Making a positive difference
for energy consumers

Multi-purpose interconnector developers, offshore wind generators and any interested parties

Email: offshore.coordination@ofgem.gov.uk

Date: 7 December 2022

Dear stakeholders,

Update following our consultation on the Multi-purpose Interconnector interim framework

The purpose of this document is to provide an update on our work on Multi-purpose Interconnectors (**MPIs**), including through the Offshore Transmission Network Review (**OTNR**). This includes an update on MPI pilot project applications, an overview of responses to our April 2022 consultation in which we asked for feedback on our minded-to decisions on an interim regulatory framework, and an update on next steps.

Background

The Offshore Transmission Network Review (OTNR) was launched in July 2020 with the objective to ensure that the transmission connections for offshore wind generation are delivered in the most appropriate way, considering the increased ambition for offshore wind to achieve net zero. This aims to find the appropriate balance between environmental, social and economic costs.

The MPI workstream of the OTNR seeks to make amendments to the current policy, regulatory and legal framework to facilitate MPIs. In advance of any enduring regime for MPIs, the MPI workstream aims to use existing legal and regulatory frameworks to enable early MPI projects on an interim basis. In the longer term, the Department for Business, Energy and Industrial Strategy (**BEIS**) will seek to establish an enduring MPI regime, including a specific MPI licence. This may be accomplished through changes to the Electricity Energy Act 1989 (**the Act**), to include provisions for additional MPI activities.

In parallel with the OTNR, in August 2020 we launched a review of our regulatory policy and approach to new electricity interconnectors. In our Interconnector Policy Review (**ICPR**)

decision,[1] published in December 2021, we decided to proceed with an MPI pilot application process. This scheme aims to enable investment in low carbon infrastructure at a fair cost for GB consumers and enable the more effective coordination in the delivery of low-cost offshore networks.

The MPI pilot application period was open from 1 September to 31 October 2022, and attracted applications from four potential projects. After completing our eligibility check on the project applications, we are able to confirm that we will be progressing all four projects to the pilot selection phase. Applicants that are successful in the pilot selection phase will then proceed to the next assessment phase.

In April 2022 we also published our consultation on Multi-Purpose Interconnectors: Minded - to Decision on interim framework[2] ("**April 2022 Publication**") in which we asked for feedback on our minded-to decisions in order to shape future policy development. See Appendix 1 and 2 for a summary of the responses to this April 2022 Publication.

Next steps for our MPI workstreams

Now that our MPI pilot application window has closed, we aim to test our policy assumptions and facilitate an MPI pilot regulatory framework for these early MPI projects.

We aim to work collaboratively with developers and other regulators to put in place the building blocks that will enable the near-term implementation of these projects.

Following MPI pilot project selection around the end of 2022, we plan to consult on the MPI regime in the first half of 2023 and to confirm our decisions in late 2023.

We welcome continued engagement with industry in order to shape policy decisions and timelines. The newly introduced MPI Framework Discussion Group (**MFDG**) also aims to facilitate these discussions across industry. Please email cap.floor@ofgem.gov.uk if you would like to be involved.

We have outlined some of the policy considerations that we are continuing to explore below and will provide further updates on these in due course.

Asset Classification

Based on the feedback we have received in our April 2022 Publication, we plan to explore other aspects of asset classification further. Therefore, we will continue to explore the criteria required to classify assets based on their expected primary use.

[1] https://www.ofgem.gov.uk/publications/interconnector-policy-review-decision

[2] Offshore Transmission Network Review – Multi-Purpose Interconnectors: Minded-to Decision on interim framework

We welcome continued stakeholder engagement on this topic before making a decision on the policy for classification of MPI assets in the interim regime. In the enduring regime, led by BEIS, we anticipate that there may be creation of a specific MPI asset class (i.e. an asset with a 'multi-purpose' role of both transmission and interconnection).

Primary Use Reporting

Following our April 2022 Publication, our aim is to include primary reporting for the interim MPI regime. We intend to do further work to develop the policy before we provide detailed implementation proposals.

