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28th July 2021

Dear Riccardo

Transmission Investment Response to the Consultation on the Interconnector Policy Review: Working Paper 4 – Multi-purpose Interconnectors

Transmission Investment, as one of the UK's leading independent transmission companies manages one of the largest offshore electricity transmission portfolios. Our managed portfolio of Offshore Transmission Owner (OFTO) assets includes the connections to seven offshore wind farms, and we will take over management of a further three offshore wind connections in 2021 – in total a portfolio of approximately 3.2GW and over £2bn in capital employed. We are one of the largest managers of offshore wind transmission in GB, which is the largest offshore wind market in the world.

Transmission Investment is also a strong advocate of introducing competition into the delivery of onshore transmission and we continue to support the development of the required arrangements *inter alia* through industry groups, responding to consultations such as these and providing evidence to parliament.

Transmission Investment is leading, in partnership with the French national grid company RTE, the development of a proposed 1400MW HVDC interconnector between France and Britain via Alderney ("the FAB interconnector project"). This project was granted Cap and Floor regulatory treatment in 2015 and whilst it continues to experience Brexit related delays, it will commence construction as soon as the regulatory process allows. Transmission Investment is also in the early stages of developing a 700MW HVDC interconnector between Scotland and Northern Ireland ("the LirIC interconnector").

Ofgem's Approach to Workstream 4

The purpose of workstream 4 is to consider whether the conclusion of ITPR on MPI's remains fit for purpose and whether Ofgem's Cap and Floor regime could be used for the regulation of MPI's. Ofgem's approach to answering this question has been to request stakeholder feedback through a mini call for evidence, this consultation and a potential decision later this year as part of the overall IC Policy Review. We do not feel this has been an appropriate approach as it will be difficult for Ofgem to form any view on the applicability of the Cap and Floor within this timeframe. There are other workstreams looking at the development of MPI's (such as the Offshore Transmission Network Review (OTNR)) which Ofgem will need to

consider as part of a decision on how they are eventually regulated. Challenging whether the Cap and Floor regime can be applied to an MPI when an MPI has not yet been defined seems too narrow a question to have any benefit at this stage and invites a large range of potentially conflicting views.

We would support Ofgem delaying any decision on the suitability of a regulatory framework for an MPI until the OTNR work has decided whether a new asset class is needed or whether the approach will use the established definitions of OFTO and Interconnector, and also what delivery models would be appropriate for these for near term and future projects.

Benefits of MPI's

We agree with the benefits of MPI's identified in the consultation. Additionally, the concept of an MPI presents the opportunity to enhance current or planned offshore transmission infrastructure to take account of potential future grid changes in much the same way as the onshore network can today. Currently offshore transmission is specified and usually technically limited to a single purpose – cross border flows or connecting a specified capacity of offshore generation. The historical approach to justifying regulatory terms for this infrastructure has been based on the efficiency of costs associated with that single purpose. Investment in onshore transmission has historically been treated differently, being based on a needs case that can consider future changes to the wider network thereby accepting some degree of risk associated with anticipatory investment. In developing the concept of regulating an offshore multi-purpose asset, the limited scope of need currently considered should be removed and this should allow developers and regulators to consider benefits that may only be realised with a change in the future grid (such as increased sizing of elements of the MPI to allow for the connection of expected future generation).

Views on conclusions of the ITPR

We agree with Ofgem's initial views that the ITPR conclusions do not provide sufficient regulatory certainty or clarity. We also agree that there must be more of a system-wide and coordinated approach to identifying new MPI projects and this could be delivered by NGENSO.

However, the position set out here by Ofgem is not conclusive on whether Ofgem view the ITPR conclusions fit for purpose for the development of regulatory arrangements for MPI projects, or not. The ITPR includes fundamental aims to the regulatory approach of interconnectors (such as supporting the developer-led approach). For Ofgem to develop regulatory terms for MPI's (if they will be defined as a separate asset class), Ofgem need to establish which approach may be taken. If the design and development of MPI's will be predominantly driven by a system-wide need identified by NGENSO (possibly in coordination with offshore generator developers) then it must be questioned whether this is compatible with a developer-led approach. If this is the case the ITPR conclusions are no longer fit for purpose. We do not envisage a viable situation where an offshore generator developer can specify and develop cross border transmission infrastructure. We would support Ofgem being clearer on their views here as from the stakeholder feedback and Ofgem's views it appears the position is that the ITPR conclusions are not fit for purpose and are incompatible with a more system-wide approach.

