Consultation

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Consultation on our Minded-to Decision on Anticipatory Investment and Implementation of Policy Changes

Subject	Details
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We are consulting on our minded-to position for the allocation of anticipatory investment (AI) in the Early Opportunities workstream of the Offshore Transmission Network Review (OTNR) and how we intend to implement changes in our policy on AI.

We would like views from people with an interest in offshore transmission, transmission and offshore generation. We welcome responses from all stakeholders, particularly developers who are embarking on offshore coordination projects now or in the future. We would also welcome responses from other stakeholders and the public.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our

website at Ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

Contents

1. Introduction

Section summary

This section provides details on the background to the Offshore Transmission Network Review, the Early Opportunities workstream and in particular the topic of anticipatory investment in Early Opportunities which is the subject of this consultation. We also provide information on our previous consultation on the Early Opportunities workstream.

Background

The OTNR and Early Opportunities

1.1. The OTNR was launched in July 2020 with the objective to ensure that the transmission connections for offshore wind generation are delivered in the most appropriate way, considering the increased ambition for offshore wind to achieve net zero. This aims to find the appropriate balance between environmental, social and economic costs.

1.2. The Prime Minister's Ten Point Plan for a Green Industrial Revolution in November 2020 set an ambitious offshore wind target of 40GW by 2030. In April 2022, the Prime Minister announced a new British Energy Security Strategy, which built on previous offshore wind targets to set an ambition of 50GW of offshore wind by 2030.

1.3. The Early Opportunities workstream of the OTNR is seeking to enable developers of in-flight projects to pursue greater coordination and thereby realise the benefits of coordination.[1] The intent is to achieve this by leveraging flexibility within the existing regulatory framework or by making near-term changes to it. Within this workstream,

[1] The ESO's Offshore Coordination Phase 1 report demonstrated that increased coordination in the connection of offshore projects has the potential to deliver consumer savings as well as environmental and social benefits. Offshore coordination phase 1 final report | nationalgrideso.com

the decision to pursue greater coordination is at the discretion of the relevant developer(s), rather than being mandatory.

Anticipatory Investment in Early Opportunities

1.4. The existing framework for offshore wind development incorporates competition between developers, including seabed leasing rounds and Contracts for Difference (**CfD**) allocation rounds. This framework has successfully driven cost reductions and timely delivery of offshore wind developments. However, it disincentivises offshore wind developers from taking on additional development risks which may put them at a competitive disadvantage due to factors such as cost and timescale. In particular, the risk for offshore wind developers in making anticipatory investment (**AI**) in offshore transmission infrastructure to support the later connection of other offshore development(s).

1.5. Under our existing cost assessment process, where AI is undertaken by a developer to support the later connection of specific offshore wind project(s), the AI risk is either allocated to the developer making the AI or allocated on a case-by-case basis. As a result of this and the competitive nature of CfD allocation rounds, developers have not been incentivised to undertake AI on behalf of future projects. Through industry engagement and public consultation, we have identified that the management of AI risk is likely the biggest barrier to greater coordination of projects in the Early Opportunities workstream. Our minded-to decision is intended to address this barrier, enabling developers to undertake AI to deliver beneficial coordination between projects while managing and mitigating the allocation of AI risk to consumers.

1.6. For the purposes of this workstream and our decision, we use the term 'anticipatory investment' or 'AI' to refer to investment in offshore transmission infrastructure to support the later connection of a specific offshore development or developments. This is investment which goes beyond the needs of the immediate offshore development or developments. 'Highly anticipatory investment' is excluded from the scope of our decision. This would be expenditure for an unknown potential project or projects. Given the limited number of projects potentially affected by our decision, and the lack of a centralised design in this workstream, we believe that including highly anticipatory investment within the scope of our decision would not be appropriate. We recognise

that highly anticipatory investment may be within the scope of decisions made with respect to the other OTNR workstreams.

Our previous approach to Anticipatory Investment

1.7. In July 2013, we published a policy statement following a consultation on a proposed framework to enable coordination. The policy statement set out our view on the two categories of investment described in the preceding consultation – Generator Focused Anticipatory Investment (GFAI) and Wider Network Benefit Investment (WNBI).

1.8. GFAI is investment in offshore transmission infrastructure which is led by a developer to support the later connection of specific offshore developments. As noted in our previous consultation, the current OFTO Cost Assessment Guidance distinguishes between single developer GFAI, and GFAI by a developer for other developer(s). We are minded to remove this distinction.

1.9. In addition, in this consultation document outside this subsection, we refer to 'AI' rather than 'GFAI' to reflect the other potential drivers of AI in the Early Opportunities workstream in addition to generator focussed AI. In particular, AI may be required to enable the various Early Opportunities concepts which we set out in our previous consultation.

1.10. We do not consider WNBI in this consultation document. Since the final conclusions of the Integrated Transmission Planning and Regulation (ITPR) project, the Electricity System Operator (ESO) has been able to propose WNBI.[2] For Early Opportunities proposals that relate to WNBI, existing processes can be used to progress this.

1.11. Our view in the July 2013 policy statement was that GFAI stranding risk should be allocated to the party best able to manage that risk.[3] We considered that party to be the generator for whom the assets are being constructed. On this basis, we confirmed

[2] Integrated Transmission Planning and Regulation (ITPR) project: final conclusions | Ofgem
[3] Paragraph 2.14, Statement on the proposed framework to enable coordination: An update to our December consultation | Ofgem

our view that additional GFAI stranding risk should not be shared with consumers, to any greater extent than would be consistent with the approach to stranding risk onshore or under Offshore Transmission Owner (OFTO) build. We did not propose to introduce a formal gateway assessment process to GFAI.

1.12. This consultation is on our minded-to decision on how we allocate AI risk as between developers and consumers, and represents a change compared to these aspects of the July 2013 policy statement.

1.13. Firstly, we consider that AI stranding risk should be allocated in a manner that supports AI which demonstrably supports consumer benefits and the objectives of the OTNR. The OTNR objectives reflect the need that has emerged since 2013 to find a better balance between environmental, social and economic costs in support of the UK's ambition of 50GW of offshore wind by 2030. Our view is that allocation of AI risk to consumers would best support beneficial AI and the wider objectives of the OTNR.

1.14. Secondly, we are now proposing to introduce a formal gateway assessment process, to confirm that any proposed AI meets those objectives at a project-by-project level.

1.15. In the July 2013 policy statement we stated our position that consumers should be protected from increased stranding risk through user commitment type arrangements. We encouraged National Grid or industry to bring forward a Connection and Use of System Code (CUSC) modification proposal for the Authority's approval to extend appropriate user commitment arrangements to GFAI.[4] We also stated that, subject to the effective management of stranding risk, developers could be given greater confidence on the route to cost recovery for the scope of GFAI undertaken.

