Making a positive difference
for energy consumers

Decision

Decision on the Post Construction Review of the NSL Interconnector to Norway

Publication date:	29 September 2023
Contact:	Andrew Martin and Lucy Bond
Team:	Interconnector Delivery
Telephone:	020 7901 7049
Email:	Cap.Floor@Ofgem.gov.uk

This decision document confirms our final position on the Post Construction Review of the NSL interconnector project. It sets out our final determination of the values for the Post Construction Adjustment terms submitted by NSL and the final cap and floor levels for the project.

Alongside this decision, we have also published licence modification notices making changes to the special conditions of NGNSL's electricity interconnector licence, NSL's Cap and Floor Financial Models and associated handbooks.

Contents

Executive Summary

North Sea Link (**NSL**) is a 1.4 GW electricity interconnector between Blyth, Northumberland in Great Britain (**GB**) and Kvilldal in Norway. The project was jointly developed by National Grid North Sea Link Limited (**NGNSL**) and Statnett, the Norwegian transmission system operator (**TSO**). NSL entered commercial operations on 1 October 2021. Our cap and floor regime applies to NGNSL's 50% share in the project.

We granted NGNSL a cap and floor regime in principle in March 2015. NGNSL's electricity interconnector licence sets out the preliminary cap and floor levels for the project. The licence also includes the process for setting the final cap and floor levels following our determination, at the Post Construction Review (**PCR**) stage, of the values of the Post Construction Adjustment (**PCA**) terms. These terms adjust the preliminary cap and floor levels to take into account our final assessment of the project's costs.

In July 2023, we consulted on our minded-to position on NSL's PCR, in particular our views on the proposed values for the PCA terms submitted by NGNSL and the final cap and floor levels for the project. Alongside this, we also conducted a statutory consultation on related changes to the special conditions in NGNSL's electricity interconnector licence.

The consultation closed on 7 August 2023. We received one consultation response, which was published on the consultation page. We have taken this response into account in reaching our decision.

Scope of our decision

This decision provides our final view on NSL's PCR, in particular our determination of the values of the PCA terms and the final cap and floor levels for the project. Alongside this decision, we have also published:

- A direction determining the values of the PCA terms and final cap and floor levels for NSL,
- Licence modification notices modifying the special conditions in NGNSL's electricity interconnector licence, and
- Final versions of the NSL Cap and Floor Financial Models and associated handbooks.

Overview of our decision

The cap and floor levels are set using a building blocks approach, based on the project's development costs, capital costs, operating and maintenance costs, replacement costs, decommissioning costs, tax and allowed return. The preliminary cap and floor levels for NSL, as specified in its licence, are £89.85m and £50.90m each year (2015-16 prices), respectively.

In December 2021, NGNSL submitted its proposed values for the PCA terms together with supporting project cost information (the PCR Submission). We received updated information in June 2022 under the annual reporting requirements in the Cap and Floor Regulatory Instructions and Guidance (Cap and Floor RIGs). Following this, we received a second cost update in December 2022 and a final update in March 2023. NGNSL proposed upward adjustments to the preliminary cap and floor levels of £6.4m and £9.5m (in 2015-16 prices), respectively.

In our July 2023 consultation, we indicated that our minded-to position was that the proposed PCA values submitted by NGNSL should be adjusted downwards by £3.1m and £1.2m and determined as £3.3m and £8.3m, respectively. We noted that this would generate a final cap level of £93.1m and a final floor level of £59.2m in 2015-16 prices. Following consultation close, and after our review of extra evidence provided by NGNSL, we have updated our minded-to position. We have now confirmed our final view on cost allowances and the financial parameters for the project. Based on our analysis, we have decided to set the[1]:

- combined capital expenditure (**capex**) and development expenditure (**devex**) value at £518.6m,[2] a decrease of £1.7m from NGNSL's PCR submission; and
- the operating expenditure (**opex**) value at £739.4m, a reduction of £3.2m from NGNSL's PCR submission.

Accordingly, we have determined the final PCA values to be:

- **Post Construction Adjustment At Cap** (**PCAC**) **as £3.5m;** and
- **Post Construction Adjustment At Floor** (**PCAF**) **as £8.4m.**

[1] These values may appear different to those reported in the consultation, a revised indexation conversion has been used within this document.

[2] Unless otherwise stated, all costs reported within this document are in real 2015-16 prices.

These PCA values generate a **final cap level of £93.3m and final floor level of £59.3m** in 2015-16 prices.

