

Patricia Dunne
Offshore Coordination
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

13 June 2022

Dear Patricia,

Offshore Transmission Network Review – Multi-Purpose Interconnectors: minded-to decision on Interim Framework

We welcome the opportunity to respond to your minded-to decision on the Interim Framework for Multi-Purpose Interconnectors (MPI) as part of the Offshore Transmission Network Review (OTNR). 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.

We remain fully supportive of the overall BEIS and Ofgem OTNR. We have previously stated our support of the BEIS/Ofgem OTNR and view it as a timely opportunity to optimise the design of future transmission infrastructure to contribute to the effective and timely growth of the offshore wind sector in the UK. This will be critical to ensuring that 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. We have set out our detailed responses to the consultation questions in Annex 1, however we would highlight the following points.

Noting that the objective of the OTNR is to achieve greater offshore infrastructure coordination, MPIs will become part of an integrated offshore transmission network. In this context, we believe the optimal approach in the enduring OTNR regime should be to treat all shared offshore transmission assets, including MPIs, as the same licence asset class (as is the case for onshore transmission networks). These assets should be operated by the GB ISO and regulated on a consistent basis, ie subject to a regulated revenue stream secured through open competition. As a minimum, we would expect MPIs to be a separate licence asset type, distinct from interconnectors and offshore transmission asset operators (OFTOs). This would allow for more flexible and appropriate regulatory treatment for the more complex and integrated MPI schemes that are being identified through the holistic network design (HND).

While we support Ofgem's interim approach for MPIs as a pragmatic solution for the short term, we do not think it will be sustainable as MPIs become increasingly complex

and integrated as we progress towards 2030. In the interests of promoting regulatory certainty, to support this decade of ambitious offshore wind generation delivery targets, we would ask that:

- Ofgem and the Government commit to the earliest possible “Go-Live” date for MPIs for the enduring OTNR regime;
- Ofgem indicates how many MPI application windows would be required before go-live and would be subject to the proposed interim approach;
- any MPI project scheduled after the final application window would be guaranteed to receive the regulatory treatment expected under the enduring regime regardless of any delay to its go-live date.

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

**OFFSHORE TRANSMISSION NETWORK REVIEW – MULTI-PURPOSE
INTERCONNECTORS: MINDED-TO-DECISION ON INTERIM FRAMEWORK**

Section 2 Minded-to decision

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

MPI Models Under Consideration

We welcome Ofgem's decision to consider applications for both models, as well as others that might be under development. We further welcome Ofgem's position that the commercial and regulatory framework to support hybrid assets and MPIs, both within GB and other jurisdictions is still evolving. To impose a limited definition of MPI project scope at this stage could conflict with Ofgem's objective to facilitate early coordination ahead of 2030.

The choice between OFTO- and interconnector-led models reflects the fact that there are different configurations for MPIs, depending on where offshore generation connects. We note that Offshore wind farms linked via interconnector (IC-led model) should have priority access to the onshore GB system, and the same access rights as a radial OFTO link. They must also be able to comply with CfD requirements.

The consultation notes the uncertainty around near-term MPI projects, which are at different stages of development and sit within a regulatory and commercial environment that is shifting rapidly. Given this, we welcome Ofgem's recognition that configurations presented by developers should have the scope to change as required.

In the short term, we believe that Ofgem's decision to consider both the OFTO-led and interconnector-led model with a degree of flexibility is workable, recognising that present legislation does not allow for alternative approaches.

In the medium to long term, we believe MPIs will form part of the growing integrated offshore transmission system and, as noted in our response to the BEIS Consultation in November 2021, we consider that, as a minimum, MPIs should have a separate asset class distinct from generators, OFTOs and interconnectors to allow for more appropriate regulatory treatment of increasingly complex MPI schemes. We believe the optimal solution for the enduring regime is to utilise the offshore holistic network design (HND) approach and regard all shared offshore transmission assets as the same licence asset class (as is the case for onshore transmission networks). These assets should be operated by the GB ISO and regulated on a consistent basis under an Enduring Regime. We would expect the enduring regime would have the flexibility required to accommodate any additional asset uses that go beyond operating as part of the integrated offshore transmission system.

