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Dear Offshore Coordination Team,

**REF: RWE's response to the consultation regarding Ofgem's Minded-to Decision on Multi-Purpose Interconnectors**

About RWE

RWE is a leading energy player with four main operating companies, of which three are active in the UK, including RWE Renewables, one of the world's leading renewable energy companies.

In the UK, RWE employs over 2,600 people and generates enough power for over 10 million homes, with a diverse portfolio of onshore and offshore wind, hydro, biomass and gas across England, Scotland and Wales. For a broad picture of the scale of our projects in the UK and Ireland, please see our infographic [here](#).

We have an ambitious commitment to expand our renewables portfolio in the UK, with around one-third of our planned global gross capex spend by end-2022 being invested into the UK. This is mostly on offshore wind, including our flagship Triton Knoll and Sofia projects.

RWE and its project partners have also signed Agreements for Lease with The Crown Estate to extend our existing Gwynt y Môr (North Wales), Galloper and Greater Gabbard (Suffolk), and Rampion (East Sussex) offshore wind projects. Most recently, we were successful in securing Preferred Bidder status for two further offshore sites amounting to 3,000MW in the Round 4 Leasing Round by The Crown Estate. We also have a significant and growing onshore renewables presence, with over 600MW of onshore wind in operation across 33 sites. We have ambitious plans to expand this portfolio out to 2030.

Our key points of feedback in relation to this minded-to decision are:

- Developers that are considering MPIs, in particular pilot MPIs need certainty for the duration of the assets. Potential changes to aspects such as licencing, reporting requirements or charging may act as a deterrent to developers from proceeding.

- We urge Ofgem to introduce an MPI licence as swiftly as it is possible to do so, as this would overcome the commercial risks associated with operating an MPI within the existing framework.

Please find our response to Ofgem's consultation questions below.

Kind regards,

Lois Leslie

Senior Regulatory Affairs Manager, RWE Renewables

## Minded-to decisions

### **Question 1: Do you have any concerns with the minded-to decisions set out in Section 2?**

#### MPI models under consideration

We agree with Ofgem's minded-to Decision not to limit the interim framework to one MPI model and that Ofgem should continue to accommodate both interconnector-led ("IC-led") and OFTO-led models, as well as others that might be in development such as the concept of energy islands.

Ofgem should ensure that the regulatory and Code changes required to facilitate MPIs do not exclude any of these concepts or variations that may develop in the future as the regulatory and commercial landscape surrounding MPIs evolves. We consider that this flexibility should also allow for staging of MPI projects to enable early connection of offshore generation thus supporting the enhanced renewable generation targets.

#### Asset classification, primary use and primary use reporting

We agree with Ofgem's view that under existing legislation, licence applications for multi-purpose assets will need to demonstrate the expected primary or main use of the asset. We have some concerns that basing the calculations for determining the primary use of the asset on capacity on load factors (of the connected offshore wind farm) could limit the flexibility that is needed in determining whether it is most appropriate for a particular MPI to be classed as interconnector or OFTO under the existing framework. We note that OFTOs are always sized according to the maximum capacity of an asset, not the average load factor of the wind farm, and therefore believe that there could be an overlap in the OFTO and Interconnector primary use definitions used to classify the MPI assets.

The average load factor method for determining the primary use asset class creates significant commercial risk for all parties which make up the MPI. For example, average load factor methodology would need to be reflective of the variation that may be seen in load factors during the initial commissioning years but also in a high or low wind year. Quirks of whatever methodology is used to determine the average load factors over time could result in an assumption that the "wrong" asset class was assigned to the OFTO-led or IC-led MPI and a breach of the Electricity Act.

Ofgem could consider whether it would be appropriate to include a mechanism or definition for an exceptional event within the primary use reporting process (similar to that currently in place in the current OFTO regime) to allow a degree of flexibility for risks or situations that arise that are not within reasonable control of the generation asset. This could help mitigate against some of the uncertainty linked to asset classification change due to variations in load factors – if that is the method used to determine asset class under the existing framework.

More generally, should there be concerns that the designated asset class may change over time due to a perceived "change in primary use" a mechanism to ensure regulatory certainty is maintained could be used. For example, a section 5 exemption to hold the relevant licence is granted by the Secretary of State or the granting of an MPI Licence up-front or, if this isn't possible, with the same Licence Conditions as the original Licence should a change ever be necessitated.

Further detail on how Ofgem would ensure that perverse outcomes are mitigated if determining primary use using an average load factor method would be useful.

We urge Ofgem to maintain as much flexibility as possible when determining the primary use definitions, and we would recommend the regulator to accept argumentation based on either the maximum capacity or load factor of a wind farm when determining the applicable licence. We believe that the current approach could close off the OFTO MPI route, as most commercially viable MPI solutions would either be sized according to the connecting windfarm or larger than the connecting windfarm. We reiterate the need to keep both options open for the interim solutions as assets have started development under both approaches and this limits the stranded asset risk for both an interconnector or a windfarm if the MPI solution cannot be realised.