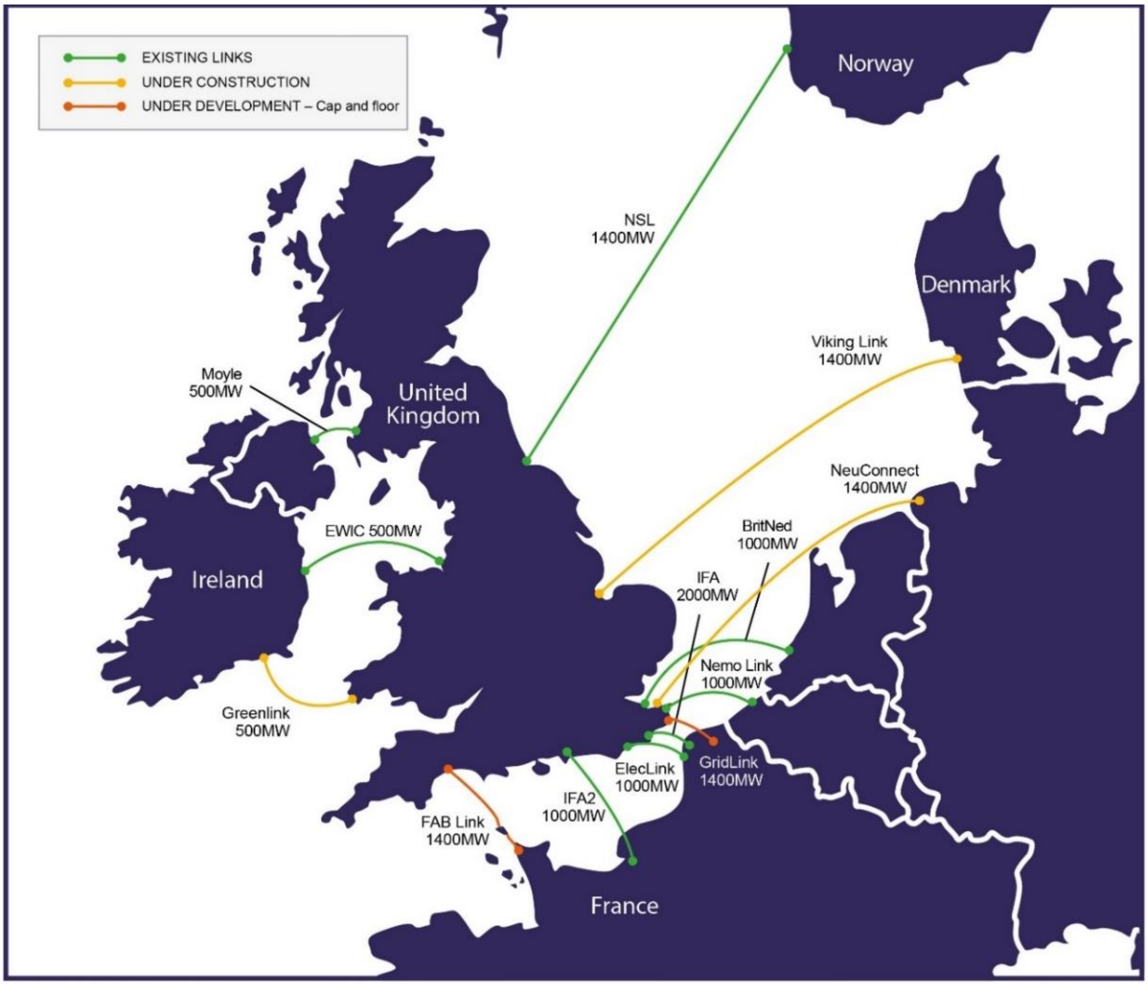
1. Introduction

NSL Project Overview

1.1. The NSL project is a 720 km, 1.4 GW electricity interconnector between GB and Norway. On the GB side, the cable landfall is at Cambois, followed by 1.9 km of onshore cable to Blyth converter station. This is followed by approximately 0.4 km of double circuit AC cable to the adjacent Blyth substation. The Norwegian end of the HVDC cable lands at Kvilldalsvika, followed by 1.7 km of onshore HVDC cable, which crosses the Suldal Lake to a converter and substation in Kvilldal.

1.2. The project developers are National Grid Interconnector Holdings (NGIH) and Statnett, the Norwegian TSO. Our cap and floor regime applies to NGIH's 50% share in the NSL project. Statnett's share in the project is regulated by the Norwegian regulator, Norwegian Water Resources and Energy Directorate (NVE).