Following stakeholder feedback and our own internal analysis and advice, we will continue to explore relevant and useful criteria to help develop a policy that would provide appropriate reporting for the interim MPI regime.

Interim Licence Arrangements

We have consolidated the licence amendments we believe are required in the current interconnector and Offshore Transmission Owner (**OFTO**) licences, given that no standalone MPI licence currently exists.

We are establishing a working group reporting to the MFDG to facilitate stakeholder engagement with industry and to consolidate views to inform our development of interim licence arrangements. These amendments will be necessary because an MPI will be performing additional activities over and above those indicated in the current interconnector and OFTO licences.

Market Arrangements

In our April 2022 Publication we summarised the responses received to the July 2021 consultation on market arrangements for MPIs, and further elaborated on potential market model design options.[3] Following the April 2022 Publication, we received 17 responses, of which 14 included feedback or views related to market arrangements for MPIs.

Stakeholders provided feedback on areas such as market model design for MPIs (Home Market (**HM**) and Offshore Bidding Zone (**OBZ**)) and wider cross-border market

[3] Consultation - Changes intended to bring about greater coordination in the development of offshore energy networks

arrangements - including the future arrangements envisaged under the Trade and Cooperation Agreement (the **TCA**).[4]

Respondents also outlined the links and dependencies that market arrangements for MPIs have with other key policy areas such as Contracts for Difference (**CfDs**). Further, stakeholders highlighted the need for Ofgem and government to work closely with their counterparts in EU Member States and Norway in order to determine the trading arrangements for MPIs. Finally, respondents emphasised that there still remains the need for further work on market arrangements for MPIs and for further engagement with the wider industry. Please see Appendix 2 for a detailed summary of these responses.

After carefully considering the responses, we acknowledge the need for further work in this area to support more certainty for developers and to outline the potential market arrangements for MPIs in the future. Therefore, we are going to:

- Create a separate workstream within wider ongoing work on MPIs that will focus solely on the development of market arrangements for MPIs;
- Commit to working closely and jointly with BEIS on key policy considerations in this space;
- Commit to engaging closely with wider industry and interested stakeholders on market arrangements for MPIs; and
- Provide clarity on next steps and deliverables as soon as possible.

We will do the above whilst acknowledging the links and dependencies that market arrangements for MPIs have with other key policy areas, such as CfDs and development of the future cross-border market arrangements under the TCA.

Charging Arrangements

Interconnectors and offshore wind farms (**OWF**) currently have different charging arrangements with regards to use of the GB National Electricity Transmission System (**NETS**). Currently, no such charging mechanisms exist for MPIs.

In the interconnector-led MPI model the OWF would use the interconnector to convey its electricity to the GB onshore system. However, as interconnectors are not regarded as part of the GB NETS, there is currently no regulatory mechanism for the OWF to pay Transmission Network Use of System (**TNUoS**) charges for their potential impact on the GB network.

[4] Trade and Cooperation Agreement between the United Kingdom of Great Britain and Northern Ireland, of the one part, and the European Union and the European Atomic Energy Community, of the other part

This is not the case in an OFTO arrangement, where, as outlined in Section 14 of the Connection and Use of System Code (**CUSC**), OWFs pay TNUoS in respect of both the onshore GB transmission system and for the use of the OFTO assets.

We appreciate that large scale infrastructure projects require as much certainty as possible as to their potential financial liabilities including the charges to which they will be subject. The implementation of charging arrangements for MPIs should be transparent and robust to ensure that they do not cause unreasonable levels of uncertainty for developers. In addition, we must also consider consumer interests and must ensure that projects pay appropriate charges for use of assets.

We would value continued engagement with industry on the charging principles for MPIs. We envisage that the charging considerations will mostly be driven by the ESO code modification process.

Contracts for Difference

The Contracts for Difference (**CfD**) scheme is the government's main mechanism for supporting new low-carbon electricity generation projects in Great Britain, and in the context of MPIs, the OWF.

