



**5<sup>th</sup> Annual**

# **Advanced Submarine Power Cable and Interconnection Forum**

*Enabling Technologies, Harnessing Innovation and Enhancing Cable Security to Reduce Costs,  
Risks and Increase Efficiency*



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**14<sup>th</sup> - 16<sup>th</sup> June 2016**

**NH Berlin Alexanderplatz, Berlin, Germany**

## **Regulating electricity interconnectors: The GB perspective**

**Submarine Power Cable and Interconnection Forum**

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ofgem

**Objective:** to provide an overview of the GB regulatory environment for interconnectors, and highlight some challenges and successes to date.

- Overview of GB's approach to interconnector development
- The cap and floor regulatory regime
- Our assessment of projects to date
- What comes next? Future GB regulatory developments

# Overview of GB's approach to interconnector development (I)

- Interconnectors can support all 3 areas of the 'energy trilemma' – affordability, security of supply and decarbonisation.
- GB currently has 4 interconnectors:
  - IFA (1986)
  - Moyle (2001)
  - BritNed (2011)
  - EWIC (2012)
- Challenges to further development: cost, uncertainty in future energy policy, uncertainty in pricing and revenues, and others.
- Ofgem created the cap & floor regime to encourage investment in new electricity interconnectors.



# Overview of GB's approach to interconnector development (II)

Ofgem's cap and floor regime was **developed jointly with CREG for application to the Nemo project**, a planned 1GW HVDC interconnector between GB and Belgium. In 2014 we **extended the cap and floor regime** to other new electricity interconnectors.

GB now has two clear routes for interconnector investment:

## Non-regulated model: Exemptions from Third Package requirements

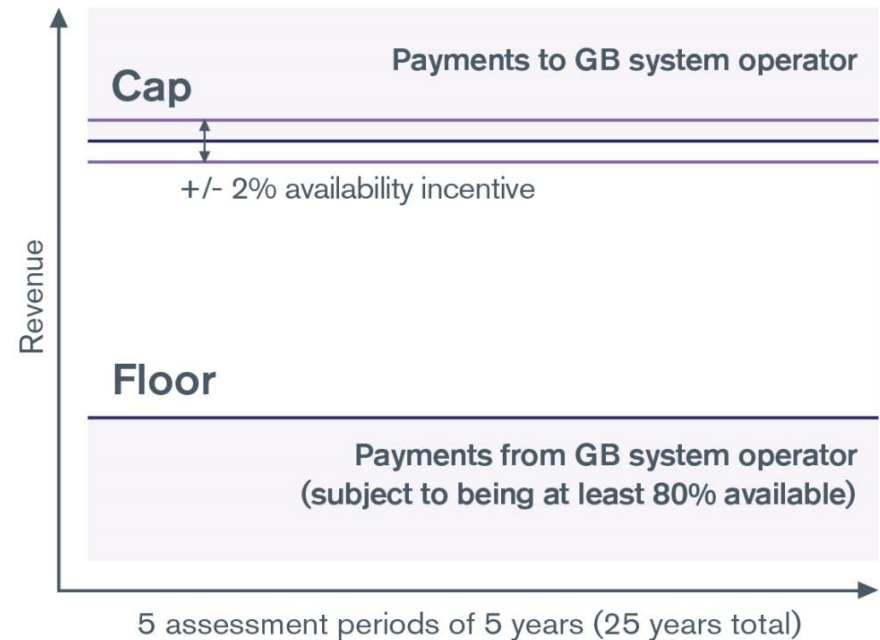
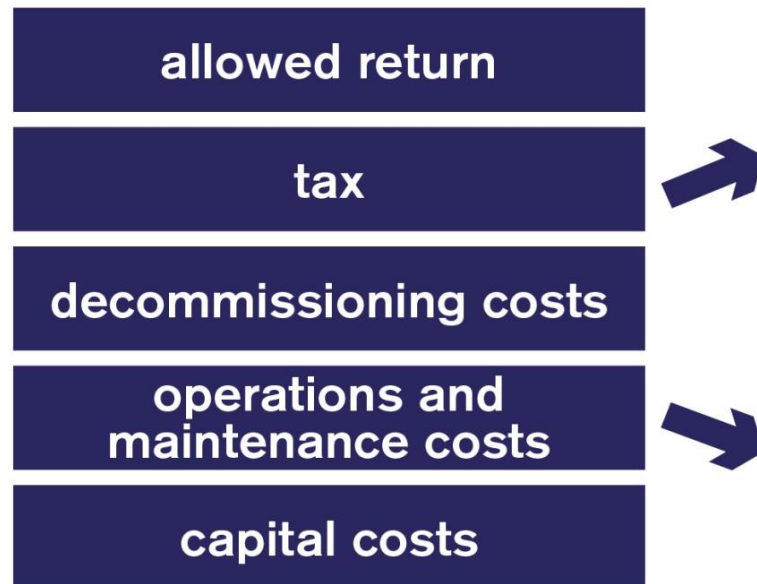
- Third Package came into effect in 2009 and places requirements on interconnector operators.
- Developers can apply for exemptions from certain conditions of European legislation.
- The only route to realise investment until 2014.
- Perceived to be risky → limited investment in IC capacity in GB

