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Offshore Transmission Network Review (OTNR) – consultation on Ofgem’s Minded-to Decision on Anticipatory Investment and Implementation of Policy Changes

We refer to the consultation issued 14th April 2022 and welcome the opportunity to respond to the consultation.

Equinor is a global energy company, employing over 650 people in the UK. It is the UK’s largest supplier of crude oil and the largest supplier of natural gas, meeting more than 25% of UK demand. It operates the Mariner oil field and three offshore wind farms including Hywind Scotland, the world’s first floating wind farm. Equinor and partners are building Dogger Bank, the world’s largest offshore wind farm.

Equinor strongly support the need to enable anticipatory investments (AI) with a model of risk sharing between consumers and generators that recognises the commercial realities facing developers when making investment decisions. This is crucial to enable development of Early Opportunity projects that will develop a shared infrastructure. Our key comments to the consultations are:

- It is important that the model reflects that it is difficult for a later project to make substantial commitments before it has passed its Financial Investment Decision, which will be after it has received a CfD.
- In finding a solution for payment of AI Cost Gap it is important that the model chosen does not lead to higher total TNUoS charges for a later project.
- We support in principle that there is an extension of user commitment arrangements to a potential later user of offshore transmission infrastructure which has been funded by AI. However, it is important that the level and build-up of such commitments reflects that a later project can not commit substantial amounts until it has received a CfD and has passed FID. If material user commitments were required before this, then it will cut across the AI proposals and may result in a continuation of the status quo. We therefore welcome further guidance on at what stage in the user commitments will be required and how this is intended to be staged over time.

We have in the appendix included our detailed response to the relevant questions.

We would welcome the opportunity to present our response to the consultation in more detail.

Yours sincerely,


Torkel Sjoner

Equinor ASA

Appendix: Detailed response to the Consultation 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?

Yes, we support Ofgem's conclusion that it is most appropriate that consumers underwrite the risk of the AI Cost Gap until the later project starts paying TNUoS charges. We agree with the assessment that the potential later project is not in a position to commit to AI until it has the certainty of a CfD and has passed FID.

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?

We agree with the proposal to recover the AI Cost Gap from the later user if the later user connects. We also agree in principle that the cost recovery should take place over the period of the relevant OFTO licence, starting from the date that the later user starts to pay TNUoS charges. Given that the typical OFTO licence period is 25 years, we assume that this means that the later user has an increased TNUoS charge spread evenly over the residual licence period to recover the AI Cost Gap. For example, if the later user was connected 5 years into the licence period, the increased TNUoS payments to reflect the AI Cost Gap would be spread across the residual 20 years. If this is not Ofgem's intention, then further clarity is required.

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?

We agree with Ofgem's assessment that this is the right approach.

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

The objective of the Early Opportunities workstream is to facilitate greater coordination in the connection of offshore wind projects which are at a relatively advanced stage of the development process. As acknowledged by Ofgem and the industry respondents, under the current policy framework, we will not see an increase in developers taking AI risk and considering co-ordination opportunities, particularly for projects at this stage of development. This means that some allocation of AI risk to consumers is required to meet this objective.

In our view, policy option 3 strikes the right balance between incentivising coordinated projects to come forward but also protects the interests of consumers. This however, is based on the assumption that policy option 3 will not lead to increased total TNUoS charges for a later project compared to the situation where the project was connected from the start.

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

We assume this question relates to the assessment in section 4 of the associated initial impact assessment published alongside this consultation.

We have not assessed if the examples used are representative for Early Opportunities projects or not. Subject to this the modelled assessment of capital cost savings looks reasonable, and we do not have any specific views.

Please see our response to question 10 where we have given some reflections on the user commitments used in the example.

Anticipatory investment – early stage assessment

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

We support the introduction of an early stage assessment process. This is an important process to ensure early clarity for developers that the planned shared infrastructure and assumed costs are appropriate and that there are no surprises at the OFTO transfer stage.

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

We welcome the publication of guidance on this process, which should provide clarity on the information required by Ofgem. In relation to the details required under paragraph 3.9 of the consultation, we consider these to be generally reasonable, but we would guard against these being too prescriptive and certain details may need to be provided on an indicative or best estimates basis, given that it is in the interests of Ofgem and the industry to engage as early as possible and some information may only be available once a project has been more fully developed. Furthermore, clear guidance is needed in respect of the requirement set out at clause 3.19 for the re-assessment in the event of any “material” change to the coordination activities. This will be important for investors and funders, who will require clarity on the circumstances in which the assessment could be re-opened and the time periods that Ofgem has for any such re-assessment.

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

It is necessary that the early stage process can be concluded well ahead of the CfD qualification application process, as this will feed into the relevant projects bidding strategy (and perhaps which of the auctions the projects bid into).

We note Ofgem’s statement at paragraph 2.13 that *“in cases 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”*. We welcome this statement and we would add that in some cases, the failure to secure a CfD will be the reason for the diverging timelines. The process must therefore allow for divergence in the project timelines due to one project failing to secure a CfD in the relevant allocation round, i.e. not just where they are

intended to participate in different rounds from the outset of development/prior to the relevant CfD allocation round.

We welcome Ofgem's statement of intent that it would aim to conclude the assessment as soon as reasonably practicable. However, it would be of great assistance if this time period can be limited once the application is considered to be complete, particularly given that a further consultation period is proposed once the decisions has been made. We envisage that this could be similar to the processing time periods that apply to electricity and gas licence applications once they are considered to be "duly made".

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

From the perspective of the project investors and funders, as much certainty as possible is key to investment and bankability. Therefore, we would request that any "stipulations" (as referred to in paragraph 3.17) are limited where these are strictly required in connection with the AI recovery process and set out in as clear terms as possible (particularly given that there is inherent protection for consumers in the OFTO cost assessment process itself which will consider the "economic and efficient" costs in respect of the AI element).

We would further request that these are not expressed as absolute conditions. Any breach of such stipulations should lead to a fair and proportionate reduction in AI support at the cost assessment process, rather than expulsion from the AI process altogether.

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?

We support in principle that there is an extension of user commitment arrangements to a potential later user of offshore transmission infrastructure which has been funded by AI. However, it is important that the level and build-up of such commitments reflects that a later project can not commit substantial amounts until it has received a CfD and has passed FID. If material user commitments were required before this then it will cut across the AI proposals and may result in a continuation of the status quo. We therefore welcome further guidance on at what stage in the user commitments will be required and how this is intended to be staged over time.

We note that in the example provided in Table 6 of the associated initial impact assessment published alongside the consultation, the user commitment security for the later user is indicated to be just under 5% of the AI risk. This indicates further that the user commitment liability could be significantly higher. Acknowledging that this is just an example we argue that user commitments of such size is substantial and not likely something a project is able to commit to prior to CfD award and has passed FID.

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

Please see our comments to Q10. The most important consideration for the later user is that material user commitments are not required until post FID.

