

Floating Energy Alliance Response to Changes intended to bring about greater coordination in the development of offshore energy networks

General Comments

Floating Energy Alliance is a partnership of three leading European energy businesses with the ambition of developing offshore wind projects around the Scottish coastline.

The partners are BayWa r.e., a leading global renewable energy business, renewable energy company Elicio, and floating wind technology developer BW Ideol. The group has submitted two ScotWind bids and continues to develop its proposed developments ahead of the publication of the leasing round launched outcome in early 2022.

The grouping brings together three companies with highly significant, relevant and complementary expertise, which has the potential to accelerate the development of floating wind and bring significant levels of employment to Scotland through its commitment to local manufacturing of the wind turbines' concrete foundations.

We are broadly supportive of the principle of a more coordinated approach to the development, delivery and operation of offshore grid infrastructure; however, we are concerned at the risk of delays due to the time it is likely to take to develop and implement the regulatory and institutional frameworks required to move to this new model of offshore transmission.

Each of the delivery options set out brings a number of challenges in terms of the assignment of rights, responsibilities, costs and liabilities, and it is important that the reforms do not reduce planning risk while increasing or introducing wider regulatory risks/uncertainty.

Given our focus on ScotWind, we have focused our response on the questions relating to the Pathway to 2030.

Finally, although a more coordinated approach should mean fewer onshore connections and substations, it will mean larger onshore cable landings and substations where infrastructure does come ashore due to the larger capacities of the infrastructure required.

Early Opportunities Questions

Question 1: Are there any concepts we have not identified developers may wish to progress?

Question 2: Should anticipatory investment risk be shared with consumers? If it should, what level of risk is it appropriate for consumers to bear?

Question 3: For concepts that intended to provide a wider system benefit, e.g. by mitigating an onshore constraint, how should the need for investment be demonstrated by the developer?

Question 4: What options are available to developers in demonstrating a reasonable expectation they intend to connect to the system?

Question 5: To what extent do you agree with our proposals to remove barriers to the Early Opportunity concepts? Please explain your answer.

Question 6: Do you believe a Significant Code Review is required to give effect to a potential decision to 'share' AI risk between consumers and developers?

Question 7: Do you agree with Ofgem's proposed approach to deliver the objectives of Early Opportunities workstream?

No response

Pathway to 2030

Question 8: We consider that a holistic design will result in a more coordinated, economic and efficient network. Do you agree? Please give reasons for your answer.

Yes. By definition a holistic design will result in a more coordinated network, given that to date every offshore wind project delivered in the UK is connected to the national electricity transmission system by a single radial connection. Similarly, a more coordinated network should result in lower overall levels of infrastructure spend and more optimal use of assets.

Question 9: Do you agree with the planned work for a detailed network design offshore?

Yes

Question 10: Who do you believe is best placed to undertake the detailed design for assets that are in offshore waters?

Yes, and we believe that the TOs are best placed to undertake the detailed design of offshore assets. However, we have particular concerns about the TOs' ability to take on this workload and what it entails in addition to their existing licence obligations. Our experience from the onshore sector and the Crown Estate Round 4 process, where NGET are responsible for making onshore connections, is that the TO is struggling to keep up with the volume of demands on their time and resources.

We would expect a timed process, regulated in a manner similar to the onshore connection process, to be implemented across the design and delivery phases.

In addition, we believe that meaningful input from the affected developers (i.e., developers who will share offshore assets) and co-ordination by the ESO is also a requirement for an optimal detailed design process.

Question 11: Do you agree that the existing developer led model should be retained and applied where the HND indicates a radial solution should be used? Please explain your answer.

Yes, for the following reasons:

- There is little value to be gained in coordination of single radial connections where there are no proximate developments within the specific seabed leasing round;
- The current model has sufficient drivers to ensure downward pressure on cost;
- This model is well understood by the market.

Question 12: Please provide your views on each of the delivery options we have described in this document. In providing your views, please comment on the issues we have raised. Please also give your views on the implementation issues we have raised.

In principle, we believe that options 1 to 5 are all viable, however, there may be challenges to implementation to all of these in practice.

We have commented on each of the options below, but believe that the key to any of these working in practice is that they are implemented in a way which ensures:

1. Timely delivery, and clear protection for developers from delays;
2. Responsive design and delivery to reflect that project plans can change, for example, due to the deployment of more powerful wind turbine generators;
3. Offshore infrastructure meets all appropriate technical standards;
4. Any third parties entering the OFTO market have sufficient financial and operational capacity to manage the liabilities they would be taking on;
5. Sufficient developer input and oversight – to ensure that design is appropriate and delivery is on track;
6. Appropriate boundaries between generators which would use the shared infrastructure and the entity(ies) which would be responsible for its design, construction and operation;
7. Centralised coordination and process management from an appropriate third party, such as the ESO.

