

Bart Goethals
Chief Commercial Officer

Nemo Link Limited
Rue Joseph Stevens 7
1000 Brussels, Belgium

Email: cap.floor@ofgem.gov.uk

Date: 15 December 2022

Dear Bart,

Nemo Link – Request for Cap & Floor Within Period Adjustment to enable above cap revenue payments

Ofgem's cap and floor regime sets a yearly maximum (cap) and minimum (floor) level for the revenues that the interconnector licensee can earn over a 25-year period. Usually, revenues generated by the interconnector are compared against the cap and floor levels over five-year assessment periods. Top-up payments are made to the interconnector licensee if revenues are lower than the floor; and similarly, the licensee pays revenues in excess of the cap to consumers. A Within Period Adjustment (WPA) may be requested by a licensee, enabling payments in either direction to be made before the end of the five-year assessment period.

The Nemo Link interconnector, as operated by Nemo Link Limited (NLL) is jointly regulated by Ofgem in Great Britain (GB) and the Federal Commission for Electricity and Gas Regulation (CREG) in Belgium. As such, any request for a WPA must be submitted to both regulators for determination and agreement, with any accepted WPA value being split 50:50 between GB and Belgian consumers.

WPA request

Ofgem¹ and CREG received the WPA request from NLL, including the proposed WPA value and supporting information, on 19 October 2022. We were then provided with an updated WPA value and relevant forecast figures on 30 November 2022. In this letter, we detail our determination of the WPA request and the WPA value proposed by NLL, in line with the provisions of Special Condition 6 of the Nemo Link licence.

Pursuant to Special Condition 6 paragraphs 5(b) and (c)(ii), NLL have reported a cumulative net present value excess of Assessed Revenue against the Cap Level of £116.9m and, on the grounds of pre-empting a material Cap and Floor Adjustment at the end of the five-year assessment period, submitted their WPA request to the Authority. The Relevant Partial Assessment Period² for this WPA request is 1 January 2022 to 31

¹ The terms "Ofgem" and "the Authority" are used interchangeably in this document.

² Means a period that: (a) commences on the first day of the first Relevant Year of the Relevant Assessment Period; (b) is comprised of whole Relevant Year(s) only; and runs for whole consecutive

December 2022.

Pursuant to Special Condition 6 paragraph 9, NLL submitted supporting information and evidence in the form of a completed Cap and Floor Financial Model 2 (CFFM2), which incorporated realised revenues for the first three Relevant Years of the Regime. For the fourth Relevant Year, Nemo Link provided realised revenues for the first 11 months, and a forecast for the final month of the year (as permitted in the Licence). In addition, to evidence a cumulative revenue excess at the end of the Relevant Assessment Period, they provided forecast figures for the remaining year of the first Relevant Assessment Period i.e. Financial Year 2023. Alongside the CFFM2, an appendix was provided to explain the methodology used to derive the proposed WPA value.

Our decision

We are satisfied that the WPA request was submitted in accordance with Special Condition 6 paragraph 7 of Nemo Link's licence. Pursuant to Special Condition 6 paragraph 8, Nemo Link Limited proposed a WPA value of -£116.9m (where the negative value indicates a downwards adjustment to Nemo Link's Interconnector Revenue).

As part of our determination, we compared Nemo Link's revenue against the Cap Level for the Relevant Year (CL_t), derived from the Preliminary Cap Level (PCL) and the Post Construction Adjustment At Cap (PCAC) term. The PCAC term was published in December 2019.³

We have determined that the proposed value of the WPA has been calculated in accordance with Special Condition 6 paragraph 8 of Nemo Link Limited's licence.

With regard to the above determination and in accordance with Special Condition 6 paragraph 12, we:

- consider that the licensee has sufficiently demonstrated that a WPA is required on the grounds of pre-empting a material CFA_{ap} at the end of the Relevant Assessment Period; and
- accept the value of the WPA proposed by the licensee in its request and issue a direction, found attached in Appendix 1, to that effect.

In accordance with Special Condition 10 paragraph 5, the Interconnector Cap and Floor Adjustment term for each Relevant Assessment Period (ICF_{pap}) shall be calculated in accordance with the following formula:

$$ICF_{pap} = 0.5 \times WPA_{pap} + TRU_t$$

Where 0.5 represents the 50/50 sharing between GB and Belgium. As no True-up term (TRU_t) has been requested by the licensee, the value of the ICF_{pap} that is to be returned to GB consumers is therefore calculated as being £58.45m. The other 50% of the WPA (+/- 67.802M€, converted at 1.16€/£) will be transferred by the end of 2022/early 2023 to Elia Transmission Belgium.

years up to and including, but not exceeding, the fourth Relevant Year of a Relevant Assessment Period.

³ [Decision on the Post Construction Review of the Nemo Link interconnector to Belgium | Ofgem](#)

We welcome Nemo Link's payment of revenues in excess of the Cap and their engagement throughout the process, allowing the realisation of the consumer payment ahead of the default payment timeline.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Stuart Borland', written in a cursive style.

Stuart Borland

Deputy Director, Offshore Network Regulation