1.16. Our position as stated in this consultation on these two aspects is unchanged compared to these aspects of the July 2013 policy statement.

[4] In May 2015, National Grid set out their thinking on the development of user commitment arrangements for GFAI https://www.nationalgrideso.com/document/50476/download

Our previous consultation on Early Opportunities and stakeholder feedback

1.17. We published a consultation on offshore coordination in July 2021 which closed in September 2021. We provided a summary of consultation responses in January 2022 with an update on policy development. Links to these publications are provided in paragraph 1.33.

1.18. The July 2021 consultation raised questions on various aspects of the Early Opportunities workstream including on the concepts to be included in the workstream and our general approach to facilitating greater coordination in Early Opportunities. These sat alongside the proposal that AI risk should be shared between consumers and developers. We asked for views on whether this level of risk would be appropriate for consumers to bear.

1.19. In our January 2022 update, we provided a summary of the consultation responses on these matters. Our policy development has focused on the question of the allocation of AI risk and this consultation focuses on the minded-to decision we have reached in respect of AI.

Our proposals

1.20. Based on the consultation feedback and the objective to facilitate increased coordination in Early Opportunities, we have reached a minded-to policy decision on how AI will be shared between developers and consumers. Our proposals are that consumers will bear AI risk in advance of the later project(s) connecting to shared infrastructure and in the situation where the potential later project(s) do not connect at all. We have outlined how we think the costs associated with these risks will be allocated between the users of the relevant offshore transmission assets and consumers.

1.21. We recognise the need for developers to have early-stage feedback on any AI proposals and therefore we are planning to introduce an early-stage assessment process to determine the eligibility of any proposed AI. We have set out our views on this process and are seeking feedback on this approach.

1.22. We have also confirmed the position which we first set out in 2013 that consumers should be protected from increased AI stranding risk through the extension of user commitment arrangements in Section 15 of the CUSC to new offshore transmission assets which provide capacity for more than a single user.

Our impact assessment

1.23. One of the ways we assess the potential impact of our policy decisions is by carrying out a structured assessment– an impact assessment (**IA**). Since December 2003, Ofgem has had a duty to carry out IAs for proposals that we consider to be "important" within the meaning of section 5A of the Utilities Act 2000, or to publish a statement setting out our reasons for not undertaking an IA.

1.24. Our proposals could facilitate significant AI by developers in shared offshore transmission assets, with consumers bearing the AI risk in advance of the later project(s) connecting to the shared assets and in the situation where the potential later project(s) do not connect at all. We consider our proposals are likely to have a significant impact on persons engaged in the transmission and generation of electricity, and on consumers. Therefore, we have carried out an IA setting out the potential impacts of our preferred policy option.

1.25. The draft IA is produced as a separate document and is published alongside this consultation.

1.26. We consider that this meets our obligations under S. 5A of the Utilities Act in a proportionate, consistent and transparent manner.

What are we consulting on?

Section 2: Anticipatory Investment – Consumer Sharing

1.27. We are consulting on our minded-to position on the allocation of risks and costs associated with AI in the Early Opportunities workstream and how we intend to implement changes in our policy on AI.

1.28. We are consulting on the draft IA which accompanies this document.

Section 3: Anticipatory Investment – Early Stage Assessment

1.29. We are consulting on our minded-to position on the process through which developer-led AI proposals will be assessed.

Section 4: Minimising AI Risk with User Commitment

1.30. We are seeking views on the application of Section 15 of the CUSC to the later user of offshore transmission infrastructure developed with AI.

Questions

Anticipatory investment – consumer sharing

Question 1: Do you agree that consumers should underwrite the risk of the AI Cost Gap by funding the AI Cost Gap until the later user starts paying TNUoS charges?

Question 2: Do you agree with the proposal to recover the AI Cost Gap from the later user if the later user connects? If so, do you agree that this should take place over the period of the relevant OFTO licence, starting from the date that the later user starts to pay TNUoS charges?

Question 3: Do you agree that, save for any amounts recovered under user commitment arrangements, AI costs should be recovered from consumers if the later user fails to connect?

Question 4: Do you agree with our assessment that policy option 3 better meets the aims of the Early Opportunities workstream of the OTNR?

Question 5: Do you have views on the modelled assessment of capital cost savings? Please provide any additional quantitative analysis and any further information.

Anticipatory investment – early stage assessment

Question 6: Do you agree with the introduction of the proposed early stage assessment process?

Question 7: Do you think the information sought as part of the early stage assessment process is appropriate?

Question 8: Do you have any views on the timing of the early stage assessment process?

Question 9: Is there any other information which you believe should be included in the confirmation to developers?

Minimising AI risk with user commitment

Question 10: Do you agree with the proposed extension of user commitment arrangements to the potential later user of offshore transmission infrastructure which has been funded by AI?

Question 11: Do you have any views on the manner in which the user commitment should be calculated?

Context and Related Publications

1.31. In August 2020, the Department for Business, Energy & Industrial Strategy (BEIS) and Ofgem issued a joint Open Letter in which we called for stakeholder views to support the OTNR. In December 2020, we published a joint response to the Open Letter engagement.

1.32. In December 2020, the ESO published the final report and supporting annexes as part of Phase 1 of its Offshore Coordination Project. In Phase 1, the ESO assessed the costs and benefits of a coordinated offshore network, the technical considerations to achieve that, and how the offshore connections regime could change to support that.

1.33. We published a consultation in July 2021 on three of the four OTNR workstreams: Early Opportunities, Pathway to 2030, and Multi-Purpose Interconnectors. We provided a summary of responses and an update on policy development in January 2022.

1.34. BEIS published a consultation in September 2021 on the Enduring Regime and Multi-Purpose Interconnectors workstreams of the OTNR.

1.35. OTNR newsletters and material from previous OTNR events are published by BEIS.

1.36. Our previous approach to AI was set out in our policy statement in July 2013.

Consultation stages and Next Steps

1.37. We will continue to engage with stakeholders during and after the consultation period.

1.38. Following this consultation, we will assess responses before publishing our final policy decision and final IA later this year.

1.39. A number of our proposed changes would be implemented through the code modification process. In this document we have outlined how these would be given effect.