Application of a Cap and Floor regime to MPI's

We agree with Ofgem's initial view to further explore the applicability of the Cap and Floor regime for early MPI's. However, we have a fundamental concern to doing so at this stage. The Cap and Floor was introduced to underpin the market environment in which interconnectors operate such that together the market and regulation delivered a package that was in consumers' interests and was investible. Significant uncertainty exists on the market arrangements under which an MPI may operate, and this is currently being developed by the OTNR work and other similar initiatives in neighbouring countries and at a European Union level. Given this, Ofgem currently have no clarity on the market arrangements until such a time as the OTNR (and other) work defines this. We therefore do not see how it is possible for Ofgem to take a decision on whether the Cap and Floor is an appropriate form of regulation for MPI's until Ofgem can assess whether the market design and potential regulation deliver an investible overall package in the interests of consumers.

Furthermore, as part of this investigation and following clarification on the expected market arrangements, Ofgem must ensure that any potential changes to the regime consider the future arrangements. MPI's by their very nature should be flexible to adapt to future requirements such as connecting future generation or becoming part of a meshed grid. This capability should exist in the technical design of the asset and in the regulation. If the regulation restricts how adaptable the project may be to future connections, it will stifle future expansion and therefore miss the point of developing multi use transmission assets.

There are a number of new inputs the regime must take into account in order to be applicable to even early MPI's:

Application windows and needs case: Point to Point (P2P) interconnectors are driven by a need to connect neighbouring markets. Economic assessments can identify when this may be optimal and project developers will develop a project to reach the required maturity level for when an application window may be opened. For MPI projects, the combined need of cross border benefits and the connection of one or more generators will drive the timeline. Offshore generation is generally brought forward in seabed leasing rounds run by the Crown Estate or Crown Estate for Scotland. Offshore generation will also be regulated separately to the MPI and therefore may be timebound within its own regulation. These two currently independent processes could create conflict between their respective timings. We recognise the interconnector Cap and Floor application window is currently under review by Ofgem as part of WS1 but the timing restrictions currently created by the window application approach should be avoided to mitigate conflict with connecting and therefore dependant projects. The timing of future seabed leasing rounds should also be a consideration of how Ofgem may approach future MPI or interconnector application windows.

Dynamic availability: The Cap and Floor regime assumes a set (full) capacity level for a P2P interconnector with availability thresholds based upon benchmarks set to incentivise the owner to maintain high levels of availability. It can be expected that the cross-border capacity of the MPI will become more dynamic when connecting intermittent generation. To define a level of cross border capacity and a defined capacity for the export of generated power will create significant inefficiency in the MPI. If Cap and Floor is to be applied to early MPI's it must consider how the MPI's capacity (for cross border flows and generated power export) is

derived (and by what entity) to incentive and maximise availability in the most economical way. We do not expect the current terms of the Cap and Floor to be sufficient here.

Ownership of flows: The Cap and Floor arrangements currently incentivise interconnector owners to ensure their flows are efficient, compliant and that any loss of flow is replaced in an economically optimal way. MPI's will increase the complexity of flows and make it less clear on which entity should have control and financial accountability for their efficiency. The current Cap and Floor terms are not sufficient to address this issue and so market settlement arrangements should be considered as part of the future MPI market design and prior to development of the appropriate regulation.

Should MPI capacity contribute towards UK Interconnector targets: The MPI will include cross border capability and therefore should contribute towards the UK's interconnector targets. If this capacity does indeed become dynamic a long-term average forecast of the cross-border capability should be considered as contributing.

Alternative Regulatory Models for MPI's

We agree with Ofgem's initial views on alternative regulatory approaches to MPI's. Considering our reservation above, the Cap and Floor may be suitable for early MPI's but as MPI's develop and become more complex in their configuration other regulatory models may be required. We would urge Ofgem to allow the OTNR work to complete and decide on the delivery model and market arrangements prior to taking a view on regulatory approaches. As mentioned previously, without any definition of what an MPI is, or the perimeters of what may be classed as different assets (be they an OFTO, interconnector, generator asset or other new asset type), or on the delivery model it is impossible to form a view on the appropriate regulatory arrangements. Indeed, the OTNR work may conclude that the delivery model for future offshore grid, including the connection of generation and cross border transmission, is originated by NGENSO and then competed rather than being developer-led, as assumed by the Cap and Floor regime.