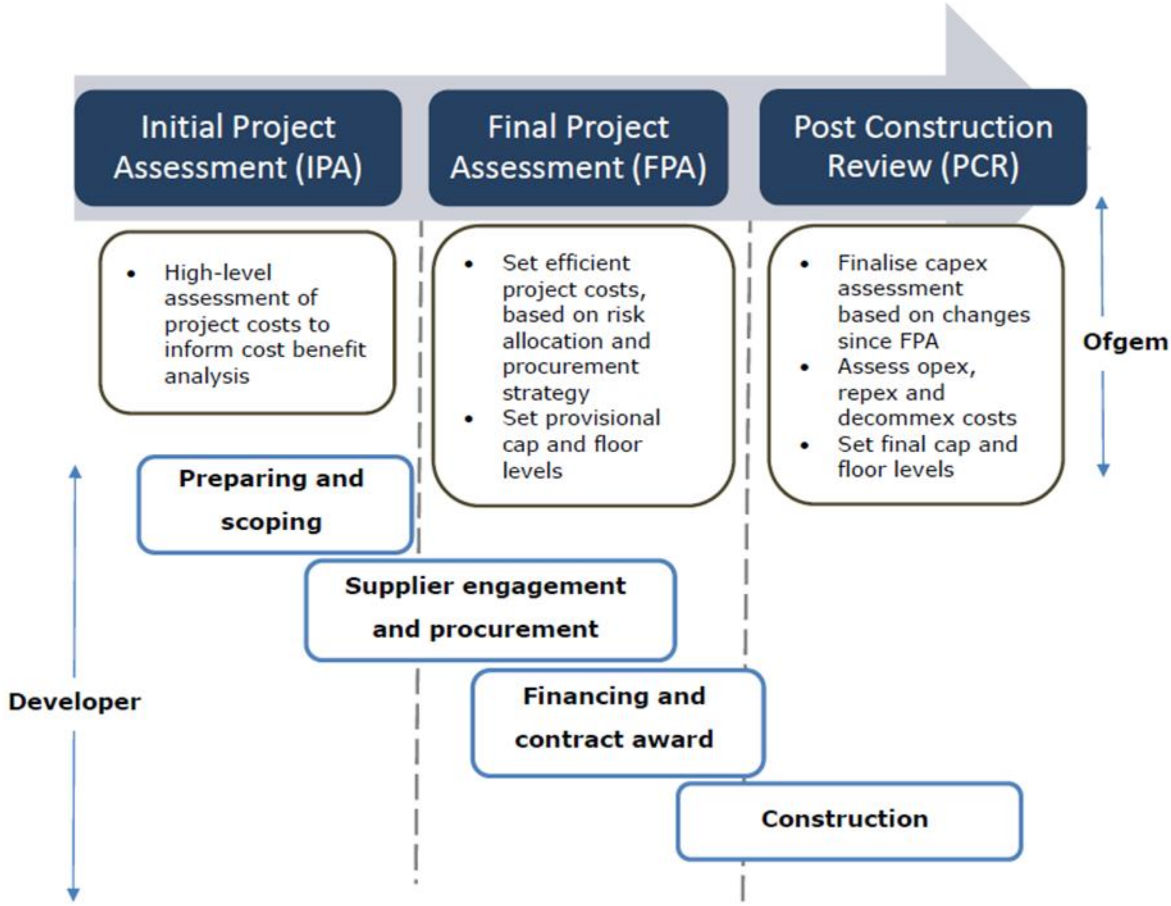
Figure 1: Map of existing and proposed GB electricity interconnectors



Our cap and floor regime

1.3. The cap and floor regime is the regulated route for interconnector development in GB. It sets a minimum and maximum return that interconnector developers can earn. There are three main stages to our cap and floor assessment framework, shown in Figure 2 below.

Figure 2: Cap and floor assessment framework



- The **Initial Project Assessment** (**IPA**) stage is when we assess the needs case for new interconnector projects. This is predominately an economic assessment, taking into account the total costs and benefits of new interconnectors and assessing the likely impacts on consumers.
- At the **Final Project Assessment** (**FPA**) stage, we confirm the grant of a cap and floor regime and set the preliminary cap and floor levels. We assess the economic and efficient costs associated with developing, constructing, operating, maintaining and decommissioning of the interconnector. We also set the project's financial parameters, develop a project-specific financial model, and set the values for incentives.

- The cap and floor levels are then confirmed at the **Post Construction Review** (**PCR**) stage, when we revisit aspects of our cost assessment that were not fixed at the FPA stage and assess the efficiency of costs incurred during construction. We conduct a review of the final capex and consider the efficiency of the interconnector's opex. We also re-examine any information or aspects of the initial submission that have changed significantly.