1.40. Further documents for implementation of our proposed changes will be published later in 2022.

How to respond

1.41. We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

1.42. We have asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

1.43. We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, data and confidentiality

1.44. You can ask us to keep your response, or parts of your response, confidential. We will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit

permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

1.45. If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we will get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

1.46. If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

1.47. If you wish to respond confidentially, we will keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We will not link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

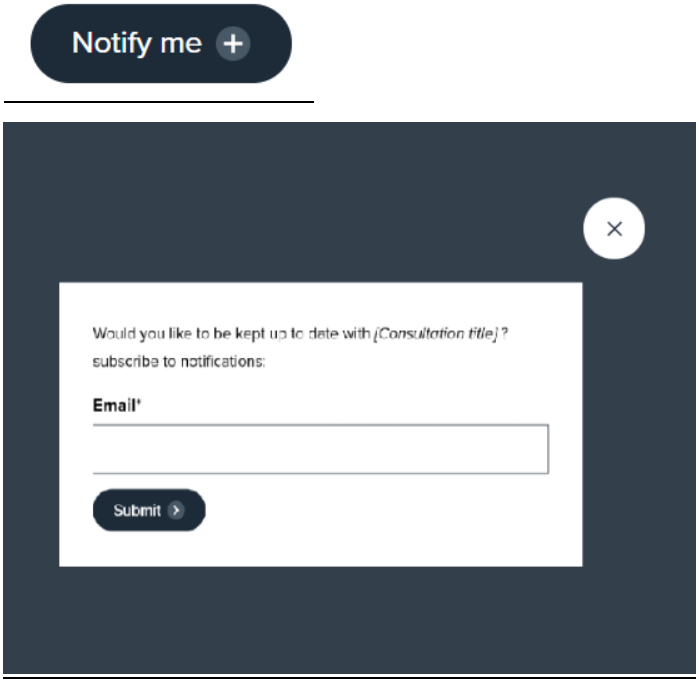
1.48. We believe that consultation is at the heart of good policy development. We welcome any comments about how we have run this consultation. We would also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Ofgem.gov.uk/consultations.



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming	▶	Open	▶	Closed (awaiting decision)	▶	Closed (with decision)

2. Anticipatory Investment – Consumer Sharing

Section summary

We set out how we have considered the risks associated with anticipatory investment for offshore transmission assets until such time as a later user connects or if a potential later user fails to connect at all. We consider the costs associated with these risks and our view on how these costs should be allocated between users of the relevant offshore transmission assets and consumers. We have set out various policy options and our minded-to positions with respect to these.

Questions

Question 1: Do you agree that consumers should underwrite the risk of the AI Cost Gap by funding the AI Cost Gap until the later user starts paying TNUoS charges?

Question 2: Do you agree with the proposal to recover the AI Cost Gap from the later user if the later user connects? If so, do you agree that this should take place over the period of the relevant OFTO licence, starting from the date that the later user starts to pay TNUoS charges?

Question 3: Do you agree that, save for any amounts recovered under user commitment arrangements, AI costs should be recovered from consumers if the later user fails to connect?

Question 4: Do you agree with our assessment that policy option 3 better meets the aims of the Early Opportunities workstream of the OTNR?

Question 5: Do you have views on the modelled assessment of capital cost savings? Please provide any additional quantitative analysis and any further information.

Anticipatory Investment in Early Opportunities

Terms and Usage

2.1. In paragraph 1.6, we explained that within the Early Opportunities workstream, we use the term 'anticipatory investment' (AI) to refer to investment in offshore transmission assets to support the later connection of specific offshore developments.

2.2. In this context, we have used the **following** terms to define our policy options which are set out in this document:

2.2.1. We refer to the developer making the investment in the shared asset as the **initial user**. We refer to the developer or developers that will use the shared asset in the future as the **potential later user** until such time as they connect, and the **later user** once connected.

2.2.2. We consider that the investment by the initial user in the shared infrastructure comprises an **AI element** and a **non-AI element**. We anticipate that these elements would be determined on a case-by-case basis based on the proportional usage of the shared infrastructure.

2.2.3. We refer to the **Offshore Transmission Owner (OFTO)** that is appointed through a tender process to own and operate the shared assets constructed by the initial user.

2.2.4. Where costs are allocated to **consumers** in a policy option, we are referring in general terms to recovery of costs via TNUoS residual charges.

Anticipatory Investment – Developer Recovery of Capex

Current approach and why we believe a change in required

2.3. Our current OFTO cost assessment guidance contemplates both generator focused AI and investment which would provide wider network benefit but there has not been an accompanying process which provides clarity to developers as to how an AI spend

would be recovered. To date, developers have not been incentivised to undertake AI on behalf of future projects without a clear route to be able to reclaim that AI as part of the final transfer value of the asset transfer to the OFTO following a cost assessment process. The potential later user whose project would benefit from the AI will not commit to making a financial contribution ahead of a final investment decision. This has been a significant barrier to the development of coordinated offshore infrastructure.

2.4. To date there has been little appetite by developers to incur capital expenditure (capex) in respect of AI. Consultation feedback confirmed that this would continue because of the way in which costs are treated under the OFTO cost assessment process. We believe that in the absence of changes to our policy framework, we will not see a significant increase in the likelihood of AI for offshore transmission infrastructure. This will not achieve the aims of the OTNR and has been repeatedly highlighted by industry participants as an issue when considering potential coordination opportunities.

2.5. In our July 2021 consultation, we proposed that AI risk should be shared between consumers and developers. We asked for views on what level of risk would be appropriate for consumers to bear.

2.6. In our January 2022 update, we explained that most respondents agreed that there was a need to share AI risk with consumers in this manner to support the objectives of the OTNR and the Early Opportunities workstream in particular. Respondents identified potential benefits to consumers from AI including lower total capital costs, reduced environmental impacts (due to less infrastructure overall, although subject to final design and location), accelerated connection of offshore wind generators, reduced impacts on communities in the vicinity of the associated transmission infrastructure and wider socio-economic benefits.

2.7. There was a range of views on how the risks associated with AI should be managed between developers and consumers. Several stakeholders suggested that the risk associated with AI should be allocated between the relevant developers and consumers with reference to the potential benefits of that investment. Under this approach, if the later project is identified as a beneficiary and therefore allocated some or all of the AI

risk, the issue remains that the potential later user will typically be unable to make the financial commitment to bear the AI risk at the point that the AI is made. This issue reflects the challenges of sharing costs between projects at different stages of development. This could therefore continue to limit the level of coordination in this workstream.

Proposed Changes

2.8. Our proposals will allocate the risk of AI to consumers:

2.8.1. until such time as the later user starts paying TNUoS charges; or

2.8.2. if the potential later user fails to connect.

2.9. To do this, we are minded to change our cost assessment guidance documents with regard to the recovery of AI capex and that economic and efficient AI costs for the connection of another known development should be included in the final transfer value of the relevant shared offshore transmission assets at the end of the relevant tender process. This treatment of AI will be subject to the proposed gateway assessment process discussed in Section 3 and to the usual cost assessment processes which requires that expenditure is shown to be economic and efficient.