Primary use reporting

Any reporting requirement should not be burdensome and must meet the established regulatory objectives. We agree that Ofgem should be flexible, and work with near-term MPI projects on a case-by-case basis regarding primary use reporting. To ensure that reporting does not take up a lot of additional time and resources, basing a new reporting mechanism on a version of the Cap & Floor framework (for MPIs with interconnection as primary use) or OFTO Performance reporting (PA_t) (for MPIs with transmission as primary use) is a pragmatic solution for the short term.

We would request further detail from Ofgem on the penalty for MPI owners if the primary use of the asset differs from agreed-upon parameters.

Licensing additional activities on multi-use assets

It is pragmatic that, in the short term, Ofgem utilises both the OFTO and interconnector licences with the ability to add provisions as required. Whilst we welcome Ofgem's commitment to introduce changes to standard licence conditions, the position set out is somewhat unclear. We therefore ask that Ofgem provide greater clarity on the detail and timescales for such amendments as this will be crucial for any near-term MPI projects to progress.

As noted above, for future projects we believe, as a minimum, a separate licence class should be introduced to cover all future MPIs. Ideally, we believe MPIs should be included in a single asset class with all shared offshore transmission assets in the enduring regime.

Evolution of pre-existing assets to MPIs

We agree that Ofgem's proposal to consider applications from pre-existing interconnector schemes to become MPIs, on a case-by-case basis, is sensible.

Section 3: Wider Policy Considerations

Question2: 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 that in the short-term MPIs could be facilitated by adapting existing OFTO and interconnector licences. However as noted in our response to Question 1 under an enduring regime for future projects a single licence class should be created for all shared and integrated offshore transmission assets.

Migration from interim to enduring framework

As noted in our previous responses, the development of large scale infrastructure projects requires regulatory certainty. MPI projects that come forward during the interim regime should not be exposed to the risk of having to migrate to a future enduring regime. To do so would act as a barrier to future developments. To achieve this we recommend:

- the Government and Ofgem should commit to introduce the enduring regime at the earliest opportunity in line with our response to Question 1, with a target start or "Go-Live" date for example in the second half of the 2020s.
- Following the conclusion of the pilot MPI application window, Ofgem should indicate how many further MPI application windows it assesses would be required before the OTNR enduring regime go-live date and subject to Ofgem's proposed interim MPI approach.
- Ofgem should rerun its assessment of future MPI application windows for any revisions to the go-live date for the enduring regime. Any projects scheduled after the final application window and therefore affected by the delay should be able to

secure the same regulatory treatment through Ofgem's new additional application window that they would have received under the enduring regime.

Interaction with ICPR pilot MPI Cap & Floor framework

Whilst we welcome the announcement that Ofgem will run a pilot MPI Cap & Floor application framework in mid-2022, further information is required to fully understand the associated process and how it will be applied to eligible projects.

Commercial and regulatory barriers – CfD

Offshore wind farms linked via interconnector (IC-led model) should face a level playing field with competitors connected to OFTO-led schemes. This will have a significant impact on competition between developers in each allocation round of the contracts for difference (CfD) scheme. Specifically, they should be charged on the same basis for TNUoS charges and be subject to the same the basis of access to the GB transmission system and market.

Bearing in mind that the CfD remains a key aspect of any investment decision, further clarification is required on the linkage between CfD and MPIs and in particular any associated legislation that will apply to MPIs.

Commercial and regulatory barriers – charging in IC-led model

We refer to our previous comments set out above and would further note that it is not clear how transmission charging would be considered in the IC-led model. The offshore wind farm (OWF) would use the interconnector to convey its electricity to the GB onshore system but as interconnectors are not regarded as part of the GB NETS, there is currently no regulatory mechanism for the OWF to pay TNUoS charges.

Market arrangements

As stated in our response to BEIS last November, we believe that there are benefits in considering MPIs as part of a strategic plan. However, this will require BEIS and Ofgem to address the significant commercial, regulatory, and technical barriers in respect of MPIs, whilst taking account of the need to engage fully with counterparts in the EU and Norway. The GB electricity network needs to remain compatible with the EU, in order to facilitate efficient cross-border projects.

At this stage, we do not have a specific view on whether the Home Market model or Offshore Bidding Zone model would be preferable. This should become clearer when further information is available from the next stage of development where Ofgem has committed to "look to work closely and openly with future project developers, wider industry, other regulatory authorities and EU institutions".

ScottishPower

June 2022