1.4. In March 2015, we granted NGNSL a cap and floor regime in principle at our IPA stage, which we then confirmed at our FPA stage in July 2017. In July 2018, we made licence changes to give practical effect to that decision. The licence specified preliminary cap and floor levels of £89.85m and £50.90m (in 2015-16 prices), which applies to NGNSL's 50% share of the project. The licence provides for the final cap and floor levels for NSL to be set following our determination of the PCA terms at the PCR stage.[3]

1.5. The determined PCA terms adjust the preliminary cap and floor levels (whether upwards or downwards) to account for the difference between:

- Our estimate, assumed in the preliminary cap and floor levels for NSL, of the costs associated with developing, constructing, operating, maintaining and decommissioning NSL; and
- Our assessment of these costs at the PCR stage (when the majority of the development and construction costs have been incurred).

1.6. The determined PCA values are used to calculate the final cap and floor levels for NSL. The final cap and floor levels then remain fixed for the duration of NSL's cap and floor regime, subject to any specific adjustments.[4]

1.7. In December 2021, we received NGNSL's initial PCR submission, which included NGNSL's proposed values for the PCA terms. NGNSL submitted further cost updates in December 2022 and March 2023. Our July 2023 PCR consultation considered these further cost updates and set out our minded-to position on the proposed PCA values and proposed final cap and floor levels.

---

[3] Relevant provisions are included in Special Condition 8: Process for determining the value of the Post Construction Adjustment terms and Special Condition 2: Cap Level and Floor Level. The PCA terms consist of two terms – the PCAC and the PCAF.

[4] The regime allows for a discretionary revision of the final cap and floor levels after no less than 10 years from the start of the regime to re-assess and benchmark the opex forecast submitted at the PCR stage and, if required, for multiple revisions to re-assess the decommissioning costs forecast submitted at the PCR stage.

Related publications

Decision on the Initial Project Assessment of the NSN interconnector to Norway

Published: March 2015

Decision on the Final Project Assessment of the NSL interconnector to Norway

Published: July 2017

Decision on the Post Construction Review of the IFA2 interconnector to France | Ofgem

Published: August 2022

Cap and Floor Regime Handbook

Published: September 2021

Post Construction Review of the NSL interconnector to Norway

Published: July 2023

Statutory consultation: Decision on changes to the electricity interconnector licence held by National Grid IFA2 Limited (NGIFA2)

Published: June 2020

Post Construction Review of the Nemo Link interconnector to Belgium

Published: September 2019

Our decision-making process

1.8. This decision sets out:

- Our final view on NSL's PCR, in particular our determination of the values for the PCA terms and the final cap and floor levels for the project. The determined PCA values and final cap and floor levels are specified in the direction attached at Appendix 3;
- Related changes made to the special conditions in NGNSL's licence to reflect the changes in the governance arrangements and updates made to the NSL's Cap and Floor Financial Models (**CFFMs**) as well as updates to certain defined terms in NGNSL's licence, including Regime Start Date and Floor Start Date.

1.9. The relevant licence modification notice is attached at Appendix 4; and NSL's CFFM1 & CFFM2 and associated handbooks are attached at Appendices 5-6.

Structure of this document

1.10. The rest of this document is structured as follows:

Section 2 – Summary of our PCR decision

1.11. This section provides a summary of our final review of NSL's costs and our determination of the values of the PCA terms and final cap and floor levels, including an overview of the relevant cost variations.

Section 3 – Main points raised during consultation

1.12. This section addresses the key issues raised by the respondent to the July 2023 PCR consultation concerning the following areas:

- our proposed cost allowances at consultation stage; and
- proposed changes to NGNSL's special licence conditions.

Decision-making stages

1.13. The consultation on NSL's PCR and related documents closed on 7 August 2023. We have reviewed the response received, which has been published alongside this consultation.

Date	Stage description
07/07/2023	Stage 1: Consultation open
07/08/2023	Stage 2: Consultation closed (awaiting decision), deadline for responses
29/08/2023	Stage 3: Responses reviewed and published
29/09/2023	Stage 4: Decision

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to stakeholders@ofgem.gov.uk

2. Summary of our PCR decision

Section summary

This section outlines any changes between our minded-to position (in our July 2023 consultation) and our final decision, following consideration of responses.

It also provides a summary of our cost assessment process and final position on project costs, the determined values for the PCA terms and final cap and floor levels for NSL.

