



Making a positive difference  
for energy consumers

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

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Date: 10 June 2020

Dear stakeholders,

### **Decision on proposed changes to the electricity interconnector licence held by National Grid IFA2 Limited**

In December 2019, we conducted a statutory consultation on proposed changes to the electricity interconnector licence held by National Grid IFA2 Limited (**NGIFA2**).<sup>1</sup> These changes were required in order to implement IFA2's cap and floor regime.

Following consideration of consultation responses, we have decided to implement the proposed licence modifications with amendments, as set out in this letter, to take into account consultation responses. Notice of the licence modifications is published as Schedule 1 alongside this decision. Following this decision, these licence modifications will take effect from 04 August 2020.

### **Consultation responses**

We received four responses to our consultation. The responses were non-confidential and have been published alongside this letter. A summary of the points raised by respondents, together with our views on those points is set out in Appendix 1 to this letter.

We have made a number of changes to the licence drafting as a result of our consideration of consultation responses and to correct for typographical errors, as summarised below:

- We have amended the definition of Regime Start Date to ensure that the regime begins at the earliest point at which the interconnector generates revenue.
- We have amended the definition of Cap Start Date to reflect the updated Regime Start Date definition.
- We have amended the explanation of when the Cap Level comes into force (Special Condition 2, paragraph 5(a)) to reflect the updated Cap Start Date definition.

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<sup>1</sup> Our December 2019 statutory consultation is available at: <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-proposal-insert-new-special-conditions-electricity-interconnector-licence-held-national-grid-ifa2-limited-ngifa2>

- We have clarified that the licensee may request that the Authority agree to an earlier or later Post Construction Review (PCR) submission under Special Condition 8 paragraph 5.
- We have amended internal paragraph references in Special Condition 8 where these were incorrect.

All changes to licence drafting since consultation are detailed in Appendix 2 to this letter and highlighted in Schedule 2 published alongside this letter.

### **Licence modification decisions**

We are now proceeding to make the licence changes. A modification decision together with other relevant schedules have been published alongside this letter as follows:

- Schedule 1 - Notice of licence modification
- Schedule 2 - Special conditions for the electricity interconnector licence held by IFA2
- Schedule 3 - Section G Direction<sup>2</sup>
- Schedule 4 - Guidance to the cap and floor conditions in IFA2's licence<sup>3</sup>

If you have any questions in relation to this letter please contact Andrew Bullimore by email ([andrew.bullimore@ofgem.gov.uk](mailto:andrew.bullimore@ofgem.gov.uk)).

Yours sincerely,



**Tom Corcut**  
**Deputy Director, Wholesale Markets & Commercial**

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<sup>2</sup> This Direction brings into effect Section G (Cap and Floor Conditions) of the standard licence conditions. The Section G conditions of the standard licence conditions are switched off by default for all electricity interconnector licensees until the Authority issues a Section G (Cap and Floor Conditions) Direction to switch them on.

<sup>3</sup> We previously published a draft version of the guidance as part of our December 2019 statutory consultation on the proposed licence changes

## Appendix 1: Summary of consultation responses

Respondent	Condition Ref	Comments	Our views	New licence drafting
National Grid IFA2 (NGIFA2) and National Grid Interconnector Holdings (NGIH)	Definitions and interpretations	<p>The respondents note that the proposed definition of "Regime Start Date" may give rise to a situation whereby the interconnector is generating revenue that is not covered by the cap and floor regime. This may occur if the interconnector were to fail the 60 days of continuous operation requirement in Para 8(b) of Special Condition 2.8(b).</p> <p>The respondents propose to further amend the definition of the Regime Start Date so that it is linked to Special Condition 2.7(a), rather than the "Full Commissioning Date" definition as a whole.</p>	<p>The definition of Cap Start Date includes a provision that enables the Authority to specify an earlier Cap Start Date than the Regime Start Date. However, this could give rise to a situation whereby the Cap Start Date is earlier than the Regime Start Date. The implication of this is that in the situation described by the respondents, the Cap Level may be in force for longer than the 25-year regime duration.</p> <p>We therefore agree with the respondent's proposal in principle and have made amendments to that effect.</p>	<p>"Regime Start Date"</p> <p>Means the earlier of <a href="#">the Full Commissioning Date and the:</a></p> <p>a) <a href="#">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;</a> and,</p> <p>b) 1st January 2021</p>
FAB Link	Special Condition 2.8	The respondent suggests that periods of non-operation of the licensee's interconnector because of insufficient price differentials should not be discounted from the 60 days of continuous	We acknowledge that there may be periods where insufficient price differentials make interconnector flow commercially non-viable, and that this is outside the control of the	n/a

