

Riccardo Rosselli  
Interconnectors Team  
Ofgem  
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Canary Wharf  
London  
E14 4PU

28 July 2021

Dear Riccardo,

**Interconnector Review: Working Paper 4 – Multiple-Purpose Interconnectors Policy**

Thank you for the opportunity to comment on the issues raised in this working paper. This response is on behalf of ScottishPower. We have set out answers to some of the specific questions raised in the annex to this letter. We would highlight the following key points:

- **Regulatory Models**—We are pleased that Ofgem will retain the option to consider alternative regulatory models to the cap and floor regime in relation to any multiple-purpose interconnector (MPI) projects that come under consideration. We think the cap and floor regime will have limited applicability for MPI projects which are likely to have increasing numbers of connecting parties. Instead, we think a model similar to that currently used for offshore transmission, ie a regulated revenue stream, will be more appropriate.
- **Unbundling requirements** – We disagree with Ofgem’s conclusion that current unbundling regulations and their application are not a barrier for MPI projects. We believe the current arrangements will unduly limit the number of companies that could build and operate MPIs to the detriment to competition and consumers.

Please do not hesitate to contact me or my colleague Haren Thillainathan (hthillainathan@scottishpower.com) if you have any questions arising from our response.

Yours sincerely,



**Richard Sweet**  
Head of Regulatory Policy

**INTERCONNECTOR POLICY REVIEW: WORKING PAPER 4 – MULTIPLE-PURPOSE  
INTERCONNECTORS – SCOTTISHPOWER RESPONSE**

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

We do not disagree with the proposal to consider the applicability of the cap and floor regime for MPI projects currently under consideration. However, we think that cap and floor will have limited applicability beyond supporting conventional point-to-point interconnector projects. We believe MPI solutions will likely involve more than one offshore wind farm (OWF) and several connection points. We think the cap and floor regime will not provide the required risk mitigation and financial stability for the transmission infrastructure provider and connected parties. Instead, we believe the regulated revenue stream model used for offshore transmission owners (OFTOs) will be more appropriate (see our response to Question 5).

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

We believe the most effective system operation model for a highly integrated offshore transmission network connecting renewable generators, would be one where the offshore grid is centrally planned and strategically developed to optimise the number of assets deployed in connecting with neighbouring European states. In this arrangement, the points of interconnection with neighbouring markets should be evaluated more on their ability to provide a service to the UK, in terms of improved security of supply and/or the ability to provide essential system services than primarily on arbitrage benefits.

Once identified, the project should be competitively tendered or have costs assessed for construction and ownership, thus ensuring the lowest possible cost for UK consumers. As has been seen in the UK and other countries, applying this open market test to offshore asset deployment can result in consumer savings, and centralised planning under an ISO could minimise the deployment of duplicate assets that might otherwise result in higher costs. Due to the inherent uncertainties that come with a shift to a very high penetration of intermittent renewable generation on the system, investment will best be secured through offering a RAB based or an annual revenue stream model linked to availability of the asset.

These approaches could build on the current regulatory framework for OFTOs and would allow other developers and the ESO to trade energy and services across the link without reference to the asset owner, potentially providing more open access than the current cap and floor model. The day to day operation of the links for dispatch and balancing would also be carried out by the ESO within the agreed asset operating limits, and the transmission owner would be responsible for routine and corrective maintenance.

Continuing with a cap and floor regime which is purely commercially driven could risk a situation where a number of interconnectors have low annual energy flows and result in floor payments being made on a regular basis - a situation which is good for neither bill payers nor investors. In contrast, a regulated revenue stream can be set to reflect the efficiently incurred costs of constructing and operating the MPI, and provide assurance to connecting parties that the MPI developer has sufficient incentive to build and commission the transmission assets to the required timescales and standards.

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

We still believe that unbundling requirements in their current format are unnecessarily preventing expert companies from competing in network projects, reducing competition and potentially increasing costs to the detriment of UK consumers. A model where business separation and transparency of operational data exists alongside an annual revenue stream mechanism with operations and balancing under the remit of the ESO could achieve the same objective whilst allowing the maximum number of competitors in the process.

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

We believe there is a gap in the current regulatory, commercial and transmission planning frameworks in relation to identifying, incentivising and realising strategic large scale, long duration storage assets, located to complement current and future networks. In broad terms we agree that further interconnection is likely to be needed and that MPIs have the potential to reduce the cost to consumers for the services these assets can provide. Hybrid operating models can be complex, and we think further work is needed to assess the likelihood of imports from our neighbours during lower wind periods. Additional work should also be undertaken by the ESO to determine the future value of interconnectors relative to large scale long duration storage technology that allows time-shifting of our renewable resource for the benefit of UK citizens.

**ScottishPower**  
July 2021