When would AI principles apply

2.10. Stakeholders have told us that we need to change the treatment of AI because in situations where projects are being developed and constructed on different timelines, the potential later user of shared infrastructure is unable to commit capex prior to being awarded a CfD.

2.11. We propose that changes to the treatment of AI in the cost assessment process will apply where projects are expected to participate in different CfD allocation rounds.

2.12. Where projects are expected to participate in the same CfD allocation round, we do not believe that the initial user will need to make use of the AI cost recovery methodology. Where both developers have been awarded a CfD in the same allocation round, they are in a position to conclude a commercial agreement on the terms of the investment

for the proposed shared infrastructure. We therefore do not propose that AI costs be recovered via the final transfer value following the cost assessment process where the projects are in the same CfD allocation round.

2.13. We recognise, however, that there may be a degree of uncertainty on the respective timelines for projects. In this case, where it is uncertain whether projects will be allocated CfDs in the same allocation round, developers may wish to complete the assessment process to ensure that eligibility of coordinated infrastructure funded by AI can be assessed upfront and the principles applied through a cost assessment process later if projects are allocated CfDs in different allocation rounds.

2.14. The CfD was introduced with the existing regulatory framework in mind which supports radial connections and BEIS has indicated that changes may be necessary to enable coordination and ensure benefits can flow through to consumers. BEIS has therefore been seeking to identify the key issues and assess the changes that may be required to facilitate coordination, with the intention to make any appropriate enabling changes in time for Allocation Round 6. An issue expressed by respondents to our previous consultation is the inability of two or more projects to submit joint or linked bids into CfD auctions, which places commercial risks on coordinated projects where one or more fails to obtain a CfD. BEIS are considering the case for changes that could mitigate against this risk, among other facilitatory measures.

Allocating the Cost of AI - TNUoS charges

Recovery of OFTO revenue through TNUoS charges

2.15. A competitive tender process is used to select and licence OFTOs to own and operate offshore transmission assets. To facilitate the tender process, we determine a transfer value for the transmission assets based on the economic and efficient costs which ought to be, or ought to have been, incurred in connection with the development and construction of the transmission assets.

2.16. Our cost assessment process determines the transfer value at which the assets are purchased from the developer by the appointed OFTO. After the relevant transmission assets have been transferred to the ownership of the appointed OFTO, the offshore

generator(s) using the assets become liable for TNUoS charges.[5] TNUoS charges recover the cost of building and maintaining the transmission system. In the case of OFTO assets, the OFTO revenue for those assets is funded through TNUoS charges.

2.17. The TNUoS charges payable by an offshore generator include local offshore charges (comprising offshore local circuit and offshore local substation charges) in respect of the OFTO assets used by the generator, and wider charges in respect of the shared infrastructure in the zone into which the generator connects onshore.[6]

2.18. The local offshore charges are calculated based on the OFTO revenue, the capital cost and rating (in MW/MVA) of each relevant OFTO asset, the security factor of the offshore local circuit, and the generator's Transmission Entry Capacity (TEC).[7]

2.19. In the case of a single generator using OFTO assets with no intended additional later users (i.e. sole user radial connections), if a relevant OFTO asset is oversized (in MW/MVA) compared to the generator's TEC (also in MW/MVA), then the cost of that unused capacity is socialised through TNUoS residual charges. In practice, the level of unused capacity is minimised by our cost assessment process which allows the offshore wind developer to recover only the economic and efficient costs which ought to be, or ought to have been, incurred in connection with the development and construction of assets that are directly applicable to the specific offshore wind generator project subject to the tender exercise.

AI and TNUoS charges

2.20. In the case of OFTO assets that are oversized through AI to support the connection of an identifiable later user, our minded-to decision is that, where eligible, any economic and efficient AI for the connection of the identifiable later user should be included in

[5] Section 14 of the Connection and Use of System Code (CUSC) sets out the statement of the use of system methodology and the statement of the connection charging methodology CUSC Code Documents | National Grid ESO
[6] Offshore generators do not pay local onshore substation charges, unless the OFTO connection to the Main Interconnected Transmission System (MITS) is via a distribution network circuit. MITS is defined in the Security and Quality of Supply Standard SQSS Code Documents | National Grid ESO
[7] The terms used in this paragraph are explained in TNUoS Offshore Guidance.pdf (nationalgrideso.com)

the final transfer value of the relevant assets at the end of the relevant tender process. This differs from the current arrangements described in paragraph 2.15. It means that the OFTO revenue for those assets will reflect the full asset value, including the 'AI' and 'non-AI' elements. This revenue is funded through TNUoS charges.

2.21. Under the current charging regime, the initial user would be liable for the TNUoS charges associated with both the AI element and the non-AI element. This would result in the initial user paying higher TNUoS charges than it would otherwise have done had it not made the AI. This may continue to act as a disincentive for the initial user to make the AI.

2.22. Our expectation is that the initial user will continue to be liable for the TNUoS charges in respect of the non-AI element and, in respect of the AI element, as set out in the following sections, we distinguish between two aspects: the AI Cost Gap for the period between the shared asset transfer to the OFTO and the point that the later user will start using the shared assets, and the AI risk that the later user never uses the shared assets.

Allocating the Risk of Anticipatory Investment

AI Risk – What do we mean by risk?

2.23. The nature of AI is that there is a level of uncertainty. Given that the potential later user is not in a position to take its final investment decision at the time the initial user investment is made, there is necessarily a question as to whether it will ever use the infrastructure in question or if it does, when that will be.

2.24. This can be articulated as AI risk and is essentially that the potential later user fails to become a later user and does not use the assets constructed on its behalf with AI. This risk exists until the later user connects and starts to pay TNUoS charges in respect of the infrastructure constructed with AI.

Allocating Risk and Cost

2.25. In the period between the shared asset transfer to the OFTO and the date that the later user connects to the system and starts using the assets funded by the AI, there is

a portion of the AI element of the offshore generator TNUoS tariff which will not be paid. However, the equivalent amount will be payable to the OFTO because the costs of the infrastructure form part of the asset value to the OFTO. The OFTO revenue will reflect the full asset value fixed at the date of asset transfer. This difference is what is payable to the OFTO but what is not recoverable in the absence of the later user. We refer to this as the AI Cost Gap, and the risks and allocation thereof are considered in paragraphs 2.27 to 2.49.

2.26. Should the later user never connect, the assets which have been funded by AI are not used by the later user. This effectively means that the AI element of the offshore generator TNUoS charges for the shared assets will not be paid. However, the equivalent amount will be payable to the OFTO because the costs of the infrastructure form part of the asset value to the OFTO. This is further considered in paragraphs 2.50 to 2.65.

