

Rebecca Sedler  
Commercial, Customer & Regulation Director  
National Grid Interconnectors Limited  
35 Homer Road  
Solihull  
B91 3QJ

Email: [cap.floor@ofgem.gov.uk](mailto:cap.floor@ofgem.gov.uk)

Date: 23 January 2023

Dear Rebecca,

**NGIFA2 – Determination of a further Within Period Adjustment request made by National Grid IFA2 for the Relevant Partial Assessment Period 1 January 2021 to 31 March 2023**

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.

In May 2022, Ofgem were informed by National Grid Ventures (NGV) of the intention to accelerate the payment of interconnector revenues to consumers ahead of schedule. This committed a payment of at least £200m of interconnector revenues from NGV's four revenue-sharing operational interconnectors over Financial Years 2023/24 and 2024/25. The WPA provision within the cap and floor special licence conditions facilitates such early payments for cap and floor interconnectors.

To date, Ofgem have approved two such requests for early repayment from NGV interconnectors, namely for the Nemo Link interconnector to Belgium<sup>1</sup> and for the first operational year of the IFA2 interconnector to France.<sup>2</sup>

---

<sup>1</sup> <https://www.ofgem.gov.uk/publications/determination-within-period-adjustment-request-made-nemo-link-limited>

<sup>2</sup> <https://www.ofgem.gov.uk/publications/determination-within-period-adjustment-request-made-national-grid-ifa2#>

## WPA request

We<sup>3</sup> received the current WPA request from National Grid IFA2 Limited (NGIFA2), including the proposed WPA value and supporting information, on 11 January 2023. In this letter, we detail our determination of the WPA request and the WPA value proposed by NGIFA2, in line with the provisions of Special Condition 6 of the NGIFA2 licence.

Pursuant to Special Condition 6, paragraph 5(b)(ii), NGIFA2 has reported a cumulative net present value excess of Assessed Revenue against the Cap Level of £85.5m 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 Period<sup>4</sup> for this WPA request is 1 January 2021 to 31 March 2023.

Pursuant to Special Condition 6, paragraph 9, NGIFA2 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 Relevant Year of the Regime; a combination of actual and forecast for the second Relevant Year; and forecast for the remaining three years of the first Relevant Assessment Period. 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 the NGIFA2 licence. Pursuant to Special Condition 6, paragraph 8, NGIFA2 proposed a WPA value of -£85.5m (where the negative value indicates a downwards adjustment to NGIFA2's Interconnector Revenue).

As part of our determination, we compared NGIFA2's revenue against the Cap Level for the Relevant Year (CL<sub>t</sub>), derived from the Preliminary Cap Level (PCL) and the Post Construction Adjustment At Cap (PCAC) term. The PCAC term was published in August 2022.<sup>5</sup>

We have determined that the proposed value of the WPA has been calculated in accordance with Special Condition 6, paragraph 8, of the NGIFA2 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<sub>ap</sub> 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.

---

<sup>3</sup> The terms "Ofgem", "the Authority" and "we" are used interchangeably in this document.

<sup>4</sup> 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 years up to and including, but not exceeding, the fourth Relevant Year of a Relevant Assessment Period.

<sup>5</sup> <https://www.ofgem.gov.uk/publications/decision-post-construction-review-ifa2-interconnector-france>

We welcome NGV's proposal for an accelerated 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 'S. Borland', written in a cursive style.

**Stuart Borland**

**Deputy Director, Offshore Network Regulation**