We also believe that it is key that whichever model is selected, that the required regulatory and institutional frameworks are developed and in place in time to allow the design and delivery of assets by 2030 for ScotWind projects.

1. TO Build and Operate

Given the scope of TO responsibility, the themes highlighted above taken on added significance. We would expect extension of the current onshore approach to compensation in the event of network non-availability. There is the potential for this option to reduce the overall costs of offshore assets due to avoided transaction costs and the regulated TO return on investment.

2. TO Build, OFTO Operate

We believe that this option also places significant additional responsibility on the TOs, which would require significant scaling up of their capability, but without the potential advantages identified.

3. TO Design, OFTO Build and Operate

We have concerns about OFTO delivery expertise given that all OFTO connections to date have been delivered through the developer-build option, and worry that this could result in higher construction costs.

4. Early OFTO Competition

The challenge with this model is that early competition could 'lock in' physical/engineering parameters meaning a lack of flexibility later on if projects increase capacity, or seek to change their offtake model, for example production of hydrogen or supply of power to offshore oil and gas platforms.

5. Very Early OFTO Competition

This model would be the most radical change and therefore, potentially, presents the most significant risks in terms of delay in implementation, which would in turn risk delaying delivery. There would have to be significant upsides to this model to justify it proceeding, given the higher

risk. It could be that this model is appropriate for the enduring regime but not for the transitional projects which are captured in the Pathway to 2030 work programme.

6. Developer design and build, OFTO operate

Although most analogous to the current framework, this does not seem viable in a more integrated model of network design and delivery.

For example, if developer A were to design deliver integrated assets on behalf of other developers this would pose following challenges:

- Developers B and C now exposed to any delays in the delivery of the project by developer A, who may well be a competitor;
- Developer A may not wish to hold the risks and liabilities involved in designing and delivering grid infrastructure for other developers' projects.

Question 13: Please describe any feasible delivery options that we have not set out in this document.

No response

Multi-purpose Interconnectors

Question 14: Do you think we are focusing on the right models at this stage, or are there other models we should be considering? Is it also necessary to consider the evolution of such MPIs from pre-existing assets? Ultimately, should Ofgem accommodate multiple MPI models (e.g. IC-led and OFTO-led) or just one? What factors influence your answer?

Question 15: Do you agree with this position with regard to ownership structures of MPIs under the current framework?

Question 16: What are the commercial, operational and regulatory factors that would drive a developer's preference for either the OFTO-led or IC-led MPI model? and do you envisage a different usage of the component assets of an MPI depending on the MPI model?

Question 17: How would the line to shore (L1) be used in practice and what would you consider to be the primary and secondary activities from a practical perspective? Please provide views for both the IC-led and OFTO-led models, highlighting any differences between L1 usages across the two models.

Question 18: Are there any barriers within the current frameworks, such as definitions within the CUSC, SQSS or other industry codes, that might prevent the line to shore (L1) being classified as either an OFTO or an interconnector while undertaking other secondary activities?

Question 19: What are your views on the feasibility of adopting a regime that requires developers to submit evidence to support their licence application (for assets that form part of an MPI) and commit to regular performance reports? Would this be practicable, proportionate, and effective? Are there other options that work well for industry that we could explore further?

Question 20: What are your views on the practicality of transposing obligations from one licence into another, which obligations would be the most important to incorporate into a remaining licence?

Question 21: Do you think the exemption provision with the Act offers any solutions to licencing MPIs within the current framework, even if only a temporary solution until a potential enduring solution is implemented?

Question 22: Are there any aspects of the priority dispatch and curtailment arrangements, the TCA, or the cross-border trading arrangements that are adopted in UK that might influence the choice of MPI models?

No response

BEIS Question 1: What do you consider to be the key challenges to the establishment and operation of MPIs in the UK presented by current and proposed regulatory requirements applicable in EU Member States or other countries which MPI projects may connect with, or by the TCA? (e.g. regarding the efficient operation of MPIs under both the Home Market and Offshore Bidding Zone approaches). Are there further domestic challenges to these possible market design options?

One challenge we have identified is that interconnectors do not currently pay TNUoS charges, whereas offshore wind projects do. Clearly, it would be distortive if the proposals were to result in a situation where some offshore wind projects were to sit outside the TNUoS charging framework merely as a result of the status of their offshore grid connection.