

# Nemo Link

## Cap and Floor interconnector

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**nemolink**



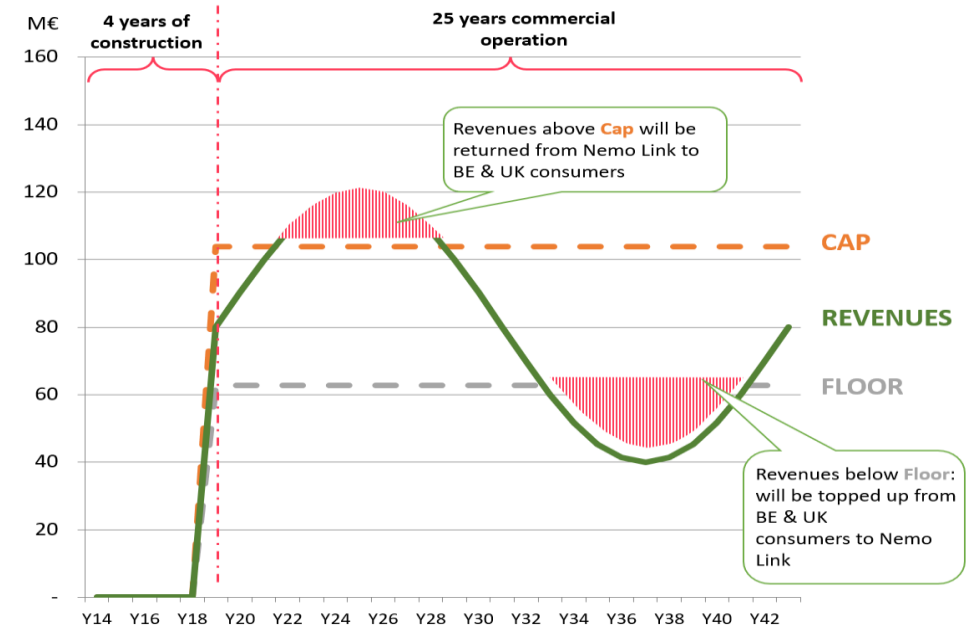
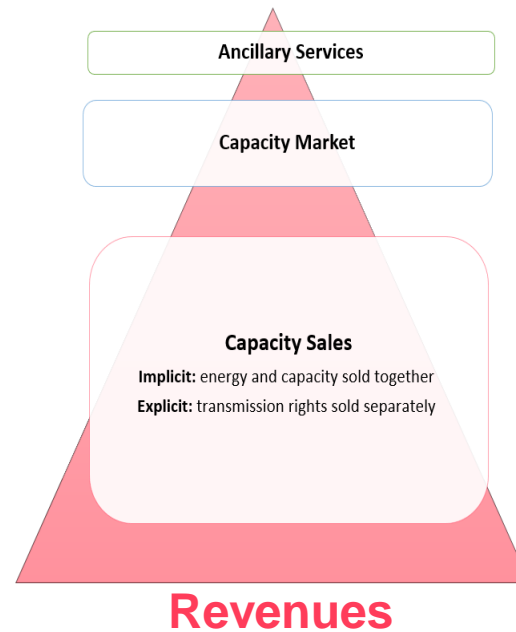
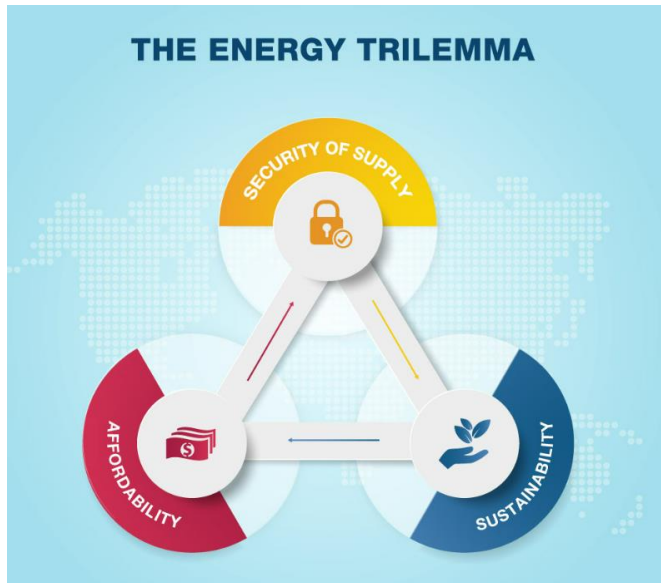
# About Nemo Link



