AQUIND SAS
72 rue de Lessard
76100 Rouen

AQUIND Limited
78 Pall Mall
London SW1Y 5ES
Tel. +44 (0) 20 3709 8094

Office of Gas and Electricity Markets (Ofgem)
10 South Colonnade
E14 4PU London
United Kingdom

28 July 2021

RESPONSE TO OFGEM'S CONSULTATION ON THE INTERCONNECTOR POLICY REVIEW: WORKING PAPER 4 – MULTIPLE-PURPOSE INTERCONNECTORS

Introduction

AQUIND Interconnector welcomes the opportunity to provide feedback on the findings and initial proposals of Workstream 4 of the Interconnector Policy Review ("**IPR**"), which relates to multiple-purpose interconnectors ("**MPIs**").[1]

AQUIND Interconnector is a proposed high voltage direct current ("**HVDC**") interconnector between Great Britain ("**GB**") and France that will improve electricity transmission connection between the two markets. The subsea cable will connect the South Coast of England with Normandy and provide 2,000 megawatts ("**MW**") of additional capacity.[2] The project is expected to make energy markets more efficient, improve security of supply, help meet decarbonisation targets and ensure greater reliability and affordability for consumers.

Summary

We agree that MPIs are likely to have an important role in the development of the GB offshore grid going forward, due to the expected increase in offshore wind capacity. We acknowledge that these assets may potentially bring unique benefits due to their hybrid nature, which enables them to provide transmission services to offshore wind farms as well as point-to-point ("**P2P**") interconnection services.

However, we note that little consideration has been given to the market arrangements for MPIs, which will determine the wholesale market revenues earned by the different components of an MPI. Market arrangements will also have a bearing on which regulatory and implementation models are most appropriate, and there remains a question regarding which parts of the asset regulatory arrangements would apply to.

[1] https://www.ofgem.gov.uk/publications/interconnector-policy-review-working-paper-workstream-4-multiple-purpose-interconnectors
[2] http://aquind.co.uk/

We therefore consider it premature for Ofgem to consider the regulatory model for MPIs, before it has outlined the market and commercial arrangements which will apply to MPIs. This is because these hybrid assets require delineating between the services they provide.

Once these arrangements have been determined, then we think it is appropriate for Ofgem to consider the applicability of a variety of regulatory models. In any case, we believe the regulatory model for MPIs should be separate from that applied to P2P interconnectors.

Furthermore, we have concerns about Ofgem adopting a centrally-planned approach to identifying MPIs. This may result in identifying the wrong opportunities and is like to be a costly exercise for Ofgem and National Grid Electricity System Operator ("**NG ESO**"). We believe a developer-led approach would identify the appropriate projects assuming the market and commercial arrangements are appropriately specified.

As an independent, third-party interconnector promoter, we have considered the initial proposals put forward by Ofgem for how to regulate MPIs. We set out our full response to Ofgem's proposals in our responses to Questions 1-9 below. Our main points are that:

- **As two types of energy infrastructure assets, MPIs and P2P connections are at different stages of development and should be considered as part of separate workstreams.** There are currently no MPIs operational or under construction, whereas there is already 7.4GW of P2P connections with a further 8.5GW with regulatory approvals. This suggests that the two types assets are at different stages of development with one much more mature than the other.

- **Ofgem should clarify the market and commercial arrangements before determining the regulatory model.** MPIs may provide two services, namely transmission services for offshore wind and P2P connection. It is important to first decouple these services before deciding on which regulatory model to apply to MPIs. We support Ofgem considering a range of regulatory models for MPIs and believe the regulatory model for P2P connections should be separate to that for MPIs.

- **Ofgem should implement a developer-led approach for MPIs and avoid a centrally-planned approach.** Linked to the above, if Ofgem puts in place the appropriate market and commercial arrangements, then there should be sufficient market-based signals to developers. This should ensure sufficient and market-based solutions are identified without the need for central planning by Ofgem and NG ESO.