The AI Cost Gap – Allocating the costs of the delay until the later user connects

2.27. The AI Cost Gap until the later user connects can be described as the recovery of the AI element of the offshore generator TNUoS tariff in the period between the shared asset transfer to the OFTO and the point when the later user will start using the shared assets and paying TNUoS charges.

2.28. We have considered four parties who could potentially face the AI Cost Gap: the initial user, the later user, the OFTO, and consumers. In this subsection we have considered each party in turn and used this analysis to determine three policy options, which are listed in Table 1.

Table 1: Options for parties to pay the AI Cost Gap

Policy option	AI Cost Gap
Policy option 1	Paid by consumers
Policy option 2	Paid by initial user and later user
Policy option 3	Paid by later user

Initial User

2.29. We included the initial user in one of the policy options for potential parties to face the AI Cost Gap: policy option 2. Under policy option 2, the AI Cost Gap would be allocated to the initial user and the later user. We consider that this allocation would start from the point that the initial user and later user each start paying TNUoS charges, and then continue over the relevant OFTO licence period.

2.30. This arrangement could provide incentives for both the initial user and the later user to minimise the period that the AI Gap Cost is required to cover, by aligning their respective delivery timelines as far as possible.

2.31. We also consider that it would reflect the feedback from ten respondents to our July 2021 consultation which suggested that the cost associated with AI should be allocated with reference to the potential benefits of that AI. For example, the benefit could manifest in lower total TNUoS charges (including the AI Cost Gap) for all users in the coordinated scenario relative to the counterfactual scenario of separate connections. Furthermore, the shared asset may be the only viable option available to the initial user and/or the later user to progress through the relevant planning and consenting processes.

2.32. However, this arrangement may lead to a similar outcome as if the cost was allocated to consumers (considered in paragraphs 2.44-2.48), but with an additional element of variability for consumers. The initial user and later user may incorporate the known AI Cost Gap into the forecasted costs underpinning their respective CfD bids, potentially resulting in the cost being passed through to consumers.

2.33. We did not include a policy option in which only the initial user would face the AI Cost Gap. We consider that this would effectively represent a continuation of the status quo and may result in the initial user choosing not to pursue greater coordination via AI which would, in turn, inhibit the level of consumer savings that can be realised from shared assets.

2.34. A challenge in any policy option that allocates some or all of the AI Cost Gap to the initial user is the uncertainty over the size of the AI Cost Gap, which reflects the uncertainty in the date that the potential later user will start using the shared assets. The uncertain size of the AI Cost Gap would represent an uncertain liability, which may

not be accepted by the initial user and may therefore act as a barrier to the initial user to making the AI. Given the uncertainty in the date that the potential later user will start using the shared assets, we do not consider that it would be appropriate to cap the size of the AI Cost Gap as a way of addressing this.

2.35. A further challenge in any such policy option is that if the later user fails to connect at all, then the initial user will be liable for a portion of the AI Cost Gap in relation to infrastructure which it would not otherwise have constructed, had it known that the potential later user would not connect.

Later User

2.36. The later user is a natural consideration as a potential party to be liable for the AI Cost Gap given that it will benefit from the AI in question and that capex was made on its behalf and at risk.

2.37. Under policy option 2, the liability for the AI Cost Gap is allocated to the initial user and the later user. Policy option 2 is discussed above.

2.38. We also considered allocation of the AI Cost Gap to the later user alone under policy option 3. Subject to the implementation arrangements, under this policy option we anticipate the AI Cost Gap charges may be recovered from the later user from the date it starts to pay TNUoS charges and will be recovered via those TNUoS charges during the relevant OFTO licence period.

2.39. The reasoning behind allocation of the liability for the AI Cost Gap solely to the later user is that the corresponding charges for the later user would reflect the cost of the offshore infrastructure assets that they can or do use, based on the extent to which they can use them.

2.40. We also consider that allocation of the AI Cost Gap solely to the later user represents an appropriate allocation of cost versus risk. The initial user will have taken on construction risk and may have shortened timelines for the later user as a result of making AI on behalf of the later user. That the later user should meet the AI Cost Gap seems to be a fair balance of risk and reward.

2.41. We also consider that allocating liability for the AI Cost Gap to the later user should incentivise the later user to connect as quickly as possible. This is because it will have sole liability for the charges in respect of the AI Cost Gap which will accrue from the date of the initial user connecting and which will continue to accrue until the date of connection of the later user.

OFTO

2.42. We considered whether the OFTO should be included as a party which could pick up the liability for the AI Cost Gap. As part of an OFTO tender process, bidders develop a tender revenue stream (**TRS**) bid based on the asset transfer value as well as forecasted costs over the licence period. It is likely that bidders would incorporate the known AI Cost Gap into their forecasted costs, resulting in the cost being passed through to the users of the assets. The specific allocation of the AI Cost Gap and addition of any margin would be at the discretion of the bidders.

2.43. This would result in a similar or less favourable outcome that policy option 2 which allocates the liability for the AI Cost Gap to the initial and later user. We therefore did not develop any policy options in which the OFTO would have liability for the AI Cost Gap.

Consumers

2.44. We have considered consumers as a party who could assume the liability for the AI Cost Gap.

2.45. We expect that consumers will benefit from shared assets.[8] For example, consumers may benefit from a reduction in socialised TNUoS charges and a reduced level of

[8] The ESO's Offshore Coordination Phase 1 report demonstrated that increased coordination in the connection of offshore projects has the potential to deliver consumer savings as well as environmental and social benefits. Offshore coordination phase 1 final report | nationalgrideso.com

subsidy through the CfD scheme. We consider this in more detail in the draft impact assessment (IA) published alongside this document.

2.46. We also consider that the option of consumers assuming the liability for the AI Cost Gap would reflect the feedback from the respondents to our previous consultation who suggested that the cost associated with AI should be allocated with reference to the potential benefits of that AI.

2.47. However, allocation of the AI Cost Gap to consumers alone would mean that the user(s) of the infrastructure funded by the AI would not have to meet any liabilities in respect of the infrastructure they are using once they have connected to the transmission system. It may also result in benefits to the users of the shared infrastructure which would not be available to other offshore users whose transmission infrastructure does not incorporate any AI.

2.48. Under both policy option 2 and policy option 3 where the AI Cost Gap (or part thereof) is allocated to the later user, there will effectively be a period during which the later user is not meeting its liabilities in respect of the AI Cost Gap because it is not connected to the system and is therefore not paying TNUoS charges. This effectively means that consumers have an underwriting role in respect of this risk during the period until the later user starts paying TNUoS charges.