Key changes between our minded-to position and final decision

2.1. We have considered the issues raised by consultation respondents and some of our minded-to positions have changed.

2.2. Below we provide more detail on the factors that we have considered in reaching a final view; an overview of the cost assessment process; and final position on the project costs, the determined values for the PCA terms and final cap and floor levels for NSL.

Cost assessment summary

2.3. In its PCR submission, NGNSL proposed upward adjustments to the preliminary cap and floor levels of £6.4m and £9.5m (in 2015-16 prices), respectively.

2.4. In our July 2023 consultation, we proposed:

- to set a combined capex and devex value at £510.5m, a decrease of £3.3m from NGNSL's PCR submission; and
- to set the opex value at £741.5m, a reduction of £3.7m from NGNSL's PCR submission.
- consequently, to revise and adjust the PCA values at the cap and floor, submitted by NGNSL, downwards by £3.1m and £1.2m, respectively.

2.5. Following consideration of the received consultation response, we have decided to update our provisional PCR position as follows:[5]

- our allowance for NSL devex has remained unchanged;

[5] Note: Consultation costs reported here have been corrected to account for the updated indexation.

- our allowance for NSL capex has increased from £502.5m at £507.1m;
- our allowance for NSL opex has increased from £659.2 to £659.6m; and
- the NGNSL proposed PCR values have been adjusted down (relative to the values it submitted) and the PCA values have now been determined as follows:
  - PCAC as £3.5m, and
  - PCAF as £8.4m.

2.6. Table 1, below, shows a summary of project costs as presented at our consultation stage.

Table 1: Summary of GB share of project costs presented at consultation[6] (£m, 2015-16 prices)

Item		NSL FPA submission	Ofgem FPA position	NSL PCR submission	Our provisional PCR position
Devex		12.6	12.6	11.6	11.6
Capex	*Firm costs*	581.0	501.0	502.1[7]	498.9
	Risks	116.0	59.0	0	0
Opex[8]		382.1	382.1	663.0	661.4
Repex		15.0	15.0	57.8	55.8
Decommex		6.5	6.5	24.3	24.3
Total		1113.2	976.2	1258.8	1252.0

2.7. We note that following the close of the consultation, some costs published in real 2015-16 prices in the consultation document, were deflated by incorrectly rounded inflation figures. The underlying costs assessed, however, were consistent throughout.

2.8. In Table 2, below, we present the correct costs based on the correct inflation figures. These updated costs are then used throughout this Decision document. We note that this error did not result in a change to the overall cap and floor levels published in our minded-to decision.

[6] For all tables in this document, due to rounding the figures in the table may not add up precisely to the totals indicated.

[7] The submitted value includes all incurred capex costs, inclusive of disallowances at FPA.

[8] Includes market related costs.

Table 2: Summary of corrected GB share of project costs[9] (£m, 2015-16 prices)

Item		NSL FPA submission	Ofgem FPA position	NSL PCR submission	Ofgem minded-to position	Ofgem final position
Devex		12.6	12.6	11.6	11.6	11.6
Capex	*Firm costs*	581.0	501.0	508.8	505.5	507.1
	Risks	116.0	59.0	0.0	0.0	0.0
Opex[10,11]		382.1	382.1	660.8	659.2	659.6

2.9. Table 3 below sets out the preliminary cap and floor levels, the adjustments to these levels proposed by NGNSL, our provisional and final determination of these adjustments and the corresponding impacts on the final cap and floor levels.

Table 3: Summary of proposed cap and floor levels (£m, 2015-16 prices)

	Cap	Floor
NSL's preliminary cap and floor levels	**89.8**	**50.9**
NGNSL's proposed PCA values	+6.4	+9.5
Cap and floor levels using NGNSL's proposed PCA values	96.2	60.4
Ofgem provisional determination of the PCA values	+3.3	+8.3
Cap and floor levels using our provisionally determined PCA values	93.1	59.2
Ofgem final determination of the PCA values	**+3.5**	**+8.4**
Final cap and floor levels	**93.3**	**59.3**

Final capex cost adjustments

2.10. The capex submitted by NGNSL at the 2017 FPA was £560.0m, whereas the value submitted at PCR was £508.8m, a decrease of £51.2m. In our July 2023 consultation, we proposed to make reductions totalling £3.3m to the submitted PCR value.

2.11. After consideration of consultation responses, we are modifying our minded-to position, setting the final capex allowance at £507.1m.

---

[9] For all tables in this document, due to rounding the figures in the table may not add up precisely to the totals indicated.
[10] Includes market related costs with a value of £46.2m (2015-16 Prices)
[11] Does not include decommex and repex.