It is important to note that large infrastructure projects require regulatory certainty for the duration of the project, from early development to construction and through to the end of the operational phase. We would therefore expect any designated asset class and associated licence to be granted for the lifespan of the asset. Developers will not be able to accept the risks associated with an asset class (and therefore licence type and associated obligations) changing over time.

Overall, we agree that Ofgem must take all reasonable steps to ensure that the appropriate licence has been granted initially, and that the generation, offshore transmission and interconnection obligations can be met as required.

In relation to MPI pilots, we agree that Ofgem should allow for a degree of flexibility at this early stage where projects are considering applying to be part of a MPI pilot. As above, factors such as variations in wind conditions might change the actual asset usage from what is anticipated at the point of application for a licence, where an MPI licence is not available and the existing framework must be used instead. We therefore consider it would be appropriate for MPI pilot projects to operate under existing frameworks (e.g. an amended interconnector or OFTO licence) or preferably an MPI licence, with no unexpected change of regime.

The development of an MPI Licence in time to be used for the Early Opportunities and Pathway to 2030 workstreams would overcome the current legislative constraints of the primary use reporting currently in the Electricity Act. We are urging government and BEIS to include a new asset class and licencing provision in the anticipated Energy Security Bill, as was announced in the Queen's Speech in Spring 2022. To reduce the commercial risks associated with operating an MPI under the existing framework this new MPI asset class should be applicable for projects connecting in before 2030 not just for the Enduring Regime (post 2030).

In relation to reporting requirements under the existing framework, we consider that operators of MPIs that are primarily for the export of power from an offshore wind farm should be exposed to the same reporting requirements as OFTOs operating a standard radial connection. MPIs that operate primarily as interconnectors should face the same reporting requirements as "standard" interconnector licensees.

#### Licensing additional activities on multi-use assets

We consider that further clarity is needed on the changes that will be introduced to the OFTO standard licence conditions if an MPI is to be developed in the OFTO-led model.

The Consultation details the proposed changes to the conditions associated with the interconnector licence (set out in Table 2 of the consultation), but the same has not been included for the OFTO licence. It is unclear why the two potential MPI models within the existing framework (OFTO-led and IC-led) are being treated differently? RWE urges Ofgem to undertake this activity in the same detail for the OFTO standard licence conditions to ensure that both potential models within the existing framework are on a level playing field.

It would be useful to understand when we will have the opportunity to comment on any changes proposed to the OFTO standard licence conditions, for example via a statutory consultation.

## Evolution of pre-existing assets to MPIs

We do not consider that MPIs would arise from pre-existing assets (i.e. those which are consented, in construction or operation) due to the technical need for electrical sharing of transmission assets to be planned from the early development phases of both generation and interconnector projects.

## **Question 2: Do you have any comments or concerns with the updates provided on wider policy considerations, as set out in Section 3?**

### MPI ownership structure

We agree with Ofgem's view that the collective effect of these provisions is that, under the current legal framework, an MPI would need to operate such that the different components of the MPI are owned and operated by different legal entities, each with its own licence – i.e. separate ownership of the OFTO, interconnector and generation assets. We consider that in this case there needs to be alignment between the OFTO and interconnector (Cap & Floor) regimes, in particular the same regime length for all legal entities.

As highlighted above, the development of an MPI Licence in time to be used for the Early Opportunities and Pathway to 2030 workstreams would overcome the current legislative constraints in terms of ownership as set out in the Electricity Act. We are urging government and BEIS to include a new asset class and licencing provision in the anticipated Energy Security Bill, as was announced in the Queen's Speech in Spring 2022. To reduce the commercial risks associated with operating an MPI under the existing framework this new MPI asset class should be applicable for projects connecting in before 2030 not just for the Enduring Regime (post 2030).

### Migration from Interim to Enduring framework

We disagree with the proposals for the potential to transition a pilot project into the enduring regime.

Large scale infrastructure projects require regulatory certainty. Early opportunity or Pathways to 2030 MPIs that come forward in the interim regime should not have to migrate to a future enduring regime. This may act as a deterrent to developers from proceeding with such pilot projects. It may be appropriate to transition such projects to an MPI Licence but only where the conditions of the pilot Licence are maintained, or amendment is agreed by all relevant parties.

Projects applying to the MPI pilot will need to have the certainty that the framework and regimes that these projects are being brought forward under will not unduly change over time.

We urge government and BEIS to include a new asset class and licencing provision in the anticipated Energy Security Bill, as was announced in the Queen's Speech in Spring 2022. This new MPI asset class should be applicable for projects connecting in before 2030 not just for the Enduring Regime (post 2030).