# About Nemo Link



- ✓ **Electrical HVDC VSC Interconnector (1000MW) between Belgium and England**
- ✓ Incorporated 50/50 Joint Venture between Elia Transmission Belgium and NGIH (part of NG Plc)
- ✓ 140km cable length
- ✓ FID: 02/2015, +-630M€ CAPEX
- ✓ EPC contracts signature: 06/2015 (Siemens Converters/JPS Cable)
- ✓ Operational go-live: 31/01/2019
- ✓ **First interconnector to be Cap and Floor regulated**
- ✓ Regulators: OFGEM (UK) and CREG (BE)
- ✓ <https://www.nemolink.co.uk/>





# Cap and floor

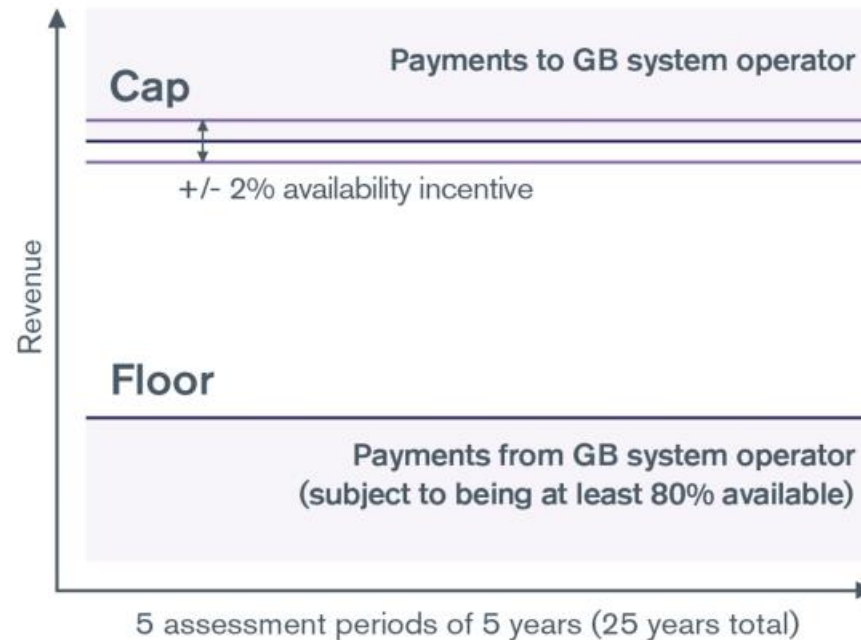
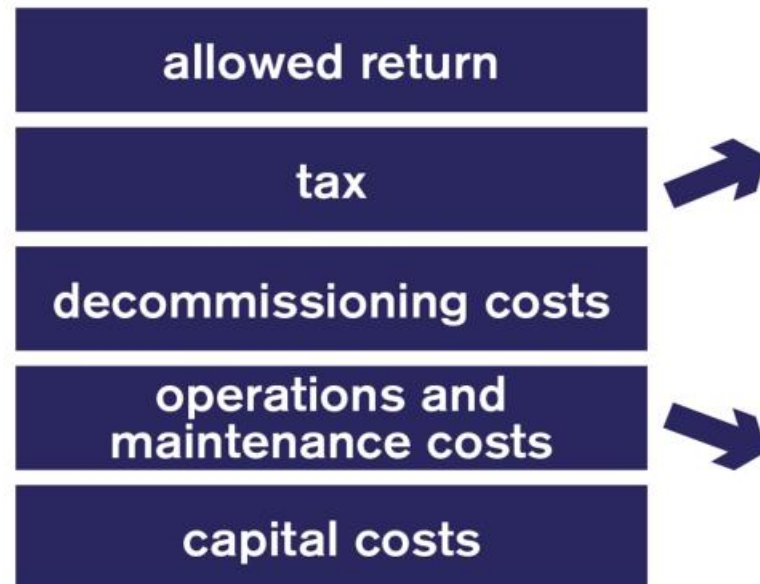
# Some history on the cap and floor model

- Both sides made an independent CBA of a potential interconnector between UK & Belgium and presented their case to their respective NRAs
- **Main hurdle was to find a common regulatory framework (merchant – fully regulated)**
- **2007: 1st discussions NG-Elia on the preferred status for the interconnector (merchant or regulated)**
- 2008:
  - BE side: Elia preference for a regulated approach. CREG support to a regulated approach.
  - **UK side: existing legal framework does not fit for anything else than merchant (exemption process as defined in EU regulation)**
- **2009: 1st consultation launched by Ofgem: should UK consider another model (than merchant) to regulate interconnectors?**  
Conclusion: decision to assess in detail a cap and floor (regulated ) scheme. Nemo presented as pilot project for the assessment.
- 2010: analysis of the cap and floor model; assessment of the expected revenues,...
- **2011: joint consultation Ofgem-CREG on the principles of a cap and floor model.**  
Conclusion: NRAs will further examine, and consult on, the implementation of such a model to Nemo Link.
- 2012-2014: Ofgem/CREG further defined the model with inputs from Elia/NG + held several public consultations & used several consultants.
- **End of 2014: the cap and floor regulatory framework for Nemo Link was published by Ofgem and CREG**
- FID Nemo Link