As noted in our April 2022 Publication, responses to the July 2021 consultation highlighted the commercial importance of ensuring that CfDs can still be granted to OWFs connecting to the GB NETS via an interconnector-led MPI rather than a transmission licensee.

As per the feedback we received to our April 2022 Publication (see Appendix 2), we understand the importance of developing an appropriate policy regarding the participation of OWFs in the CfD scheme. We will continue to explore this area and its interactions with other policy areas by working closely with BEIS as they explore MPI eligibility in the CfD scheme.

Moving from interim to enduring frameworks

In the April 2022 Publication we indicated that further work is needed to explore whether it is appropriate for early MPI projects under the interim regime to migrate to the enduring regime in future if this is taken forward by BEIS.

We received feedback from 8 stakeholders addressing migration from the interim to the enduring framework with regards to MPIs, both from a consumer protection and investment perspective. A strong trend from responses indicated that interim MPI projects would prefer the optionality and flexibility to switch to the enduring framework as opposed to being obligated to do so. Four respondents highlighted the importance that first-mover projects

should not be penalised if they were to transfer to an enduring regime, and that any transfer to an enduring regime should not be financially detrimental and should not create uncertainty in the regulatory regime.

We recognise and appreciate stakeholder feedback regarding licence optionality in order to provide regulatory certainty for investment. There are a number of factors to consider from a practical and consumer protection perspective. Ofgem are working with BEIS to explore this further and consider a suitable approach that delivers for industry and consumers, without penalising early opportunity MPI projects that have come forward under the interim framework.

MPI ownership structure

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. In our April 2022 Publication we confirmed that under an interim MPI regime, there will be no exceptions or adaptions to this requirement and the status-quo remains.

We will continue to focus on developing interim arrangements under the currently applicable legal framework while trying to adapt the regulatory and licencing arrangements for the MPI pilot applicant projects. We recognise the feedback received from stakeholders and will continue to work with BEIS on the enduring regime for MPIs.

If you have any questions or comments on the contents of this letter, please contact Joshua Coomber at offshore.coordination@ofgem.gov.uk.

Yours sincerely,

Stuart Borland
Deputy Director, Offshore Network Regulation

Appendix 1 – Summary of responses to our April 2022 Minded-to Decisions

Our April 2022 Publication closed on 9 June 2022 and we received a total of 17 responses from stakeholders.[5]

Feedback was broadly supportive of our proposals noting that further analysis and industry engagement is required, including on (but not limited to) asset classification, licensing and market arrangements.

In the interest of transparency, where responses are not confidential, we have uploaded the responses received by developers alongside this letter.

MPI Models under consideration
In our April 2022 Publication we said that we will not limit the interim framework to one MPI model. We will be open to applications for both interconnector-led and OFTO-led models, as well as others that might be in development.
Summary of Responses
Out of the 17 responses, 13 responded to our minded-to decision on MPI models under consideration. All responses supported our decision to retain flexibility by not limiting the interim regime to either interconnector-led or OFTO-led (plus any other potential models). Two stakeholders noted that there may be some interaction with the Holistic Network Design (**HND**), where interconnectors could potentially form part of an integrated offshore grid. For example, MPIs connecting to the GB grid via onshore-to-onshore links referred to as 'bootstraps.' One stakeholder requested Ofgem consider the combination of MPIs with other projects, such as providing power to offshore Oil & Gas platforms which may bring about cost efficiency and benefit to the consumer. Two stakeholders highlighted the importance of having a bespoke MPI licence for MPI projects with one stakeholder encouraging BEIS and Ofgem to implement this as soon as possible.

Asset Classification and Primary Use
In our April 2022 Publication we set out that we will require licence applications for multi-use assets to demonstrate the expected primary or main use of the asset. We recommended, 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

[5] Offshore Transmission Network Review – Multi-Purpose Interconnectors: Minded-to Decision on interim framework | Ofgem

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.

Note - We define the L1 (Line 1) asset as the cable from the GB shore to the offshore generator.

