

Adam Heffill
Offshore Coordination
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

9 June 2022

Dear Adam,

Consultation on our minded-to decision on anticipatory investment and implementation of policy changes

We welcome the opportunity to respond to your minded-to decision for the allocation of anticipatory investment (AI) in the Early Opportunities workstream of the Offshore Transmission Network Review (OTNR) and how Ofgem intends to implement changes in our policy on AI.

We remain fully supportive of the overall BEIS and Ofgem OTNR. As noted in our previous responses, OTNR is critical to ensure the necessary infrastructure required to facilitate the government's 2030 and Net Zero offshore wind targets is delivered at the most efficient cost for consumers.

ScottishPower is a major UK energy company with renewable generation, retail supply and network interests; we are a leading developer of wind power in the UK, and part of the Iberdrola Group, the world's leading renewables developer. Iberdrola is a global leader in tackling climate change, with a commitment to reaching carbon neutrality by 2050. This response mainly reflects the views of our renewables business, ScottishPower Renewables.

Whilst we have no projects that are part of the Early Opportunities Workstream, we welcome the opportunity to provide our comments on the proposals outlined in this consultation. We believe the proposals in respect of AI, to support the development of offshore wind, should be future-proofed to be applicable to 'Pathway to 2030' and beyond, given the limited scope for future reform in the medium term.

Our responses to the consultation questions are in Annex 1 to this letter, however we would like to highlight the following points.

We would again restate our position that we believe the inherent level of risk and exposure, when considering AI in the OTNR context, to be relatively low. Developers in the pipeline of projects will be significantly financially committed due to:

- having a seabed lease agreement or commitment to enter one, which has

substantial associated liabilities;

- having secured or being in the process of applying for environmental planning consents;
- having secured a route to market (eg contract for difference (CfD)) or being otherwise incentivised to seek the earliest opportunity to secure one.

For this reason, offshore wind developers will have a strong financial disincentive to walk away or abandon projects.

Whilst we believe that only minor Code changes and SQSS changes will be required, the amount of time, and the industry consensus that will need to be reached to progress with new concepts and solutions, should not be underestimated, for example developing user commitment for application to offshore.

Finally, we would ask for further clarification regarding the linkage between the Early Opportunities Workstream and Pathways to 2030 as it is unclear what assessment, if any, will apply to projects who connect as part of later workstreams.

If you have any questions regarding this response, please don't hesitate to contact me or my colleague Haren Thillainathan (hthillainathan@scottishpower.com).

Yours sincerely,



Richard Sweet
Head of Regulatory Policy

**CONSULTATION ON OUR MINDED-TO-DECISION ON ANTICIPATORY INVESTMENT
AND IMPLEMENTATION OF POLICY CHANGES -- SCOTTISHPOWER RESPONSE**

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?

We 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. We believe the proposals as set out, in this minded-to-decision will benefit both consumers and developers.

In our consultation response last year, we stated that Ofgem must ensure that any arrangements regarding the management of AI risk, does not allow for any funding arrangements to give certain developers undue advantages in forthcoming CFD auctions. We would expect arrangements to have no detrimental impact in any respect to any party.

We do however acknowledge that BEIS have committed to a review of the CfDs and to consider what changes may be necessary to facilitate coordination. In light of the linkage between TNUoS and the CfDs, we believe this should also form part of the scope for Ofgem as part of their role in OTNR.

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?

Yes, we agree with the proposal to recover the AI Cost Gap from the later user if the later user connects. Further clarity is required however as to the timescales that would apply to each party once the OFTO has been appointed and how TNUoS will be applied for all connecting parties on the basis they will not all connect at the same time.

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?

Yes, we agree with the Ofgem minded-to position with regards to allocation of AI Risk of non-connection by a later user to consumers. Developers in the pipeline of projects will be significantly financially committed due to a number of factors such as:

- having a seabed lease agreement or commitment to enter one, which has substantial associated liabilities;
- having secured or being in the process of applying for environmental planning consents;
- having secured a route to market (eg contract for difference (CfD)) or being otherwise incentivised to seek the earliest opportunity to secure one.

For this reason, offshore wind developers will have a strong financial disincentive to walk away or abandon projects. If undertaken robustly, factoring in commercial, planning and

consenting considerations, the Holistic Network Design (HND) should lead to coordinated shared offshore transmission solutions in relation to highly committed generation projects. In this context, we believe the anticipatory nature of any shared transmission investments is limited as is the risk of stranding.

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

We do not feel it is possible to offer a view either way based upon the information provided.

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

No comment.

Anticipatory Investment – Early Stage Assessment

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

Yes, we agree with the proposal set out by Ofgem to introduce an early-stage investment process, however we believe this approach should not be solely limited to Early Opportunities and should be a key consideration for Pathway to 2030 projects and beyond.

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

No comment.

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

Any early stage assessment process linked to AI must happen at the very early stages of the development of a project. Timing of this will be key to ensure developers can take account of commercial, design, planning and consenting considerations as part of their evaluation process.

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

No comment.

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?

Yes, we 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?

We have no specific comments on the manner in which the user commitment should be calculated. However, we ask Ofgem to take account of the following:

- Anticipatory investment should deliver on all of the objectives of the wider OTNR policy and ultimately assist in delivering net zero in the most economic and efficient manner.
- Any changes to user commitment arrangements must ensure that a level playing is maintained across all solutions, in particular where developers may be competing against each other for a CfD.
- The timescales to agree, approve and implement changes that are required to CUSC Section 15 via open governance. As such changes can often take considerable time, this should not create a barrier to the development of offshore projects.
- To ensure that User Commitment arrangements translate between onshore and offshore to deliver a level playing field. We have previously stated that the concept of user commitment, currently used in relation to onshore integrated transmission assets (CMP 192), could be adapted for use for offshore shared transmission assets. If appropriately adapted, user commitment will substantially reduce stranding in the unlikely event of termination before connection offshore.

ScottishPower
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