Other Policy Issues

The key uncertainty around policy towards an MPI seems to be due to the uncertainty of defining an MPI. The models set out in the consultation document appear to be based on a 'first-in-place' requirement. i.e. if an OFTO already exists and there is a proposal for an interconnector to a neighbouring country or if there is an interconnector first with a request to connect a generator. If the historic regulatory arrangements of either model are ignored, then the arrangements seem clear – the interconnector is the cross-border transmission element and everything that connects a generator (and interconnector) to shore is part of the GB transmission network and therefore an OFTO. The arrangements in the neighbouring market are irrelevant to the regulatory arrangements in Great Britain. The key issue therefore appears to be how the regulation on existing assets with regulatory arrangements is adapted to allow a change in use. i.e. if an interconnector project best connects to an OFTO or a generator to an interconnector. This is a risk to projects currently with regulatory approval and future projects where they may be a requirement to change the business model.

With regards to unbundling we see conflicts of interest between generation and transmission licensees but less so between different forms of transmission licensee. The requirement to unbundle generation assets from transmission assets is fundamental to the effective operation of the GB wholesale market. The availability of transmission assets is price effecting and so a significant conflict of interest exists if the unbundling requirements between generation and transmission was relaxed. However, less conflict exists between the different transmission licences – TO, OFTO and IC.

A further policy issue we would like to highlight is around the operation of multi-use assets including MPI's. Future MPI's are expected to be designed using HVDC technology and therefore require flows to be instructed. This is converse to the meshed onshore AC grid where flows are naturally driven by supply and demand geographically. The current operational interconnectors are responsible for their availability and instructing efficient flows taking account of the cross border nominated flows and any System Operator instructed changes. Interconnectors are also responsible for these flows and replace contracted energy positions physically or financially in the event of an unplanned outage. Responsibility for flows on MPI's seems less clear and may depend on the terms of a future IC-Generator connection agreement (or equivalent). This lack of clarity on what operational risks an MPI owner may need to manage should be addressed by Ofgem alongside concerns on the market arrangements.

We therefore agree with Ofgem's initial views here that further work is necessary to address these points and the points set out in the consultation document. We fully support Ofgem engaging with BEIS and the OTNR stakeholders to explore and identify where regulatory solutions are required to these issues.

Conclusions and Initial proposals

We broadly agree with Ofgem's initial conclusions including that, in principle, it may be possible for the Cap and Floor regime to be adaptable to support the development of the interconnector element of an MPI. However, as we have stated earlier in this response, it is too early in the development of an appropriate delivery model and the market arrangements to commit to progressing this regulatory analysis. If Ofgem were to undertake analysis on what changes may be required, they should also consider the benefits of alternative regulatory arrangements and do so against the possible delivery models and potential market designs.

In response to Ofgem's initial proposals:

We should explore ways to provide regulatory certainty to developers of MPI projects. This could potentially be delivered through the Cap and Floor regime.

We support this proposal but in parallel Ofgem should consider other forms of regulation and complete analysis to identify the more preferable regulatory design.

We should further consider its applicability to support the interconnector part of the early MPI projects considered under the OTNR, or potentially the project as a whole. In principle, the regime (or aspects of it) may also be suitable for future MPI projects too. We should also consider the interface with other regimes, and the interactions between a Cap and Floor regime for MPIs and the existing and/or potential future regime for P2P interconnectors.

We are unclear on this proposal as it is not clear what constitutes the interconnector element of the MPI. Is this the assets which only facilitate the cross-border capability or an element of the assets which also connect generation to the GB market? Ofgem need to define what is an MPI and then any sub-class of asset which may be classed as part of an MPI. We would also urge Ofgem to be clear on what they define as an early-MPI and future MPI projects.

We should further explore wider energy policy issues described in this paper to remove key barriers to the development of MPIs, noting that the OTNR will address some of these in more detail in due course.

We support this and point Ofgem towards items we have highlighted in the 'Other Policy Issues' section of this response.

Finally, we would like to highlight the significant uncertainty presented in the underlying assumptions of this Worksteam. It is very difficult to provide anything conclusive without clarity on what is being considered for regulation.

If you would like to discuss any of the comments above, please feel free to contact me.

Yours sincerely,



Richard Sidley
Regulatory and Commercial Manager