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Dear Riccardo,

Interconnector policy review: Working Paper 4 – Multi-purpose interconnectors

National Grid Ventures (NGV) welcomes the opportunity to respond to this Working Paper. NGV has successfully developed and successfully operates several point to point (P2P) interconnectors into GB. We are developing a number of multi-purpose interconnectors (MPIs) and have put these projects forwards as pathfinders as part of the Offshore Transmission Network Review process.

NGV considers that MPIs have a key role to play, within a coordinated offshore transmission regime, in delivering the UK's ambition of 40GW of offshore wind by 2030 and delivering net zero by 2050.

We have responded to each of the questions in the Working Paper below.

Section 3

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

Yes

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

No.

We agree with Ofgem's comments on the benefits of MPIs and would encourage an approach that keeps exploring further benefits as more detail on actual projects emerges. We agree that there are strong parallels between the impacts of MPIs and P2P interconnectors, and that the principles in workstream 2 and 3 of this review should also apply to MPIs. Later in this response we propose that the cap and floor regime should be adapted to accommodate MPIs, and recommend that MPIs are assessed and regulated in a manner that is as similar as possible to P2P interconnectors.

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

We agree that the ITPR conclusions are no longer fit for purpose. When these conclusions were originally made, MPIs were in a very early conceptual phase. There has been considerably more development of MPIs since then, and NGV considers it appropriate for this review and the Offshore Transmission Network Review to fully consider how MPIs fit into the offshore landscape and how they should be regulated.

NGV recommends that MPI development is developer led (as per point to point interconnectors) to a large extent during this decade, such as those coming forward through the OTNR Early Opportunities workstream. However, we agree that a more system-wide and coordinated approach makes sense in the long run.

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.

Yes.

Ofgem's initial conclusions in Workstream 1 of this review state that the cap and floor regime has been a success. NGV considers that this success can be built upon by, not only continuing to regulate P2P interconnectors, but also to adapt a form of the cap and floor to apply to MPIs. There are clear parallels between P2P interconnectors and MPIs, not least in the volatility of revenue generation (driven by market arbitrage), that the cap and floor regime has demonstrated its ability to manage.

In the early stage of the development of the cap and floor for point to point interconnectors Ofgem consulted on and established high-level level principles for interconnector regulation which were summarised by Ofgem in the following objective: "We are aiming to bring forward timely, economic and efficient investment in interconnection where that is in the interests of existing and future consumers.". NGV recommends that these principles in full should be used to underpin the development of a form of the cap and floor for MPIs noting the particular importance of the those that relate to a level playing field and the risk-reward balance.

In particular, NGV considers that:

- The definition of 'Interconnector' in the Energy Act 1989 should be applied to MPIs;
- This would facilitate the applicability of the Interconnector Licence to MPIs;
- A review should be undertaken of changes required to the Standard Conditions of the Interconnector Licence to understand any changes required for MPIs;
- The Special Conditions of the Interconnector Licence could continue to contain the detailed arrangements for the cap and floor¹ along with project specific information to establish the cap and floor arrangements for each project; and

¹ Existing cap and floor policy arrangements will need to be reviewed. For instance whether the 80% minimum availability target in the existing cap and floor arrangements remains appropriate

- The Special Conditions would need to define a new revenue term i.e. the payment made from the offshore wind farm(s) to the MPI owner for use of its system.

In line with our comments on Workstream 1 on the application window approach, we consider that MPIs could apply for a cap and floor in the same way that P2P interconnectors can. NGV advocates an approach where it is, subject to meeting certain entry criteria, always possible to come forward to Ofgem with an application for a cap and floor in principle.

NGV considers that any MPI capacity should contribute towards UK interconnector targets, although we recognise that there may be a desire to 'de-rate' this capacity to reflect that some of the volume will be used by offshore generation (and hence not for cross border flows).

NGV considers that the needs case assessment for MPIs and P2P interconnectors will be similar, although it has to be recognised that within an MPI the benefits of increased cross-border flows will be augmented by the benefit of the connection of offshore wind, and this will need to be taken into account. The assessment should also consider how the MPI is reducing the overall infrastructure required – both onshore and offshore.