Final opex and post-construction cost adjustments

2.12. Our July 2023 consultation proposed to reduce NGNSL's combined opex (excluding market related costs), repex and decommissioning cost submission of £696.4m by £3.7m, resulting in a provisional opex allowance for the regime period of £692.8m.

2.13. We proposed a reduction of £1.6m to the submitted controllable opex, which we have revised down following the consultation to £1.2m and a reduction of £2.0m to the submitted repex costs, which remains unchanged. This has resulted in a final value of £693.2m for operational costs. Table 4 below provides a summary of the adjustments and section 3 of this document provides further information on this decision.

Table 4: Final proposed operational cost adjustments (£m, 2015-16 prices)

Category	Description	PCR submitted cost	Proposed adjustment	Final adjustment [12]	Final adjusted cost
Controllable opex[13]	All of the main operating costs	588.3	-1.6	-1.2	587.1
Non-controllable opex	Costs relating to leases and statutory fees	26.3	0.0	0.0	26.3
Repex	Costs for periodic asset replacement	57.6	-2.0	-2.0	55.6
Decommissioning (decommex)	Funds provisioned for decommex	24.2	0.0	0 .0	24.2
	Total	696.4	-3.7	-3.2	693.2

[12] These final adjustments account for all Ofgem disallowances made at FPA and PCR.
[13] Excludes market related costs with a value of £46.2m (2015-16 Prices). The CFFM1 included a minor error relating to opex costs in Year 15, which has been corrected.

3. Key issues raised in consultation responses

Section summary

This section addresses the key points raised in responses to the July 2023 consultation.

3.1. This section sets out views on the key issues raised in response to the July 2023 consultation, specifically:

- the treatment of repex;
- the disallowance of the Delay in Start-Up (**DSU**) insurance;
- the treatment of costs related to **NSL**'s Marketing and Website costs;
- Commissioning Power costs;
- Converter Station – Snow Guard; and
- Application of Corporation Tax

3.2. We received one response to the July 2023 consultation from NGIH. The response has been published on the consultation page.

3.3. We consider below the key issues raised in response to the July 2023 consultation and provide our views.

Repex

3.4. A downward adjustment of £2.0m to the repex value was proposed in the consultation, this related to an adjustment made to the Control and Protection component of the repex costs.

3.5. NGIH stated that the estimates provided for the repex costs were the result of detailed engagement with the NSL equipment manufacturers. In its opinion, NSL took a balanced view by using the mid-point of a range of costs provided as part of their PCR submission. NGIH stated that it would expect the general approach of allowing the middle of the range cost to be adopted instead of the lower part of the range.

3.6. We accept the general merits of the approach described by NGIH above. However, as part of the PCR assessment we further assessed all repex costs and queried values that were higher than expected or where we required further information as part of the Supplementary Questions (SQ) process.

3.7. We identified the Control and Protection costs to fall into this category and determined through our assessment that the developer had the potential to reduce costs through efficiency savings with greater co-ordination between converter stations. As a result, we remain of the view that a reduction of £2m to these costs is appropriate.

DSU insurance

3.8. NGIH considers DSU insurance to be an important risk-mitigation tool that provides significant benefits to consumers. We have previously noted in the PCRs for both Nemo Link[14] and IFA2[15] that we do not consider DSU insurance to provide any tangible additional benefit to consumers.

3.9. NGIH noted that we have been consistent in our disallowance of DSU insurance from the cap and floor levels and suggested that we consider amending the definition of 'Receipts from Insurance (RI_t)' in Special Condition 5 to explicitly omit DSU insurance and remove any ambiguity.

3.10. We do not consider it appropriate to make such a licence amendment at this time. While we have not to date received sufficient justification to support the inclusion of DSU insurance within the cap and floor levels, we recognise that relevant licensees may, in future, provide more compelling evidence as to how and why DSU insurance provides a tangible consumer benefit.

Marketing and Website Costs

3.11. In our July 2023 consultation, we proposed to disallow £0.4m of marketing and website costs that were specifically for marketing NSL individually. We noted that there are allowances for the purpose of marketing NSL as part of the broader National Grid portfolio of interconnectors.

3.12. In the response NGIH stated that it disagreed with the treatment of the project-specific marketing costs and felt that not having NSL-specific marketing would not allow NSL to maintain a competitive presence in the Nordic market and retain customers.

[14] Decision on the Post Construction Review of the Nemo Link interconnector to Belgium

[15] Decision on the Post Construction Review of the IFA2 interconnector to France | Ofgem

3.13. We note that in our last PCR decision for the IFA2 project we disallowed project-specific marketing costs on the basis that these can be covered by the marketing costs allowed for the broader National Grid portfolio of interconnectors. After reviewing NGIH's response in relation to NSL-specific marketing costs, we accept that these specific costs are justified. We agree with NGIH's view that the project presents unique characteristics in terms of market and product offering, therefore we have decided to allow £0.4m of marketing costs.