For any questions regarding our response please do not hesitate to contact me at kirill.glukhovskoy@aquind.co.uk.

Yours faithfully,

Kirill Glukhovskoy
Managing Director

Response to Working Paper 4 – Multiple-purpose interconnectors

Section 3

Question 1: Do you agree with the approach we have taken to workstream 4?

We broadly agree with Ofgem's approach to workstream 4. We believe that it is appropriate to consider the issues associated with MPIs as part of a separate workstream, given that the development of MPI projects and the associated market arrangements is still at an early stage.

However, we note that little consideration has been given to the market arrangements for MPIs, which will determine the wholesale market revenues earned by the different components of an MPI. Market arrangements will also have a bearing on which regulatory and implementation models are most appropriate, and which parts of the asset they would apply to.

We also believe that the regulatory regime for MPIs should be considered and applied separately from the arrangements for traditional 'point-to-point' ("**P2P**") interconnectors, which are at a much later stage of development. Considering the market and regulatory arrangements for MPIs should not delay the development of P2P interconnectors, as this could jeopardise the UK Government's target for 18GW of interconnection capacity by 2030.[3]

Question 2: Do you think we have missed any important benefit that MPIs could deliver?

We agree that Ofgem has captured all the main benefits associated with MPIs in Working Paper 4.

We note that assessing the benefits of MPIs is likely to be more complex considering the merits of P2P interconnectors, given the dual role played by the assets. For example, estimating the benefits of an MPI would involve a consideration of the period when the MPI acts as a P2P interconnector and as a transmission asset for the offshore wind farm. For this reason, assessing the benefits of MPIs should be part of a separate workstream.

Question 3: Do you agree with our views on the conclusions of the ITPR?

We agree that the conclusions of the ITPR may no longer be able to provide the regulatory certainty and clarity that is needed to promote MPIs. However, we disagree that a "*more system-wide and coordinated approach*" for MPIs is preferable going forward.

In our view, a developer-led approach is beneficial and preferable to a more centralised approach, as it draws on a wider pool of resources and expertise and has the potential to promote greater competition and innovation. We firmly believe that a developer-led approach has the potential to lead to significant consumer benefits.

[3] BEIS (2020), Energy White Paper: Powering our Net Zero Future, p.80 (available here).

Specifically, in respect of MPIs, their locations are likely to be determined by the location of large capacities of offshore wind generation, which is mainly being planned in the Central and Northern North Sea. This will determine the location of MPIs in the east coast of England and Scotland. Potentially large capacities of floating wind farms may be developed in farther areas of the UKCS off Scotland. These projects are relatively predictable and a specific substation or a point of the grid where such projects can be linked to the national transmission system can be determined jointly by project promoters, offshore wind developers, and transmission system operators at the inception stage of the project.

We understand that the preference for a more centralised approach is based on concerns that relying exclusively on market price signals would lead to suboptimal outcomes from a system perspective, given the new decarbonisation agenda set out by the UK Government and the energy system transformation that is needed to support it.[4] However, in our view, Ofgem's proposal for an enhanced role for the electricity system operator ("**ESO**") will reduce the transparency and legitimacy of any future regulatory regime for MPIs. Specifically, the model under which a future ESO will operate is still under development and NG ESO will likely have an interest in minimising the costs of operating the electricity system in GB, which may lead to system operability being disproportionately prioritised relative to, say, the socio-economic and wider benefits of additional interconnection and renewable energy developments. Generally, greater transparency and accountability is needed to avoid a loss of investor confidence in regulatory arrangements for GB interconnectors.

Question 4: Do you agree with our proposal to further explore the applicability of the cap and floor regime for the MPI projects currently under consideration? Please provide supporting information if available.