Our Minded-to Decision with regard to the AI Cost Gap

2.49. Our minded-to decision with regard the liability for the AI Cost Gap is that this should be allocated to the later user once it connects to the offshore transmission system. Until such time as the later user starts paying TNUoS charges, the risks associated with the AI Cost Gap shall be met by consumers.

AI Risk – The risk that the later user never connects

2.50. In this situation where the later user never connects to the transmission system, the assets which have been funded by AI are never used at all. This corresponds to what should be paid in respect of the AI element of the offshore generator TNUoS charges for the shared assets over the relevant OFTO licence period.

2.51. This risk differs from the AI Cost Gap period, discussed above, which assumes that the later user connects and starts paying TNUoS charges.

2.52. We have considered four parties to whom the AI Risk could potentially be allocated: the initial user, the future user, the OFTO, and consumers. In this subsection we consider each party in turn. From among the parties, we have determined one policy option, which is shown in Table 2.

Table 2: Policy options for parties to assume the AI Risk

Policy option	AI Risk
Policy option 1	Allocated to consumers

AI Risk – Risk allocation options

Initial User

2.53. Requiring the initial user to bear the AI Risk that the later user never connects would effectively mirror the existing arrangements, by making the initial user face the AI element of the offshore generator TNUoS charges for the shared assets. It also introduces uncertainty in relation to the TNUoS charges that the initial user would face over the lifetime of its project.

2.54. As discussed in our July 2021 consultation, the existing arrangements and the broader commercial and regulatory landscape have acted as a barrier to greater coordination in offshore transmission assets.

2.55. For this reason, we do not believe that allocating the AI Risk for later user non-connection to the initial user would be appropriate. This option would likely mean that consumers do not realise the benefits of offshore coordination, undermining the objectives of the OTNR.

Later User

2.56. The potential later user is arguably best placed to assume the risk of non-connection. However, industry feedback has indicated that the potential later user(s) of

infrastructure which could be constructed using AI are not in a position to commit to the full capital costs of construction of the shared infrastructure prior to the award of a CfD and making a final investment decision.

2.57. We believe that an expansion of the application of the user commitment provisions contained in Section 15 of the CUSC to the potential later user is appropriate where there is AI made on its behalf. Further detail on our proposals is contained in Section 4 of this consultation.

OFTO

2.58. We believe that should the AI Risk of the later user not connecting be allocated to the OFTO, the bidders in the relevant OFTO tender process would incorporate costs reflecting that risk into their forecasted costs, resulting in the costs being passed through to the parties funding the OFTO revenue, i.e. through TNUoS charges. We do not believe that this would be a good outcome as these costs would be fixed at the date of the bids and therefore would be incorporated into the TRS regardless of whether the AI Risk materialises.

2.59. For that reason, we have not included the allocation of the AI Risk of non-connection to the OFTO as a policy option.

Consumers

2.60. In our consideration of the AI Cost Gap and our minded-to position that the later user will meet the AI Cost Gap once it connects (paragraphs 2.48 and 2.49), we have noted that consumers will effectively underwrite that risk until the later user connects and starts using the shared assets.

2.61. We consider that the option of allocating the AI Risk to consumers would represent an appropriate extension of this position. If the AI Risk of non-connection materialises and there is no later user to connect to the coordinated assets which have been funded by AI, then consumers would assume the costs of the unused AI element of those transmission assets.

Minimising the Risk

2.62. We have already noted that for the purposes of this workstream, we consider AI to be expenditure for a known future project that can demonstrate a reasonable expectation that it will connect. This is intended to minimise the likelihood that the potential later user(s) will fail to connect. We also intend to establish an early stage assessment process to fully understand the projects and the contemplated shared infrastructure and to inform the application of user commitment principles to the potential later user. These are more fully discussed in section 3 and section 4 of this consultation.

2.63. We believe that the combination of measures we are proposing to introduce in respect of AI will mean that the AI Risk of non-connection is a low probability one. Our proposed changes to how we believe the application of user commitment provisions under Section 15 of the CUSC to the later user will mitigate against its effects should it materialise.

2.64. We consider that in general the level of residual risk to consumers is appropriate to support the objectives of the OTNR and facilitate increased early coordination in offshore transmission assets.

Our minded-to position with regard to AI Risk of non-connection

2.65. Our minded-to position with regard to the AI Risk of non-connection by a later user is that it should be allocated to consumers.

Next Steps

2.66. We are publishing our minded-to decision on the proposed treatment of AI together with our draft impact assessment and we welcome stakeholder feedback.

2.67. We will publish responses to this consultation alongside our final decision and impact assessment later this year.

2.68. To implement our policy changes, we expect that the Electricity System Operator (ESO) will bring forward code modifications through the existing open governance

processes. While we cannot predetermine the outcome of any code modifications which come to Ofgem for determination, we will work with the ESO on how best to achieve this.

2.69. We will also be reviewing ancillary documents and guidance which may require modification to give effect to our changes in how AI is treated including, without limitation, cost assessment guidance. These will be subject to further consultation in due course.

2.70. We note that there is an ongoing Ofgem TNUoS review that will be considering transmission charging, for which a draft Terms of Reference is currently being developed. Ofgem recently published an update to stakeholders, which contains more information.[9]

[9] TNUoS Call for Evidence - Next Steps | Ofgem

3. Anticipatory Investment – Early Stage Assessment Process

Section summary

In this section we set out our proposals as to how developer(s) will come forward with proposals for anticipatory investment at an early stage, how we will consider these and what we will be able to provide to developers following our assessment.

Questions

Question 6: Do you agree with the introduction of the proposed early stage assessment process?

Question 7: Do you think the information sought as part of the early stage assessment process is appropriate and proportionate?

Question 8: Do you have any views on the timing of the early stage assessment process?

Question 9: Is there any other information which you believe should be included in the confirmation to developers?

The Case for Early Stage Assessment

Feedback from Consultation

3.1. The changes we have proposed to our policy on AI represent a shift from our previous position. They have the potential to unlock significant investment in coordinated offshore transmission infrastructure which will, at least for a time, be underwritten by consumers.

3.2. In response to our July 2021 consultation, we received feedback that changes to the policy and processes related to coordinated infrastructure (and specifically AI spend) should be subject to an assessment process. Feedback suggested an appraisal by Ofgem at a sufficiently early stage to inform subsequent decisions by developers relating to design, planning and procurement would be beneficial. This appraisal would determine whether the AI spend in relation to any coordinated infrastructure would, in principle, be treated as an allowable cost in any future cost assessment process – while noting this would not provide certainty on an efficient level of cost for that infrastructure.

3.3. We believe that an early stage assessment process is valuable so that we can ensure that any proposals to make AI for coordinated infrastructure can be tested to determine whether they meet the objectives of the Offshore Transmission Network Review (OTNR).