Commissioning Power

3.14. NSL successfully traded its commissioning power during the testing phase. As a result, a value of -£1.6m was included within its submitted cost assessment template. At the consultation, this value was included within our cap and floor calculations.

3.15. In its response, NGIH highlighted the inclusion of this value in the PCR submission and proposed that it should be removed. We revert to our position, as found in IFA2's PCR decision,[16] to disallow the cost of commissioning power on the basis that we consider this to be a commercial cost that NSL can trade as part of the commissioning process and that any positive revenue earned would be excluded from the cap and floor regime. As NSL were successfully able to make a profit from this trade, we have now removed the £1.6m of positive revenue from the cap and floor calculation.

Converter Station – Snow Guard

3.16. NSL submitted costs of £0.2m for the modifications of the converter station, due to a building of similar design suffering damage. We proposed to disallow this cost as the changes to the building that occurred should have been foreseen in the original design of the building due to its geographical location.

3.17. In its response, NGIH stated that the original converter building design was specified to the established standard at the time to withstand the known weather conditions in that region. During the construction phase, a similar Statnett site highlighted that an accumulation of snow on the building roof posed a potential risk. Consequently, additional design work was undertaken to modify the

---

[16] [Decision on the Post Construction Review of the IFA2 interconnector to France | Ofgem]

converter station roof and mitigate this risk. NGIH states that their approach to this process was responsible and prudent and therefore disagree with Ofgem's view that the associated cost should be disallowed.

3.18. We maintain our position on removing the costs associated with the converter station modifications. Costs relating to one instance of design and construction have been allowed. The building required redesign and remedial construction work and we do not consider this economic and efficient because, as noted above, this issue should have been foreseen. Therefore, we remain of the view that the costs of £0.2m should be disallowed.

Corporation Tax

3.19. In our July 2023 consultation we outlined our position to maintain the existing regime design, whereby the Corporation Tax (**CT**) rate is determined at time of Final Investment Decision (**FID**).

3.20. NGIH stated that it does not agree with this view as, due to the recent increase in CT rate levels (from 20% to 25%), the cap and floor levels do not reflect the CT rate HM Treasury announced in 2022.

3.21. NGIH proposed a mechanism to periodically vary the CT and capital allowance rates through the regime period to reflect actual rates and two options relating to a fixed CT rate for the regime duration:

- The prevailing view of HM Treasury CT rate(s) for the duration of the regime period, at the time that Ofgem publishes the PCR consultation (i.e. the point in time when the cap and floor levels are being finalised); or
- The prevailing CT rate on the date at which the interconnector entered operations.

3.22. While we acknowledge that there has been an increase in the CT rate and a decrease in the capital allowance rate since FID was taken in 2015, the regime was designed to give developers sufficient time and certainty around specific parameters that feed into the cap and floor model. This approach fixed certain parameters including the CT rate for the regime duration to provide certainty to investors at the time of FID. In addition, we note that the cap and floor regime seeks to protect developers via the floor level from any material change in financial parameters that could adversely affect revenue.

3.23. Our policy on the CT rate used for the purposes of calculating cap and floor tax allowances is that it is set at FID based on the HMT tax guidance at the time, considering any public statements from HMT on future movements.

3.24. We maintain our minded-to position to uphold the current regime design in relation to the CT rate.

Related changes to NGNSL's special licence conditions

3.25. We proposed to make changes to the special condition in NGNSL's electricity interconnector licence to reflect changes in governance arrangement of the CFFMs.

3.26. In 2019, we split the CFFM into two separate models: Cap and Floor Financial Model 1 (**CFFM1**) and Cap and Floor Financial Model 2 (**CFFM2**). For the NSL project:

- NSLCFFM1 – to be used to determine the final cap and floor levels at PCR stage, following the final assessment of costs for:
    - developing;
    - building;
    - maintaining;
    - operating;
    - decommissioning the interconnector project; and
- NSLCFFM2 – to be used during the operational period to:
    - adjust cap and floor levels (where required following revision of the baseline allowance for controllable operating costs or decommissioning costs);
    - inflate cap and floor levels annually;
    - reflect performance relative to NGNSL's availability targets;
    - assess, at the end of each default 5-year assessment period, actual revenue earned by NGNSL against the adjusted cap and floor levels;
    - actual non-controllable operating costs against the baseline level; and
    - determine whether NGNSL's revenues should be 'topped up' to the floor level or whether excess revenue (above the cap level) should be returned to consumers.