We consider that the spirit of the Cap & Floor ("**C&F**") regime – that is, capping merchant revenues at a certain level, and providing support for revenues below a certain floor – could potentially be applied to MPIs. However, this should only be considered once appropriate market and commercial arrangements for MPIs have been determined (i.e. whether to follow a home based or offshore bidding zone approach, and how commercial revenues should be split between transmission services provided to offshore wind and interconnection services).

Once these arrangements have been determined, it will be appropriate to consider the regulatory model that should be applied to MPIs. This could perhaps take the form of a C&F regime or mimic the regulatory arrangements that are currently in place for Offshore Transmission Owners ("**OFTOs**") or, indeed, a blend of the two. In our view, it is not possible to say which regulatory arrangements will be appropriate before the market and commercial arrangements have been determined. The commercial rationale of each specific project may also differ – in some cases the OFTO function may prevail, in others – interconnection. That would also determine additional capital costs that are required to enable the OFTO function of HVDC interconnectors, such as installing offshore HVDC/AC transformers.

[4] See BEIS (2020), Energy White Paper: Powering our Net Zero Future (available here); HM Government (2020), The Ten Point Plan for a Green Industrial Revolution (available here).

However, we firmly believe that it would be inappropriate for interconnectors that are part of MPIs to be considered as part of the same regulatory regime and the same 'windows' as P2P interconnectors. This is for the following reasons.

First, the technical design, market arrangements and regulatory regime for traditional P2P interconnectors is at a much further stage of development, with 7.4GW expected to be operational by the end of 2021 and a further 8.5GW of further capacity under development with regulatory approval.

Second, assessing the benefits of interconnectors that are part of MPIs is a much more complex exercise than considering the merits of P2P interconnectors. Inherent to the assessment of the costs and benefits of an interconnector is the expected flows and congestion rent revenues of the interconnector. For a P2P interconnector, this is a function of the price differentials between the two countries. For interconnectors that are part of MPIs, this will depend on the specific market arrangements, which are yet to be developed and agreed.

Overall, we firmly believe Ofgem should first clarify the market and commercial arrangements underpinning MPIs before deciding on the regulatory framework. Furthermore, any future P2P interconnector windows should not be delayed by Ofgem developing its regulatory policy for MPIs.

Question 5: Do you agree with our proposal to also consider alternative regulatory models for MPI projects in the long term? What models should we consider? Please provide supporting information if available.

We consider it prudent for Ofgem to consider the applicability of other regulatory models to MPIs. However, as we explain in our response to Question 4, we believe Ofgem should first clarify its position on the commercial and market arrangements for MPIs before determining which regulatory regime to apply to MPIs. This is because these arrangements will decide on which regulatory regime is appropriate for MPIs. As noted previously, MPIs contain the characteristics of both OFTOs and P2P interconnectors. Therefore, delineating between these operations will help to determine what regulatory regime would be most appropriate.

In particular, it may be appropriate to have a different regulatory model for MPIs and P2P interconnectors, as these assets have different characteristics.

Developing a regulatory model for MPIs Is likely to be a time-consuming and lengthy task for Ofgem given the complexities associated with the asset. We note that the discussions around offshore grids have been ongoing since 2009[5], with the regulatory regime still yet to be fully developed. This illustrates the slow pace associated with developing the regulatory regime for new assets such as MPIs. If this delay to developing the MPI regime impacts the P2P interconnector regime, then it is likely Ofgem would fail to deliver the UK government's target of 18GW of interconnection capacity by 2030.[6]

[5] The North Seas Countries Offshore Grids Initiative was developed in 2009 (see here). It is yet to result in a regulatory regime and plan for MPIs.
[6] BEIS (2020), Energy White Paper: Powering our Net Zero Future, p.80 (available here).

We believe the development of any regulatory regime for MPIs this should be undertaken as a separate workstream to P2P interconnectors and not hinder the development of those assets.

Question 6: What other wider policy issues or aspects related to MPIs should we be aware of?

It seems to us that Ofgem has considered many of the wider policy issues associated with MPIs.