Summary of Responses

There were 10 responses to the minded-to decision on 'Asset classification and primary use'. Of these, seven broadly agreed that it was appropriate to use OWF load factors as a tool for asset classification. Two disagreed, while another did not agree nor explicitly disagree.

Of those who agreed, concerns were expressed around how classification would be impacted by exceptional circumstances where the primary use may change if based on OWF load factors. For example, seasonal weather patterns and operations during commissioning year could affect the OWF load factor. Market situations could also drive the flows of electricity and thus the flows of OWF generation down the L1 asset. Stakeholders sought clarity on how Ofgem would manage these instances where the primary use would change using load factor.

Four respondents highlighted a need for some flexibility when defining the primary use of the asset. This is due to the potential risk of misclassification caused by uncontrollable circumstances affecting the OWF's load factor, such as the commissioning year of the OWF, plus low or high wind years. The classification of the asset would need to consider these factors. One stakeholder stated that assets should only be re-classified in the most extreme of circumstances.

One of the respondents, who disagreed with Ofgem's position of using the OWF's estimated load factor, noted seasonal weather patterns could alter the primary use and that there is a lack of clarity on the market arrangements for early MPI projects. They stated the proposed approach would mean licence compliance would be subject to uncontrollable external factors, such as weather and markets – thus negatively impacting the bankability of early MPI projects. The other respondent who disagreed stated that the L1 cable should be defined as per the L1 asset's configuration as opposed to asset flows. They also stated how market situations could alter the defined primary use if using the OWF load factor.

Two respondents recognised that in the interim regime Ofgem must use current regulatory tools to facilitate MPIs. Recognising that this is not the optimal solution, but

doing so creates an avenue for early MPI projects to progress. Three respondents highlighted the need for the enduring MPI regime whereby MPIs would be regulated via an MPI licence. This is an area of work currently being led by BEIS.

Primary Use Reporting

In our April 2022 Publication we proposed to introduce a reporting mechanism to monitor the asset use over time to ensure that the asset licence granted remains fit for purpose. We stated we would expect this to be a measurement based on the method the applicant has used to demonstrate asset usage in the first place e.g. OWF load factors and cable capacity.

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

Summary of Responses

We had 11 responses to this minded-to decision. Six agreed in principle that reporting is required to ensure the licence granted to the L1 asset remains fit for purpose.

Stakeholders broadly expressed similar concerns, in particular outlining that the reporting process must not be burdensome with one requesting that clarity is required for instances where reported primary use differs from the agreed upon licence. For example, what happens if the owner of the L1 asset is granted an interconnector licence based off estimated load factor, then reporting demonstrates they transmit more generated OWF electricity than interconnection electricity down the L1 asset. The consequence of this would be that they are not fully compliant with their licence conditions.

One respondent disagreed with Ofgem's proposal citing the reporting proposed is burdensome and clarity is needed on how interim compliance is maintained (i.e. if the primary use were to change). However, they did agree with the principle that early projects should not be penalised where assets are being used differently than the original intended purpose. Two stakeholders cited a need for a possible exemption in these instances.

Stakeholders also noted potential additional criteria to aid in reporting of asset, such as the asset configuration of the MPI (in instances where asset flows are triggered by market conditions), suggested amends to the timescale granularity of the reporting and

availability of the asset. Ofgem will review and consider all suggestions from stakeholders.

Licensing additional activities on multi-use assets

In our April 2022 Publication we proposed that Ofgem 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.

Summary of Responses

We had 10 responses to this minded-to decision. Four stakeholders agreed while six did not explicitly agree or disagree.

One stakeholder highlighted changes to the interconnector licence should enable a level playing field for windfarms connecting via interconnectors when compared to existing radial connections, i.e., an OWF should not be worse off in an MPI (whether IC-led or OFTO-led) when compared to a singular radial connection to UK shore via an OFTO.

One stakeholder stated that ideally MPIs will have a separate licence in the enduring regime; however, recognised Ofgem is taking a pragmatic approach for the interim. Another stakeholder suggested licences may need to accommodate the possibility of offshore demand connections.

