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Dear Ofgem,

National Grid Ventures (NGV) welcomes the opportunity to respond to the Ofgem document **‘Offshore Transmission Network Review - Multi-Purpose Interconnectors: Minded-to Decision on interim framework’** (‘the minded-to document’). NGV has successfully developed and now successfully operates several point to point (P2P) interconnectors into GB. We are developing a number of multi-purpose interconnectors (MPIs) and have put these projects forward, opting into the “Early Opportunities” workstream as part of the Offshore Transmission Network Review process.

NGV considers that MPIs have a key role to play, within a coordinated offshore transmission regime, in delivering the UK’s ambition of 50GW of offshore wind by 2030 and delivering net zero by 2050. We consider that Ofgem and other key stakeholders need to work at pace to develop commercial and regulatory arrangements now that will facilitate the delivery of at least one MPI prior to 2030.

In this response we consider each of the five Ofgem ‘minded-to’ positions, and then we cover the ‘wider policy considerations’ set out in the minded-to document.

Minded-to Positions

1. MPI models under consideration

Minded-to decision: We will not limit the interim framework to one MPI model. We will be open to applications for both the IC-led model and the OFTO-led model, as well as others that might be in development.

NGV considers that the Interconnector-led model is a more natural extension of the existing framework and is more suited for the delivery of early MPIs. However, we agree with the rationale

set out in paragraph 2.6 of the minded-to document to keep all options open at this stage, and therefore we agree with this minded-to position.

2. Asset classification and primary use

Minded-to decision: Ofgem will require licence applications for multi-use assets to demonstrate the expected primary or main use of the asset. We recommend, as a minimum, that this includes a simple calculation using the estimated load factor of the connecting OWF and the L1 cable capacity to show how often the asset is expected to be available for cross-border flows compared with OWF output transmission over the lifetime of the asset, which would be monitored by developers and Ofgem on a regular basis.

NGV recognises that the actual configuration of specific MPIs is likely to be different in terms of the capacity of the wind connected to the MPI and the capacity of the cable. We note, however, that OFTO cables have always been sized to be at the maximum capacity of the windfarm and consider that this would be a stipulation from any offshore windfarm that connects to an MPI. Therefore, given the typical load factors set out in the minded-to document, we would expect that the MPI would be available for cross-border trade more than 50% of the time. We would therefore expect that the primary use would be that of an 'interconnector'.

We consider that any early MPI developer should set out the project specific configuration details at the appropriate time (either when it is applying via the MPI cap and floor application window or when it is applying for a licence).

Subject to the comments we make under the third minded-to position below, NGV supports this minded-to position.

3. Primary use reporting

Minded-to decision: We will introduce a reporting mechanism to monitor the asset use over time to ensure that the asset licence granted remains fit for purpose. We would expect to be a measurement based on the method the applicant has used to demonstrate asset usage in the first place eg OWF load factors and cable capacity.

Should asset usage fall out of the parameters agreed at the point of Ofgem granting the licence, we will deal with this on a case-by-case basis to avoid penalising early adopter projects while remaining compliant with our duties under the Act.

NGV agrees with Ofgem on the importance of ensuring that MPI assets remain suitably licensed based on their primary purpose. NGV considers that the licence classification should be based on the asset configuration, not on asset flows that are driven by market situations.

NGV agrees that an appropriate reporting mechanism should be in place for MPIs. Where possible, this reporting mechanism should be combined with other regular reporting requirements (for instance for other cap and floor requirements). Additionally, the reporting mechanism should not be overburdensome for either the licensee or Ofgem and should only provide the necessary data required for Ofgem to consider 'primary use'.

In terms of the detail set out in Table 1 of the minded-to document:

- We consider that half hour granularity of physical flows would be too detailed to be of use;
- We recommend a report showing daily totals of average MW flow is appropriate – broken down in each direction, and further broken down into that which is derived from the windfarm and that which is derived from the connecting country; and
- We agree that annual aggregated reporting will also be useful to indicate primary use over the whole reporting period.