## Commercial and regulatory barriers – Contracts for Difference

We consider that more generally Ofgem and BEIS should ensure that the full suite of available routes to market for offshore wind (CfDs, merchant and PPA) are able to function effectively in the context of MPIs. It is important to recognise that CfDs are only one aspect that needs to be considered here, particularly as operation of the offshore wind farm and associated infrastructure will extend beyond the 15-year span of a CfD contract.

However, we would urge Ofgem to seek clarification from BEIS as soon as possible on CfD and MPI interactions as this route to market still remains a key pillar of investment options. In particular, BEIS and Ofgem should work collaboratively to understand the potential implications of payment models for offshore wind farms connected to MPIs. This will need to cover:

- MPI models and how the proposed Home Market and Offshore Bidding Zone (OBZ) models interact with current and future CfD policy. At a high level, this will need to assess the impact of potentially higher CfD payments in MPI models and the net impact of this on consumer costs when shared network costs are taken into account.
- Electricity licensing and transmission regulation, including how any potential solution in the OBZ model to support offshore wind projects with network constraint payments aligns to wider rules around sector unbundling

Secondly, RWE believes that BEIS should also complete a thorough review of the CfD contract and wider legislation to ensure it is fit for purpose for MPI connected projects. We will approach BEIS directly about this, but for completeness of sharing information with Ofgem we believe this review should involve:

- An assessment of how full CfD payments can be ensured regardless of cross-border flows
- Whether further support for MPIs is needed in CfD auctions through either bespoke allocation or a distinct pot or fund
- Whether a bespoke contract is needed to cover the different risks of MPI development

RWE believes this review needs to occur as soon as possible, owing to the unique nature of offshore wind projects connecting to MPIs. For example, the commercial viability of an MPI may be reliant on the award of both a cap and floor for the interconnector element of the project and a CfD for the offshore wind element. The CfD is awarded significantly later than the cap and floor and thus the project cannot proceed with certainty until the CfD is granted and FID is achieved for the wind farm. Therefore, we consider that clarity on CfD arrangements in MPIs is critical to overall project success and that it may be necessary to align CfD award dates closer to those of interconnectors in order to ensure the success of MPI assets.

## Commercial and regulatory barriers – Charging in IC-led model

We consider that the implementation of charging arrangements for MPIs should be transparent and robust to ensure that any future proposed changes (for example to remove defects) are subject to due process and do not cause unreasonable levels of uncertainty, in particular for MPI pilot projects. As referenced above, large scale infrastructure projects require as much certainty as possible.

We consider that the charging methodology for MPIs should be cost-reflective, fair and proportionate. Developers of interconnectors and generation should not be worse off in an MPI than the counterfactual (radial connections), as this could signal the combined projects to be less economic than if an MPI were not pursued. The cost and charging arrangements should reflect the economic benefits for both parties of sharing grid infrastructure via an MPI.

## Market Arrangements

As highlighted by Ofgem in the consultation, there are a number of considerations around different types of market arrangements and how these models link into aspects of the EU's Electricity Regulation. We agree that further work is needed to explore the potential implementation process and governance arrangements for the two solutions currently being considered (the Home Market model and the Offshore Bidding Zone model). In either case we consider it is important that Ofgem continues to recognise that in the context of MPI Pilot projects both solutions need to remain on the table.

We have some concerns in relation to transitioning from one model to another (i.e. from the HM model to the OBZ model) part way through operation of an asset. We consider it would be very difficult to amend CfD contracts, for example, and would create uncertainty for developers of both interconnectors and generation on their revenues and long-term outlook if a change could be “triggered” at a later stage.

More generally, we consider it is important to recognise that in its final conclusions on the Integrated Transmission Planning and Regulation project (ITPR) Ofgem previously stated:

“We will maintain continuity in the regulatory treatment of an existing transmission asset if it evolves into an MPP, and work with relevant parties to determine the most appropriate treatment of projects that are MPPs from the outset. For projects that evolve into MPPs, this means that we will look to ensure the GB regulatory arrangements don't require a change in ownership, and that owners of an existing asset are at least as well off from forming an MPP, providing the MPP is economic and efficient. Treatment of specific MPPs will also need to consider EU requirements, for example requirements relating to unbundling and third party access. Clarity in the regulatory approach for MPPs will mean this potential barrier to investment in flexible and coordinated network solutions is removed.”

Although this statement was published in the context of assets evolving into multi purpose projects (MPPs) we consider there are important parallels that should be noted. For example, the need for continuity in regulatory treatment from the outset. We have highlighted the need for certainty throughout our response to this consultation in the context of asset classification, primary use reporting and licencing but also in commercial terms in terms of charging and market arrangements.

This statement also highlights another key point “owners of existing assets are at least as well off from forming an MPP”. Ofgem should ensure it is mindful of this point and reflects this approach when considering the commercial aspects of MPI projects both at the pilot stage but also longer term (Enduring Regime).