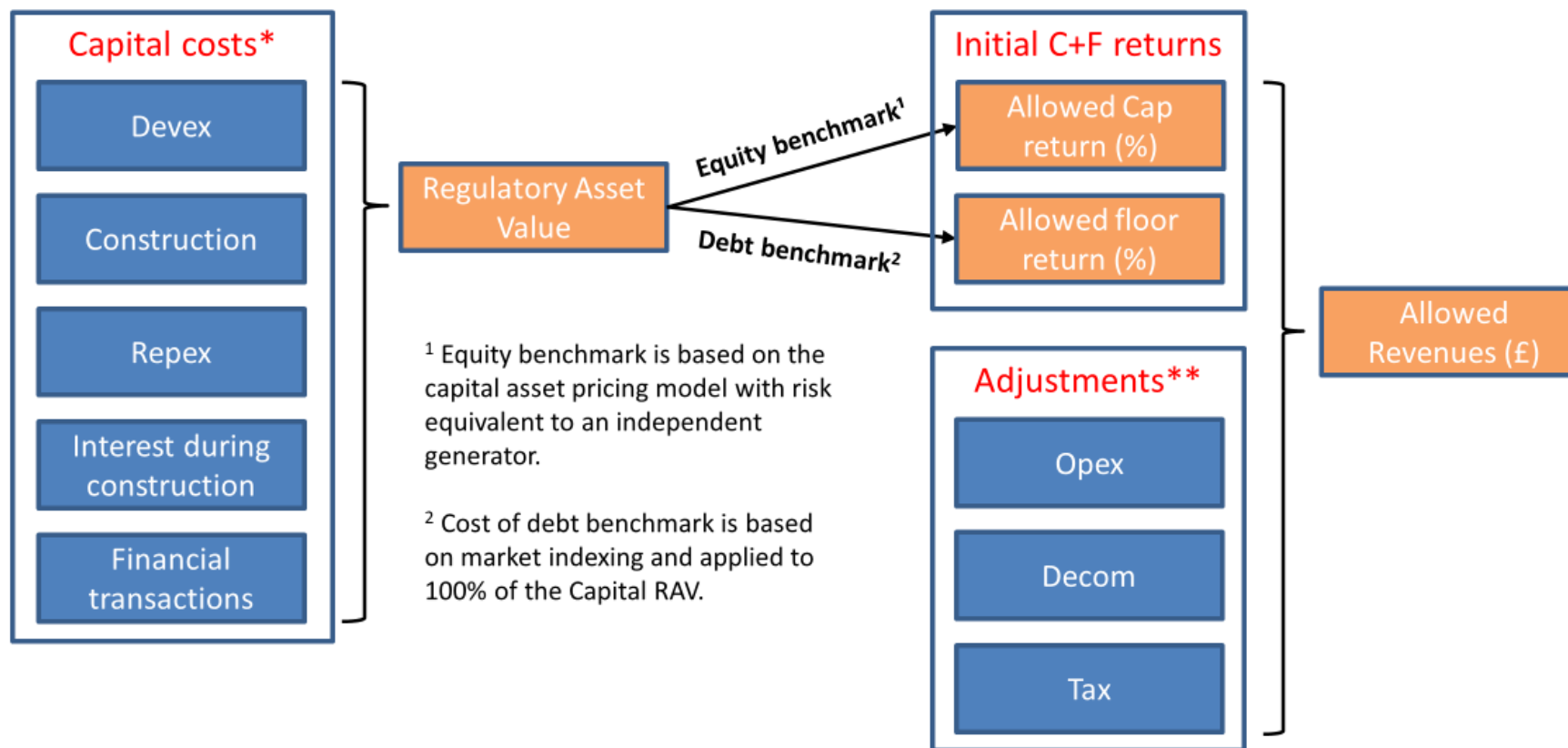
# Cap and floor

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

Cap and floor building blocks



# Cap and floor



Developer supplied

Ofgem CFFM derived

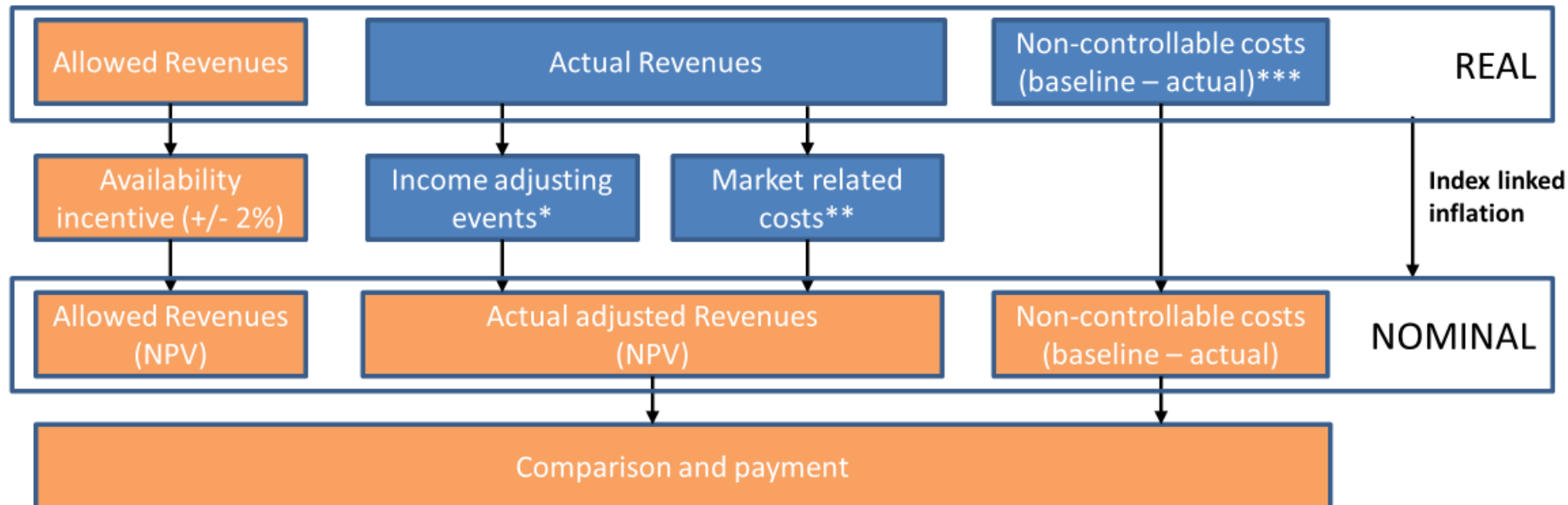
\* Capital costs are assessed for efficiency by Ofgem and are depreciated on a straight line basis over the regime and profiled to make the C+F levels flat in real terms

\*\*Opex and decom costs are based upon developer forecasts and assessed for efficiency by Ofgem. Both of these costs have associated re-openers under specific conditions. Tax allowances are determined on the UK tax regime and will be annuitized before added to the cap and floor allowances. There are no tax re-openers.

# Cap and floor

Developer revenues are currently assessed 5 year basis, although the developer may trigger a “within period adjustment” under certain circumstances.

The real NPV of developer revenues over each year assessment period is compared against the nominal cap and floor allowance set at the PCR stage.





# Cap and floor

Mechanism	Cap & floor returns earned within boundaries; revenues above cap returned to consumers, revenues below floor require payment from consumers (via Transmission Use of System Charges)
Regime length	25 years
Cap and floor levels	<p>Levels set at the start of the regime and remain fixed in real terms for 25 years from the start of operation.</p> <p>Based on applying mechanistic parameters to efficient costs: a cost of debt benchmark will be applied to costs to give the floor, and an equity return benchmark to give the cap.</p>
Setting costs	<p>Capex – set ex-ante, pre-construction then adjusted in post-construction review</p> <p>Opex – set ex-ante, before operation (subject to possible review after a minimum of 10 years)</p>
Regime parameters	<p>Setting the regime based on blend of GB and Belgian tax arrangements.</p> <p>Linking the cap and floor levels 50% linked to UK RPI, 50% linked to exchange rate-adjusted Belgian CPI inflation.</p> <p>Using 50-50 GB and Belgian parameters for the return benchmarks (cost of debt and equity).</p>
Cap and floor profile	Flat in real terms
Assessment period (assessing whether IC revenues are above/below cap/floor)	Every 5 years with within-period adjustments if needed and justified by the developer
Availability incentive	Symmetric financial incentive linked to the cap, based on actual vs. target availability, target set on a project by project basis



# Questions?