NGV welcomes the comfort provided by Ofgem on managing the risk of asset re-classification post operation (paragraphs 2.41 – 2.44). Regulatory certainty will be very important in getting these first of a kind, innovative projects off the ground, and we recommend that once the ‘primary use’ is determined it is only subsequently changed in the most extreme of circumstances.

We agree with the minded-to position and would be happy to work with Ofgem to develop the detail of any reporting mechanism as well as considering a process relating to asset re-classification.

4. Licencing additional activities on multi-use assets

Minded-to decision: We will introduce changes to the interconnector standard licence conditions so that interconnectors that form part of an MPI are bound by the appropriate obligations in relation to their additional activities. We will introduce changes to the OFTO standard licence conditions so that OFTOs that form part of an MPI are bound by the appropriate obligations in relation to their additional activities. We note that before an OFTO licence is granted, there is a need for the competitive tender process to be undertaken first. We have not considered that in scope of this document.

NGV notes that the minded-to document only contains an overview of the potential changes that may be required to the Standard Licence Conditions of the interconnector licence, and looks forward to seeing more detail in this area – particularly in regard of the changes that may be required to the OFTO licence.

We note comments in the consultation regarding priority access for the offshore windfarm, and further note that depending upon the market arrangements that apply (offshore bidding zone or home market – please see our comments below), this may not be necessary. It will be important to make sure that there is a consistent set of proposals across all the different aspects of the framework as the arrangements for MPIs are developed.

NGV agrees with this minded-to position.

5. Evolution of pre-existing assets to MPIs

Minded-to decision: We will not be inviting licence applications for pre-existing assets to evolve into MPIs. While we will not be setting out a process for these, in the interests of being open to early innovation at this stage in the OTNR, we will consider such situations on a case-by-case basis.

We will bear in mind our 2015 ITPR conclusions to maintain continuity of regulatory approach for assets that evolve into multi-purpose projects (which include MPIs).

NGV agrees with this minded-to position.

Wider policy considerations

1. MPI ownership structure

NGV agrees with Ofgem's statement that the different components of the MPI are owned and operated by different legal entities.

2. Migration from Interim to Enduring framework

We support Ofgem's position of considering this issue in due course as policy surrounding any enduring regime is shared by BEIS. We agree that Ofgem must consider migration from a consumer protection perspective, but it is important that it is also considered from an investor's perspective as well. To enable these first of a kind, innovative projects to get off the ground, potential investors will require revenue and returns certainty, and the assurance that any migration from one regulatory regime to another will not be financially detrimental.

3. Interaction with Ofgem's Interconnector Policy Review Pilot MPI Cap & Floor framework

We agree with Ofgem's comments in this regard.

4. Commercial and regulatory barriers – Contracts for Difference

NGV believes that it is critical that CfDs can still be granted to offshore windfarms that connect to MPIs – otherwise there would be little, or no, incentive for them to do so. We believe that clarity in relation to eligibility for CfDs in this instance is required as soon as is possible to provide the necessary assurance to potential project partners, and we urge Ofgem and BEIS to provide this clarity at the earliest opportunity.

5. Commercial and regulatory barriers – Charging in IC-led model

NGV agrees that this is an issue that needs to be addressed, and that an appropriate charging methodology is developed for MPIs which is consistent with the rest of the overall commercial framework. NGV is developing proposals for how such a charging methodology may fit within the overall contractual arrangements between the offshore windfarm, the MPI and NGESO. We consider that there is a helpful precedent provided by the arrangements for large onshore generators that connect to distribution networks. In this instance, local charges for use of the distribution network are levied via a distribution system charging methodology, while the wider use of onshore transmission network remains via the CUSC transmission charging methodology.