## Regulated model: Cap and floor regime

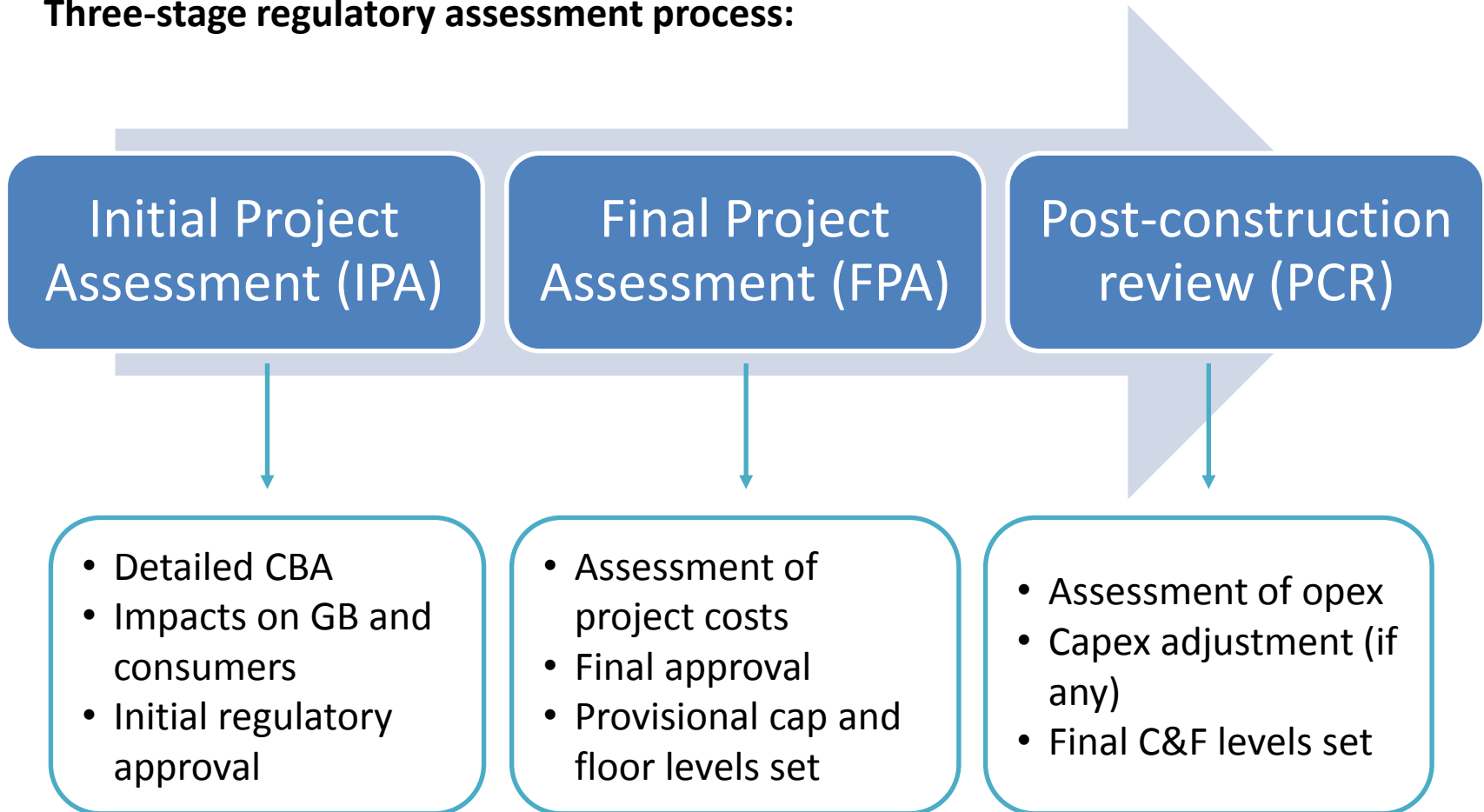
- Cap and floor regime provides developers with a minimum return (floor) and a limit on the potential upside (cap).
- Open to range of potential developers.
- Potential for split or joint regulatory models – depending on regulatory approaches in connecting countries.