		<p>operation requirement under Special Condition 2.8.</p> <p>The respondent therefore suggests that Para 8(c) of that condition should be removed.</p>	<p>licensee. It is for this reason that the 60 days of continuous operation would only be paused for the duration of that event and continued once electricity flow recommences.</p> <p>The purpose of the 60-day continuous operation provision is to demonstrate the ability of the interconnector to flow power continuously and deliver consumer benefit. In a situation whereby there were a significant number of days of non-operation for this reason, then the purpose of this provision would not be met and we therefore consider that the Para 8(c) should remain.</p>	
NGIFA2 and NGIH	Special Condition 7.15 and 7.38	The respondents do not agree with the proposal to remove "GB Network Rates" from the definition of "GB Network and Property Rates" used in the NSL licence. Citing Para 4.15 of Ofgem's decision on the Nemo Link cap and floor regime on 2 December 2014, the respondents suggest that this is contrary to	The respondents refer to the 2014 decision on the cap and floor regime for the GB-Belgium interconnector project Nemo Link. Whilst we agree that 4.15 of that decision lists "Grid costs or networks rates" as non-controllable costs, we do not agree that this includes GB network charges (e.g. TNUoS and BSUoS).	n/a

		<p>Ofgem's stated policy.</p> <p>In order to fully implement that stated policy, the respondents request that "GB Network Rates" (e.g.TNUoS and BSUoS) should be included in the list of Non-Controllable Cost Items in 7.15 and a separate definition in 7.38 should be introduced.</p>	<p>The Nemo Link interconnector licence is clear that the term "network rates" applies to rates payable specifically in Belgium, not charges in GB.</p> <p>We therefore do not accept the proposed amendment from the respondents.</p>	
FAB Link	Special Condition 7.17	<p>The licence text stipulates that an income-adjusting event should only be triggered if a single event results in an impact of at least 5% of the floor. The respondent suggests that this should instead consider the cumulative effect of multiple potential events within a year.</p>	<p>In our 2014 decision on the cap and floor regime for Nemo Link, we noted that there is a high regulatory burden associated with investigating income-adjusting events, and that we think the likelihood of these events is rare.</p> <p>We retain this view and therefore do not accept the proposed amendment.</p>	n/a
NGIFA2 and NHIH	Special Condition 8.5	<p>The respondents welcome the proposed flexibility in the timing of the licensee's submission of the Post Construction Adjustment (PCA) terms.</p>	<p>We agree with the respondents and accept the proposal.</p>	<p>5. The licensee may request in writing that the Authority <u>make agree to</u> an earlier or later <u>determination submission of the PCA terms</u> than specified in paragraph 4(a)</p>

		<p>For clarity, the respondents note that the licence drafting should refer to the Authority agreeing to the timing of a submission, rather than making a determination on the PCA term. They have proposed amendments accordingly.</p>		<p>provided that:</p> <p>(a) The licensee provides supporting evidence of the reasons for submitting a request to the Authority outside the dates specified in paragraph 4(a) of this condition; and</p> <p>(b) Any risks associated with contingency and unspent costs or future variations shall reside with the licensee.</p>
Nemo Link	General	<p>The respondent urges Ofgem to consider how it will continue to promote consistency of licence conditions across all cap and floor interconnectors.</p>	<p>Whilst we acknowledge and agree with the underlying intent of trying, as far as possible, to ensure consistency between different licences, we would also note that each licence is amended taking into account responses to the relevant statutory consultation.</p> <p>We do not generally consider it appropriate to continually make incremental changes to a licence in order to align it with</p>	n/a

			<p>changes made to subsequent licence(s) that relate to a different project(s); that were subject to separate statutory consultation(s).</p> <p>We would also note that continually making incremental licence changes would conflict with licensees' general desire for certainty and may introduce a disproportionate resource burden for relatively minor changes.</p>	
NGIH and NGIFA2	General	<p>The respondents welcome proposed amendments to Special Conditions 2.19, 5.13 and 8.5.</p> <p>The respondents encourage Ofgem to replicate these amendments in existing cap and floor licences.</p>	<p>The amendment to Condition 2.19 corrects an error in the NSL licence, which was used as a baseline for this consultation. We will therefore consider how we can ensure that the effect of this condition in the NSL licence is clear.</p> <p>For Special Conditions 5.13 and 8.5 please see the Ofgem response directly above. We therefore do not agree that existing licences should be updated to reflect these changes at this stage.</p>	n/a

NGIH	General	To ensure cap and floor licence consistency the respondent encourages Ofgem to undertake a near-future cap and floor licencing review to bring common licence requirements into a section of the interconnector standard licence conditions.	We welcome the respondent's suggestion and agree that there may be value in a cap and floor licencing review. We will consider this in future work plans.	n/a
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## Appendix 2: Summary changes to licence drafting since consultation