We would propose a similar charging structure for an MPI. The standard conditions of the Interconnector Licence already provide for an interconnector charging methodology which has to be objective, transparent, non-discriminatory and compliant with retained EU Regulations, and approved by The Authority. This would set the basis for the local charges for connection to, and use of, the MPI. The offshore generating unit would still retain a contractual relationship with the ESO and via its bilateral agreement would still pay wider onshore transmission system charges under the pre-existing CUSC transmission charging methodology. NGV considers that this would be preferable to the option of using the cap and floor reporting mechanism as proposed in the minded-to document.

NGV will continue to develop our proposals in this area and is ready to discuss these with Ofgem whenever convenient.

6. Market Arrangements

NGV has a number of comments to make on this issue.

- **Reintroduction of implicit cross-border trading arrangements** – as highlighted in the minded-to document, cross-border electricity trading has changed following the UK's exit from the EU. Cross-border capacity is currently being sold (at the day-ahead stage) by explicit auctions (where cross-border capacity is sold separately from energy) – with the exception of the GB-Norway border (see below). Whilst this continues to facilitate flows on interconnectors, NGV would like to see a return to day-ahead implicit auctions (where cross-border capacity and energy are sold together) as soon as possible. NGV considers that the additional complexity of MPIs would make explicit trading less efficient and therefore considers the return of some kind of implicit trading (e.g. MRLVC as considered by the TCA) to be a key enabler for the development of MPIs. It remains to be seen whether MRLVC can be delivered, but if it cannot, then it is worth noting that day ahead implicit arrangements are operating successfully on the GB-Norwegian border and consideration could be given to expand these arrangements. We hope that progress in this regard can be made very soon, and welcome the efforts being made by Ofgem and BEIS to facilitate re-engagement with our EU neighbours.
- **Home Market (HM) vs Offshore Bidding Zone (OBZ) models** – NGV has carefully considered the pros and cons of these models and has concluded that OBZ is the best option – in terms of promoting most efficient trade, and in relation to solving the issue of the '70% rule'. We agree with the challenges relating to the HM model that Ofgem points out in the consultation including the issue of priority access for the windfarm above any cross-border trade. We note the point that offshore windfarms are likely to receive reduced revenues in the OBZ model, and note that the Ofgem document (paragraph 3.23) highlights the EC guidance that OBZ delivers "proportionately higher congestion income to be earned by transmission owners". It is worth noting that OBZ delivers broadly the same revenue as a point-to-point interconnector whereas HM delivers less. Thus, OBZ can fund proportionately more asset infrastructure from congestion income, whereas HM needs proportionately greater funding from other sources which could be potentially via regulated charges. In order to ensure that any arrangements are equitable, NGV believes that it is important that holistic commercial and regulatory frameworks are developed for

MPIs that balance all the different factors at play to deliver an appropriate outcome for all stakeholders. These factors include:

- Type of market model (OBZ vs HM)
- Contractual arrangements between OSWF and MPI, MPI and NGESO, and OSWF and NGESO
- Charging arrangements for the OSWF to use the MPI
- CfD arrangements for the OSWF
- The regulatory regime applicable to the MPI.

As indicated previously in this response, NGV continues to develop this holistic model and will continue to engage with Ofgem as we do this. NGV considers that we should be aiming to develop OBZ models for any pilot MPIs that could be operational before 2030.

We welcome Ofgem's statement that it will look to work closely with future project developers, wider industry, other regulatory authorities and EU institutions. We remain committed to engage with Ofgem on this development and propose that an industry working group (potentially comprising of Ofgem, BEIS, ESO, potential MPI developers, and offshore windfarms) is established to push these discussions forward at pace.

NGV remains committed to developing, building, and having at least one MPI in operation before 2030. We are ready to support Ofgem in anyway in the rapid development of commercial, regulatory and market arrangements to make sure that this can happen.

Please contact me if you would like to discuss any aspect of this response.

Yours faithfully

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