Purpose of the Assessment

3.4. The purpose of the early stage assessment is therefore:

3.4.1. To demonstrate that the proposed AI would contribute to the development of an economic, efficient and coordinated system of electricity transmission; and

3.4.2. To provide developers with an indication of whether any AI proposed will in principle be an allowable cost in any future cost assessment process, thereby allowing developers to make investment decisions accordingly.

Process

3.5. Our proposal is that the early stage assessment process would be initiated with an application by any developer who is seeking to develop coordinated infrastructure which would require any AI. Our view is that this assessment should be mandatory to reduce the risk of developers including AI costs that would not be recoverable at the cost assessment stage.

3.6. Within the application, developers would be required to confirm that the AI relates to eligible projects within the Early Opportunities workstream. Eligibility will be met by the projects meeting the following conditions:

3.6.1. Having in place a valid and enforceable Agreement for Lease (AfL) with The Crown Estate or Crown Estate Scotland;

3.6.2. Having been assessed through the Connections and Infrastructure Options Note (CION) Process.

3.7. This reflects the fact that projects within the Early Opportunities 'opt-in' to offshore transmission coordination and that there will not be in place any centrally coordinated design for offshore transmission, as will be the case for later OTNR workstreams. In the absence of this, we expect that proposals for coordination in Early Opportunities should be relatively limited.

3.8. We are not seeking to add any specific requirements with regard to the stage at which each developer is in the planning and permitting process for the project(s) in consideration. Our objective in this workstream is to encourage coordination at an early stage and to maximise the number of projects which can come forward within the Early Opportunities workstream with coordinated proposals requiring AI. Requiring that projects are at a certain stage of the planning process before an application is made could frustrate the aims of the workstream.

3.9. In our guidance to be issued ahead of the process coming into effect, we will set out the details which must be included in the application. We expect that the developer(s) submission should also contain the following information:

3.9.1. A description of the relevant offshore wind projects;

3.9.2. Detailed description of the proposed infrastructure and the AI required to deliver coordination;

3.9.3. An indicative summary of the costs and avoided costs of the proposed coordination;

3.9.4. Information on the additional benefits including (without limitation) environmental, social and community benefits;

3.9.5. Detailed information on the interaction between all users and prospective users of the coordinated assets which will be the subject of the AI, including a clear summary on the timelines for all relevant projects and a summary of engagement to date with other relevant developers/projects;

3.9.6. A detailed timeline for the initial project including through to energisation of the system and proposed asset transfer date to the Offshore Transmission Owner (OFTO).

3.10. While we would encourage developers to come forward as early as possible with proposals, we recognise that some information may only be available once a project has been more fully developed. We welcome feedback on the interaction between timing and content as part of this consultation.

3.11. Upon receipt of an application, we intend to conduct a high level-review of the submission to determine whether the submission includes all the information required for us to carry out our assessment of the proposal. If we consider that a submission does not contain all relevant information, we would request any additional information which may be necessary for the purposes of our review.

3.12. We will only be able to reach a conclusion where we have sufficient information to do so. The quality of the information submitted, the robustness of the data within it and the accompanying justifications will influence the appropriate level of regulatory scrutiny we apply during our assessment.

3.13. We intend to assess whether each proposal meets the objectives of the OTNR and whether it should benefit from our proposed changes to allow the AI to be recovered through the OFTO transfer process following a cost assessment process.

3.14. We would aim to conclude our assessment as soon as reasonably practicable allowing for appropriate regulatory processes as may be required.

Outcome

3.15. Our intention is that following the assessment process, we will publish a draft decision to the developer(s) indicating the outcome of our assessment and the basis for it.

3.16. At the same time, we would expect to issue a consultation on our draft decision which would run for approximately 4-6 weeks, taking into account the complexity, scale, cost and urgency associated with the proposal.

3.17. Following the consultation process and any further assessment, we will publish a final decision letter. Where we consider that the AI should, in principle, be recoverable via the final transfer value following the cost assessment process, the confirmation letter will provide any stipulations associated with this.

3.18. We do not intend to provide a view on what would constitute economic and efficient costs on an ex ante basis. Developers will be required to demonstrate at the cost assessment process that the expenditure is economic and efficient.

3.19. Should the developer(s) materially amend or update the scope of the coordination activities prior to the cost assessment process, developers will be required to submit those revisions to us for assessment. Provided that the changes do not have a material adverse impact on the terms of the assessment already undertaken we will issue a revised letter.

Implementing Changes

3.20. To implement the changes contemplated herein, we intend to issue a new detailed guidance and submission requirements document for this process.

3.21. As referenced earlier, we will also update the relevant cost assessment guidance documents to take account of the changes as they relate to AI for coordinated offshore transmission infrastructure. Further consultation on this will follow as needed in due course.

4. Minimising AI Risk with User Commitment

Section summary

In this section we outline our proposal that user commitment provisions under Section 15 of the Connection and Use of System Code should be extended to the later user of any shared infrastructure which is the subject of AI.

Questions

Question 10: Do you agree with the proposed extension of user commitment arrangements to the potential later user of offshore transmission infrastructure which has been funded by AI?

Question 11: Do you have any views on the manner in which the user commitment should be calculated?

Background to this Section

Underwriting AI Risk

4.1. In section 2, we outlined that under our proposed changes to how we treat AI, consumers will take on risk previously allocated to developers. Consumers will bear the risk associated with AI in the period before the later user connects to the transmission system and the risk that the potential later user never connects and uses the assets. The potential later user would not make a capital contribution to the cost of the infrastructure which is the subject of the AI. The first developer will receive certainty that costs will be considered for inclusion in the final transfer value paid by the OFTO after the cost assessment process. The first developer will then pay its share of the OFTO's revenues through use of system charges. The remainder will be socialised through use of system charges until the later user connects.

4.2. We have taken onboard the feedback that any potential later user cannot make a capital commitment prior to a final investment decision, noting that this has been one

of the key barriers to AI in offshore transmission to date. This has shaped the changes to policy which we are now implementing.

4.3. However, we also recognise that a later user may be able to cancel or reduce the capacity of its project without any financial consequences for the cost of the infrastructure.

4.4. While the eligibility criteria and early stage assessment process outlined in section 3 are intended to minimise the risk to consumers from oversized or stranded assets, there remains a residual risk that consumers could face higher charges by virtue of unused infrastructure which was intended to be shared. We therefore believe that it is appropriate to bring in additional measures which will place financial obligations on the potential later user with regard to the AI made on its behalf.

User Commitment

What is User Commitment

4.5. When a customer wishes to connect to the transmission system there is a need for investment by the transmission owner (TO). This is in both local assets needed to connect that customer to the system and sometimes wider system reinforcement to take account of the changed power capacity requirements on the system.