Reference	Change made	Rationale
Special Condition 1: "Cap Start Date"	means the Regime Start Date <del>or such earlier date as may be specified in writing by the Authority</del>	The "Regime Start Date" definition on which this definition hinges has been amended to ensure that all revenues generated by the interconnector are captured under the regime. As a result, the flexibility to allow an earlier Cap Start Date than the Regime Start Date is no longer required in the Cap Start Date definition.
Special Condition 1: "French System Operator"	"French <del>Transmission</del> System Operator"	In the licence we reference the French System Operator, rather than the French Transmission System Operator. This amendment to the term being defined is consistent with the use of that term throughout the licence.
Special Condition 1: "Regime Start Date"	Means the earlier of <del>the Full Commissioning Date and the:</del> <ul style="list-style-type: none"> <li>a) <del>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,</del></li> <li>b) 1st January 2021</li> </ul>	<p>It is important that the cap and floor regime captures all revenues that are generated by the interconnector. This change therefore ensures that the regime begins at the earliest point at which the interconnector might start generating revenue.</p> <p>This is based on the understanding that the interconnector will only begin flowing commercially upon commencement of the 60-day trial operational period, which will occur following the successful completion of procedures and tests set out in 7(a) of special condition 2.</p>
Special Condition 2: Paragraph 5(a)	The Cap Level shall come in force on the Cap Start Date which shall be the Regime Start Date <del>or such earlier date as may be specified in writing by the Authority;</del>	This reflects the amendment made to the Cap Start Date described above.
Special Condition 8: Paragraph 5	The licensee may request in writing that the Authority <del>make agree to</del> an earlier or later <del>determination submission of the PCA terms</del> than specified in paragraph 4(a) provided that:	This is to clarify that in the context of the licensee the Authority agrees to an earlier or later timing of a PCR submission.
Special Condition 8 – Paragraph 8	For the purpose of paragraph <del>7</del> (c), the Authority may issue guidance specifying the relevant information to be provided by the	The existing reference was incorrect.

Reference	Change made	Rationale
	licensee	
Special Condition 8 – Paragraph 9	The Authority will review the information submitted by the licensee under paragraph <del>78</del> of this condition and notify the licensee in writing within three months that: <p style="margin-left: 40px;">(a) it has received all the information required to make a determination under paragraph <del>1213</del> of this condition; or</p>	The existing references were incorrect.
Special Condition 8 – Paragraph 10	The Authority will only commence its determination of the appropriateness of the licensee’s proposed value for the PCA terms if, in its opinion, the licensee’s submission meets the requirements of guidance issued (if any) under paragraph <del>89</del> of this condition.	The existing reference was incorrect.
Special Condition 8 – Paragraph 11	Where the Authority has requested further information under paragraph <del>910</del> (b) of this condition, the licensee shall provide such information to the Authority within one month of the Authority requesting such information.	The existing reference was incorrect.
Special Condition 8 – Paragraph 12	Subject to paragraph <del>1415</del> of this condition, the Authority shall, within 12 months from the date of any notification under paragraph <del>910</del> (a) of this condition, determine whether the licensee’s proposed values for the PCA terms meet the following conditions:	The existing references were incorrect.
Special Condition 8 – Paragraph 13	If the licensee’s proposed values for the PCA terms do not meet the conditions specified in paragraph <del>1213</del> , the Authority will: <p style="margin-left: 40px;"><del>(a)</del> <del>(e)</del> specify the submission areas that are ineligible, inefficient, and/or not in accordance with the IFA2 Cap And Floor Financial Model and state the reasons behind that position;</p>	The existing references and sub-paragraph labels were incorrect.

Reference	Change made	Rationale
	<p><u>(b)</u> <del>(d)</del> provide details of alternative treatments and why it considers them to be in accordance with paragraph <u>1213</u> (a) and (b) of this condition; and</p> <p><u>(c)</u> <del>(e)</del> provide updated values of the PCA terms which reflect the alternative treatments.</p>	
Special Condition 8 – Paragraph 14	The 12 month period specified in paragraph <u>1213</u> of this condition shall be paused on the date the Authority requests further information from the licensee under paragraph <u>910</u> (b) of this condition and shall resume on the date the Authority issues a further notification under paragraph <u>910</u> (a).	The existing references were incorrect.
Special Condition 8 – Paragraph 15	As soon as reasonably practicable after completing its determination under paragraph <u>1213</u> of this condition, the Authority shall direct in writing the values of the PCA terms.	The existing reference was incorrect.
Special Condition 8 – Paragraph 16	Prior to completing its determination under paragraph <u>1213</u> of this condition, the Authority shall consult with the licensee and any other relevant parties through a public consultation for a period of at least 28 days and consider any representations duly received within that period.	The existing reference was incorrect.