

**GridLink Interconnector Limited**

Anumerate Office 2.05 Clockwise,  
Old Town Hall,  
30 Tweedy Road,  
Bromley,  
BR1 3FE  
[www.gridlinkinterconnector.com](http://www.gridlinkinterconnector.com)

Nick Pittarello  
Office of Gas and Electricity Markets  
10 South Colonnade,  
Canary Wharf  
London  
E14 4PU

19 August 2024

Dear Nick,

**Response to Cap Rate Consultation**

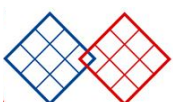
GridLink Interconnector Limited (“**GridLink**”) thanks you for the opportunity to respond to your consultation titled “Further consultation on the cap rate for the cap and floor regime for Window 3 electricity interconnectors” which was published on 12 July 2024 (the “**Consultation**”).

GridLink is developing a 1,250MW interconnector between France and the UK. Although GridLink is a Window 2 project, and, as stated in the Consultation, the changes currently being consulted upon “will not be retrospectively applied to projects that were approved through earlier application windows”, we believe there are certain key issues which should be highlighted and addressed with regard to Window 3 and future projects. This letter and the responses contained in it are not confidential.

Our key observation is that the revenue cap used for Window 3 and future projects should be equal to or greater than the cap which has been applied for earlier projects, in order to ensure that investors are appropriately incentivised. As Ofgem are aware, there are approved projects from Windows 1 and 2 which are not yet under construction, yet government targets for an additional 18GW of interconnection by 2030 remain. Even assuming that approved Window 1 and 2 projects move forward within the next 12 months, as would be necessary in order to be operational by 2030, along with the two projects approved under Window 3, total installed capacity will be only 14.9GW by the target date.

Any reduction in equity returns creates the risk that investor appetite will be negatively impacted and therefore that the future supply of interconnection projects will not materialise – a market failure which would result in consumers missing out on £ billions of positive SEW, as well as substantial decarbonisation benefits.

We set out our responses to the Consultation questions below, which are based on our experience and our preliminary engagement with potential project finance lenders with whom we have a strong track record of project financing infrastructure assets.



**Question 1: Do you agree with our methodology for calculating equity beta for Window 3 interconnectors? If not, could you please explain why, provide evidence for your reasons and suggest alternatives?**

We have no comment on this question.

**Question 2: Do you agree with the comparators we are proposing to use to calculate the beta parameter? If not, could you please explain why, provide evidence for your reasons and suggest alternative methods?**

The companies proposed for the estimation of equity beta are Drax Power (DRX LN), SSE (SSE LN), RWE (RWE GR), Iberdrola (IBE SM), Orsted (Orsted DC) and National Grid (NG/ LN). The proposed additions (i.e. all other than Drax from the preceding list) are diversified businesses with multiple sources of revenue.

The projects under consideration, as 'pure play' greenfield offshore assets, have a materially higher exposure to systemic risks than the proposed comparators. Since the revenue cap is designed to reflect the equity returns in assets with a similar risk profile<sup>1</sup> it is essential that these characteristics are taken into account.

**Question 3: Do you agree with the proposed approach for determining the Total Market Return parameter? If not, could you explain why, provide evidence for your reasons and suggest alternative methods?**

We have no comment on this question.

In conclusion, we hope that these observations and proposals are of help to Ofgem. We would welcome further dialogue with you on our responses to ensure that any variations to the regime genuinely enable project finance solutions while retaining a fair allocation of risk between developers and consumers.

Yours sincerely,



Sarah Johnson  
Director

Copy:

Stuart Borland, Deputy Director, Offshore Network Regulation, Ofgem  
Alexander Graham, Acting Head of Team, Interconnector Delivery, Ofgem

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<sup>1</sup> Ofgem (2021) Interconnector Cap and Floor Regime Handbook