The cap and floor themselves are based on efficient costs, but act on revenues:

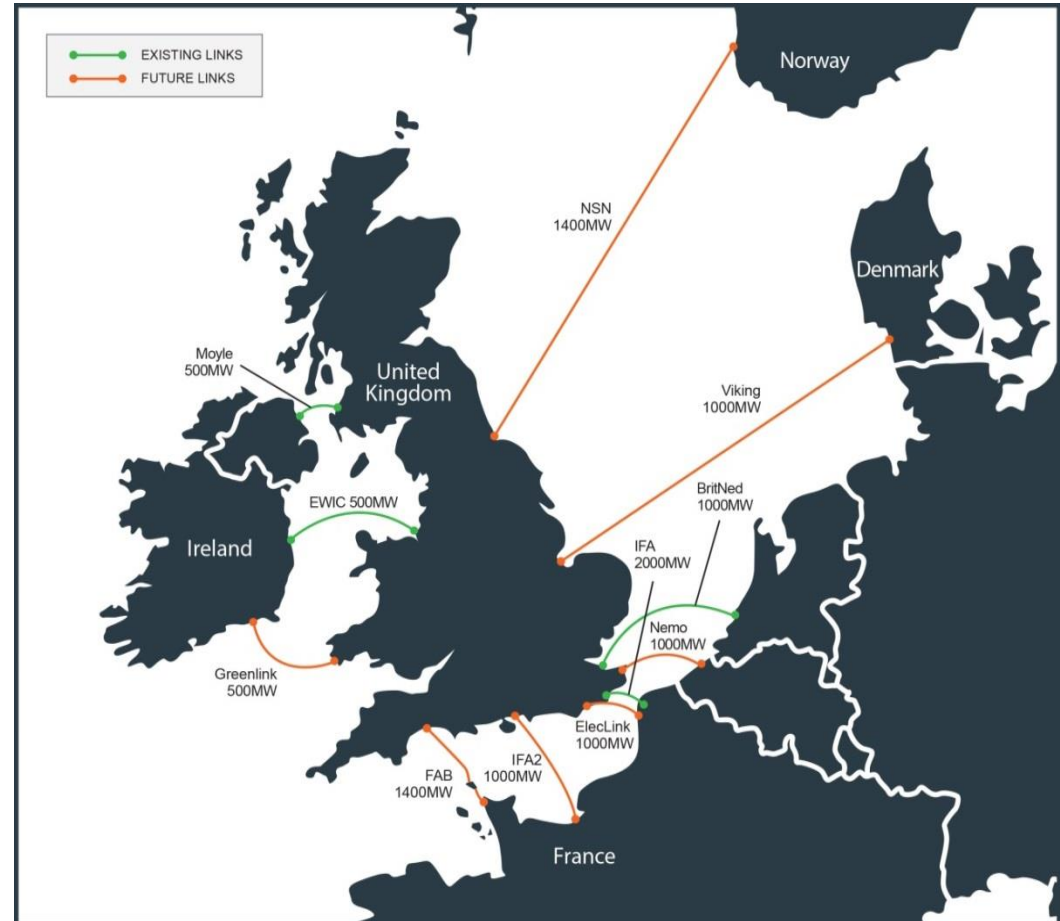
Cap and floor building blocks



## Three-stage regulatory assessment process:



- We expect GB interconnection capacity to **increase from 4GW to 11GW+** by the early 2020s
  - 7.3-7.7GW of new projects, representing £6bn+ of investment, have been granted regulatory approval.
  - Projects estimated to have significant benefits for GB and for consumers.
- **Projects:**
  - Nemo Link (Belgium, 1GW).
  - ElecLink (France, 1GW) – regulatory exemption granted.
  - C+F Window 1 projects (5.3-5.7GW to Norway, France, Denmark and Ireland).
  - Approved projects expected to connect between 2019 and 2022.





## Cap and floor projects

- **Second application window: open until 31 October 2016.**
  - Application information available on Ofgem's website.
- **Final Project Assessment:**
  - assessment of project costs, risk and procurement
  - final regulatory approval
  - provisional cap and floor levels set.
- **Further ahead:**
  - annual reporting of costs and progress throughout construction
  - post-construction review confirms the final cap and floor levels for each project.

## Other regulatory developments

- **Exemption route continues to be available to developers.**
- **Integrated offshore grids and 'multiple-purpose projects' (MPPs)?**
- **Considering non-GB generation links**
  - Inter-governmental dialogue on connecting with Iceland.
- **Addressing challenges for project delivery:**
  - access to broad range of financing options
  - supply chain constraints
  - cross-border consistency and potential barriers to third party developers.

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