However, there is still a lack of clarity on Ofgem's position on several of these wider policy issues. These include, as noted previously, market and commercial arrangements and the potential regulatory regime applied to MPIs.

Additionally, Ofgem has not considered the cost of constructing and operating MPIs. This is likely to impact the net benefit of building any MPIs.

Section 4

Question 7: Do you agree with our initial conclusions? If not, please concisely explain why and provide supporting information if available.

We agree with Ofgem that MPIs are likely to bring benefits to consumers, and that the conclusions of the ITPR may no longer provide the regulatory certainty and clarity that is needed to promote the development of MPIs.

We also agree that Ofgem should take steps to consider potential regulatory regimes to apply to MPIs, which could take the form of the C&F regime or OFTO-style arrangements or, indeed, a blend of the two. However, we believe that Ofgem would first need to understand how the market arrangements for MPIs will operate and how commercial revenues are split between the wind farm developer and offshore transmission asset owner before considering the nature of the potential regulatory overlay.

In any case, while we are supportive of considering the applicability of the C&F regime to MPIs, we firmly believe that any future regime for MPIs should be separate to the C&F regime applied to P2P interconnectors, given differences in the characteristics of the assets.

We acknowledge that there are some challenges at present associated with unbundling requirements and the potential interaction of multiple licences. However, we believe that these challenges could be addressed through an appropriate regulatory regime for MPIs.

We do not agree that there is a need for a more centralised approach to identifying future MPIs informed by a more enhanced role for NG ESO. That should be led by the development of large clusters of renewable generation and more specifically offshore wind and the willingness of their promoters to engage with MPI development. Moreover, geographically such dynamics are rather predictable.

We consider that Ofgem's proposals in this respect represent a marked shift away from the developer-led principles of the C&F regime for interconnectors, which has been fundamental to the

success of its interconnector policy to date. While we do not believe it is Ofgem's intention, we are concerned that the proposals will reduce investor confidence, narrow the potential pool of third-party investors, and lead to a 'centralisation' of MPI development with TSO developers prioritised.

Instead, we believe Ofgem should focus on setting up the market and commercial arrangements appropriately. If these arrangements are appropriately specified, they should provide strong market-based signals sent to developers. Developers will then be able to put forward appropriate projects and indicate the need for a regulatory regime, which Ofgem will then be well-placed to develop.

We acknowledge there may be a role for NG ESO where there is need for planning of the offshore grid. However, this should not result in prioritising of TSO-developers as part of the MPI regime as observed in Window 1 of the C&F regime.[7]

Question 8: Do you agree with our initial proposals? If not, please concisely explain why and provide supporting information if available.

We agree that Ofgem should consider how it can provide regulatory certainty to MPI developers. As described previously, we believe this issue can partially be solved by Ofgem providing greater clarity on its market and commercial arrangements and, subsequently, the regulatory policy for MPIs. This development should be separate to the regime for P2P interconnectors.

We consider it appropriate to assess the applicability of the C&F regime to the interconnector component of an MPI's operations. However, there needs to be careful consideration of the correct market, commercial and regulatory model for MPIs. This may differ from the regulatory regime applied to P2P interconnectors.

We believe Ofgem could remove some of the barriers associated with the development of MPIs by appropriately specifying the market and commercial arrangements. We consider it reasonable for Ofgem to use the learnings from applying the C&F regime to P2P interconnectors to be applied to MPIs. This includes ensuring a level playing field between a variety of developers.

Question 9: Do you have any further feedback on our analysis, conclusions or proposals presented in this consultation document?

We have no additional feedback in response to Working Paper 4 at this time.

[7] In Window 1 of the C&F regime, four out of the five projects which were awarded a licence were developed by national TSOs (namely NSL, FAB Link, IFA2, and Viking Link). This includes National Grid Ventures (a subsidiary of National Grid Group and part of the same group as National Grid, the GB TSO) and RTE (the French TSO). Only one of the interconnectors awarded a licence (Greenlink) was developed by a third-party developer.