3.27. We also proposed a number of other minor consequential changes, including:

- inserting a definition for the 'CHAW' term;
- updating the definition for "Floor Start Date" to reflect the date specified in a direction issued by the Authority to the licensee in accordance with paragraph 11(b) of Special Condition 2: Cap Level and Floor Level; and
- deleting redundant text from the definition of 'Regime Start Date'.

3.28. As a result of the changes described above, we proposed to modify the special licence conditions of NGNSL's licence in the manner shown in Schedule 1 to reflect these changes in governance arrangements and the consequential changes as described above.

3.29. We note that no concerns were raised with respect to these proposed licence modifications, and we confirm that we will be moving ahead with these changes. The licence modifications can be found in attached Schedule 1.

Appendices

Index

Documents published alongside this decision

Appendix	Description
Appendix 3	Direction to determine PCA terms for the NSL interconnector
Appendix 4	Direction to modify special conditions of the electricity interconnector licence held by National Grid NSL Limited **Schedule 1 –** Modifications to the special conditions of the electricity interconnector licence held by National Grid NSL Limited
Appendix 5	NSLCFFM1 **Schedule 2 –** NSL Cap and Floor Financial Model 1 Handbook (CFFM1H)
Appendix 6	NSLCFFM2 **Schedule 3 –** NSL Cap and Floor Financial Model 2 Handbook (CFFM2H)

Appendix 1 - Summary of responses to our NSL PCR Consultation

Table 4: List of key themes from responses

Respondent	Item ref	Comments	Our view	Change
NGIH	DSU Insurance	NGIH suggests that, given our historical disallowance of DSU insurance, we consider explicitly excluding it via an amendment to the 'Receipts from Insurance (RI_t)' definition in special condition 5	We do not agree that DSU insurance should be explicitly excluded by an amendment to the licence. DSU insurance has been disallowed up to this point on the basis that we do not consider it to provide a tangible benefit to consumers. We do not consider it appropriate to preclude other relevant licensees from submitting these costs for consideration and providing them with the opportunity to provide more compelling justification as to why such costs should be allowed.	No change
NGIH	Convertor Station – Snow cover	Respondent stated that the original design was created in line with standards at the time and the changes to the design were undertaken to mitigate a potential risk that was highlighted on another site.	We maintain our position to disallow the costs associated with the converter station modifications. It is the responsibility of the developer to ensure that the building is designed and built to be fit for purpose. As the modifications were, in our view, the result of an issue that should have been picked up during the design process, we have decided to maintain our position.	No change

NGIH	Commissioning Power	Respondent stated that for consistency the costs of commissioning tests, including when providing a net benefit to costs, should be excluded from the cap and floor level.	We have modified our position to exclude the positive revenue realised by NGNSL from commissioning power trading. We have amended NGNSL CFFM1 to exclude the profit made from this activity. This position is consistent with our view to exclude from the cap and floor levels revenues or cost from commissioning power trades.	Change
NGIH	Marketing	Respondent considers that NGNSL should have its own marketing strategy and website.	We modify our position to include the costs of project specific marketing. After reviewing NGIHs response in relation to NSL project specific marketing costs, we accept that these specific costs are justified. We agree with NGIHs view that the project presents unique characteristics in terms of market and product offering, therefore we have decided to allow £0.4m of marketing costs.	Change
NGIH	Repex	Respondent notes for the most part OFGEM has approved Repex estimates that were middle of the range. Specifically for Control and Protection however, Ofgem has adjusted costs to a value that would represent a value closer to the lower range. Respondents feel it would be better if the middle of the range	We remain of the view that the reduction of £2m to the Control and Protection value is justified based on our assessment that the developer had the potential to reduce costs through efficiency savings with greater co-ordination between converter stations.	No change

		approach was consistently applied throughout the Repex category.		
NGIH	Corporation Tax	Respondent notes that due to the increase in CT rates in 2023 (20% to 25%) there is now a deviation between the real and cap and floor figure which represents a significant shortfall in tax liability. They have provided one option with a rolling CT rate through the regime period and two option for a fixed rate during the regime.	We maintain our minded-to position from the consultation to stay with the current regime methodology on the treatment of CT rate.	No change

Appendix 2 - Confidential

NOTE: The contents of this appendix have not been published due to it containing security information that is of a confidential and sensitive nature. The contents have however been shared with NGNSL for consultation directly on a confidential bilateral basis.