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 agree with Ofgem's initial view that an adaption of the cap and floor regime appears to be the suitable regulatory regime for early MPI projects. However we also agree with Ofgem that other models should not be discounted at this stage, in order that pragmatic solutions can be reached on a case by case basis, and that this area should be kept under review as the development of actual MPI projects continues.

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

Our thinking in this area is driven by a consideration of the purpose of an MPI. The purpose of the assets will be to facilitate cross-border connection and also to connect generation. The MPI will always be an interconnector and sometimes will flow generation from the offshore wind generator. No single asset will only act in one way – all offshore transmission will be capable of two-way flows.

Considering each of the issues Ofgem raises in turn:

- NGV does not consider that unbundling requirements represent a substantial obstacle to the development of MPIs. We would expect that the ownership of the MPI will remain completely separate from the ownership of the offshore generator, with contractual arrangements in place to manage the interface;
- NGV considers that, for early MPIs, the Interconnector Licence (appropriately amended) should be applied to MPIs. In the longer term this should be kept under review to determine whether a new licence for MPIs (driven by the appropriate legislative change) is required;
- NGV considers that it is possible to separate (and appropriately allocate) the revenue streams that are accessed by an MPI, and that these revenue streams can be used in an assessment process similar to the way that P2P interconnectors are regulated via cap and floor;
- Any capacity of an MPI can be used for cross border purposes prior to it being used for transmitting offshore generation. The flexibility of MPIs means that the investor is able to generate revenues from either cross border flows or from transmission of generation. Therefore the issue of anticipatory investment is easier to consider than the traditional

problem of the investment standing idle until additional generation comes forward. In a more co-ordinated offshore transmission framework, NGV hopes that there will be a clearer expectation of what projects would be expected to connect to an MPI and this can be planned accordingly as it will always be more efficient when all the requirements are known at the earliest possible stage of development;

- NGV notes that the existing interconnector licence obliges the licensee to have in place a charging methodology (as approved by The Authority). This approach should be applied to MPIs and the charging methodology should set out the charging arrangements between the MPI and the offshore generator; and
- NGV considers that efficient cross border trading arrangements are key to the development of MPIs. We recommend that further detailed work is undertaken in this area to assess the different models available and to consider how the GB arrangements interface with the EU arrangements and how the requirements of the Trade and Cooperation agreement facilitate all of this. We consider that there are benefits of either a home market or offshore bidding zone market model, and that the connected markets, capacity of the MPI and offshore wind have a bigger bearing on the benefits than the market arrangement.

Generally, NGV is supportive of the approach being taken by the Offshore Transmission Network Review, specifically in relation to pathfinder projects (or 'opt-ins') in the Early Opportunities workstream. We continue to work through the challenges such as licences, codes and charging with the ESO and look forward to continuing this work to develop the detailed arrangements for the early MPI projects.

Section 4

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

Yes. As MPIs are in an early stage of development, and as they represent a new and innovative way to help meet government ambitions, it is important that investor certainty is provided as early as possible. We welcome the conclusions and the ambition to be proactive and engage to make examples of coordinated solutions such as MPIs happen for the benefit of society

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

Yes

Other

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

Ofgem should consider whether there would need to be changes to other regimes to facilitate the proposals within this working paper, for instance whether an adjustment would be required to the Contracts for Difference arrangements to allow the generator to connect to a party other than a Transmission Licensee.

A further issue relates to unintended consequences of provisions that have been introduced to apply to point to point interconnectors only (and not MPIs). Two examples of this are:

- How the EU's '70% rule' for cross-border assets applies to MPIs; and

- The Trade and Cooperation Agreement refers to the requirement to 'maximise capacity' on cross-border assets. This requires clarification in the case of MPIs - i.e. would this requirement be applied after considering any capacity prioritised for the directly connected offshore generation.

NGV is happy to discuss any aspect of this response in more detail with Ofgem. Please contact me if you wish to do so.

Yours sincerely

John Greasley

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