4.6. If a user decides to cancel its project or reduce capacity after works required to facilitate a connection have already begun, this would result in unnecessary costs to other network users which are ultimately borne by the end consumer. Prospective users are required to demonstrate their commitment to developing their scheme by putting in place user commitment arrangements which place liabilities on them in respect of the investment being undertaken on their behalf. [10] Section 15 of the Connection and User of System Code (CUSC) sets out how these liabilities are calculated and the security arrangements that will be required in respect of this. So if

[10] NG Electricity System Operator: Guidance for customer securities (CUSC Section 15) | nationalgrideso.com

a user does terminate or reduce the capacity of its project, it will be invoiced for the liability. If it is not paid, Electricity System Operator (ESO) will draw down on the security and pursue the outstanding debt.

4.7. To date, as offshore transmission assets are being progressed under developer build arrangements and so at developer's risk, there is no requirement to pay a cancellation charge in respect of these works or secure this under Section 15 of the CUSC. These have been radial connections which the developer effectively self-secures by building the offshore transmission works associated with its own connection. User commitment has not been considered necessary as the developer would effectively be indemnifying itself. The offshore developer does however provide user commitment, as a result of Section 15 of the CUSC, for onshore assets built by a TO to facilitate its connection.

4.8. OFTO build is treated the same way as onshore transmission in terms of user commitment. So under OFTO- build, there is provision for user commitment to be provided by the offshore wind developer to secure the OFTO work in the same way as for onshore transmission. The ESO effectively creates the cancellation charge by combining the two sources of costs (for the onshore TO and the OFTO) and passes it on to the offshore wind farm developer to secure. In practice, user commitments in respect of offshore transmission assets in GB have never been used because the OFTO build option has never been exercised by the owners of offshore wind projects.

Extending User Commitment Provisions to in an AI scenario - Rationale

4.9. Considering the proposed changes to how we treat AI and the likelihood that we will see initial users develop more shared offshore infrastructure on behalf of potential later users, we believe that it is appropriate that the ESO brings forward a code modification which will extend the provision of user commitment to new offshore transmission assets which provide offshore transmission works for more than a single user.

4.10. This applies the principles which already exist for onshore transmission development and offshore transmission development under the OFTO build model (but which has not been used).

4.11. The extension of user commitment arrangements to offshore transmission assets to cover any potential later user of offshore transmission assets funded by AI is intended to demonstrate commitment from the potential later user and demonstrates seriousness of purpose. For the avoidance of doubt, we do not contemplate any extension of user commitment arrangements to the original user or to the non-AI element of any offshore transmission infrastructure.

4.12. We have noted the feedback from our previous consultation that the potential later user is unable to make a financial commitment to capital expenditure (capex) for offshore transmission assets in advance of its final investment decision and how this has acted as a brake on coordination to date. Fundamentally, although the extension of user commitments to the potential later user of AI infrastructure will not eliminate the risk for consumers if the later project never comes online, it does go some way to reducing the liability which would fall to consumers.

Implementation

4.13. We encourage the ESO to bring forward a CUSC modification proposal for the Authority's approval to extend appropriate user commitment arrangements to new offshore transmission assets which provide offshore transmission works for more than a single user. We are engaged with the ESO on this matter.

Appendices

Index

Appendix 1 - Glossary

A

Anticipatory investment (AI)
Investment that goes beyond the needs of immediate generation, reflecting the needs created by a likely future generation project or projects.

Authority
The Gas and Electricity Markets Authority established by section 1(1) of the Utilities Act 2000. The Authority governs Ofgem.

C

Capex
Capital expenditure

CfD
Contracts for Difference

CION
Connections and Infrastructure Options Note

CUSC
Connection and Use of System Code

D

Developer
The Tender Regulations define a 'developer' as 'any person within section 6D(2)(a) of the Electricity Act 1989'. Section 6D(2)(a) of the Electricity Act defines such person as 'the person who made the connection request for the purposes of which the tender exercise has been, is being or is to be, held'. In practice, such person is also the entity responsible for the

construction of the generation assets and, under Generator Build, the Transmission Assets. In this document, 'Developer' is also used to refer to developers of electricity interconnectors.

E

Electricity Act or the Act
The Electricity Act 1989 as amended from time to time.

Electricity Interconnector Licence
A licence authorising a person to participate in the operation of an electricity interconnector.

ESO
Electricity System Operator

G

Generator Build
A model for the construction of Transmission Assets. Under this model, the Developer carries out the preliminary works, procurement, and construction of the Transmission Assets.

GFAI
Generator focused anticipatory investment

I

Interconnector Cost Assessment Guidance
Guidance document that sets out the processes that we follow whilst undertaking the cost assessments of electricity interconnectors.

IA
Impact Assessment

O

Ofgem

Office of Gas and Electricity Markets. Ofgem, "the Authority" and "we" are used interchangeably in this document.

OFTO
Offshore transmission owner

OFTO Build
A model for the construction of Transmission Assets. Under this model, Ofgem runs a tender to appoint an OFTO with responsibility for constructing and operating the Transmission Assets.

OFTO Cost Assessment Guidance
Guidance document that sets out the cost assessment process that Ofgem follows to determine the transfer value for an offshore transmission system.

OFTO Licence
The licence awarded under section 6(1)(b) of the Electricity Act following a tender exercise authorising an OFTO to participate in the transmission of electricity in respect of the relevant Transmission Assets. The licence sets out an OFTO's rights and obligations as the offshore transmission asset owner and operator.

OTNR
Offshore Transmission Network Review

T

TEC
Transmission Entry Capacity

Tender Regulations
Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015.

Tender Revenue Stream (TRS)
The payment an OFTO receives over its revenue term.

TO or Transmission Owner

An owner of a high-voltage transmission network or asset.

TNUoS

Transmission network use of system. TNUoS charging arrangements reflect the cost of building, operating, and maintaining the transmission system.

W

WNBI

Wider network benefit investment

Appendix 2 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (**GDPR**).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

3. With whom we will be sharing your personal data

Department for Business, Energy & Industrial Strategy and National Grid ESO.
We will publish your response to our consultation on our website. If your response includes personal data then we will publish your response as is, unless you tell us that you wish to have any personal data in the response redacted.

4. For how long we will keep your personal data, or criteria used to determine the retention period.

We will only retain your personal data for as long as:

- it is needed for the purposes set out in this document
- the law requires us to

In general, this means that we will only hold your personal data for a minimum of 1 year and a maximum of 7 years.

5. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data
- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

9. More information For more information on how Ofgem processes your data, click on the link to our "Ofgem privacy promise".