to:

Andrew Bullimore
Systems and Networks
10 South Colonnade
Canary Wharf
London
E14 4PU

Or to Cap.Floor@ofgem.gov.uk

Unless marked confidential, all responses will be put 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 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 Andrew Bullimore by email (andrew.bullimore@ofgem.gov.uk) or on +44 20 3263 9825.

Yours sincerely,



Tom Corcut
Deputy Director, Wholesale Markets

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 NGIFA2
- 2) Schedule 1A – Proposed new special conditions for the electricity interconnector licence held by NGIFA2
- 3) Schedule 1B - Reasons and effects of proposed insertion of new special conditions into the electricity interconnector licence held by NGIFA2
- 4) Guidance on the cap and floor conditions in NGIFA2's electricity interconnector licence
- 5) Licence consultation response template