A common request across responses was for clarity on what the necessary changes will be and when they will occur. Three stakeholders also requested clarity on changes and timelines for amendments to the OFTO licence.

Evolution of pre-existing assets into MPIs

In our April 2022 publication we stated that 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 indicated that we would bear in mind our 2015 ITPR conclusions to maintain continuity of regulatory approach for assets that evolve into multi-purpose projects (which include MPIs).

Summary of Responses
10 stakeholders addressed our minded-to proposal regarding MPIs evolving from pre-existing assets. All, bar one neutral respondent, agreed with Ofgem's decision to focus on designing an interim regime for MPIs which are 'multi-purpose' from the outset.

Appendix 2 – Summary of responses to our April 2022 Wider Policy Considerations

Market Arrangements

In our April 2022 Publication we summarised the responses received to our July 2021 consultation on market arrangements for MPIs, and further elaborated on potential market model design options. In response to the April 2022 Publication we received 17 responses, of which 14 included feedback related to market arrangements for MPIs.

Market model design for MPIs

In the April 2022 Publication, we described that there are currently two proposed market models for MPIs - the Home Market (**HM**) and the Offshore Bidding Zone (**OBZ**).[6] We explored differences between the two market models, their envisaged functioning, and the potential benefits and challenges of each. We also referenced the views shared in the European Commission's (**EC**) Offshore Strategy document and other related publications, and noted the apparent preference of the OBZ model.[7] We also indicated that we are interested in exploring the possibility of a transition between the HM and OBZ models. Seven respondents expressed their direct views on the design of bidding zone arrangements for MPIs and four respondents reflected on the potential transition between the two market models.

One respondent was strongly in favour of the OBZ solution as they believe it would promote the most economically efficient trade. However, they also reflected on the challenges of the OBZ model, namely that Offshore Wind Farms (**OWFs**) will most likely receive lower revenues under this set up. In their view, an MPI under the OBZ model will deliver similar revenue as a point-to-point interconnector, while the HM model will deliver less revenue in the form of congestion rent. They argued that this congestion revenue under the OBZ model could be used in proportionately funding more infrastructure assets, while under the HM model there will be a need to obtain that funding via other means, such as regulated charges. The respondent also urged Ofgem and BEIS to provide more clarity in terms of interactions between Contracts for Difference (**CfDs**) and market arrangements for MPIs.

Another respondent, in contrast, was strongly in favour of the HM solution. They stated that, in their opinion, the HM model is the best solution for early opportunity MPIs. Their reasoning was that this approach will provide revenue stability for OWFs, early delivery (arguing that implementation of the OBZ model will take longer) and compatibility with CfDs regime. They expressed concerns that the OBZ model could create a significant uncertainty for OWFs and that the envisaged reduction in revenue faced by an OWF under that set-up will likely need to be compensated through other means such as CfDs, Power Purchase Agreements (**PPAs**)

[6] The Home Market (HM) model is whereby the Offshore Wind Farm (OWF) forms part of its "home" bidding zone, while the Offshore Bidding Zone (OBZ) approach is whereby a separate bidding zone exists which contains one or more OWFs.
[7] European Commission's (EC) guidance (Guidance on electricity market arrangements: A future-proof market design for offshore renewable hybrid projects) accompanying the EU Offshore Renewable Energy Strategy (An EU Strategy to harness the potential of offshore renewable energy for a climate neutral future).

or congestion rent re-allocation. Finally, they shared their view that physical power flows are unlikely to differ under the OBZ and HM set-ups.

Another respondent raised their view that Ofgem and BEIS need to work collaboratively to understand the potential implications of payment models for OWFs connected to MPIs. That respondent did not state their preference over the bidding zone set-up, but said that further work is required to understand interactions between the current CfDs regime and the HM and OBZ arrangements. This view was shared by another respondent.

Further, four respondents were not in a position, at least at the present time, to express their firm preference over the two considered arrangements but supported the need for further work, analysis and engagement in this area. One of these respondents stated they are currently exploring both options and that these should be considered alongside with wider market reforms such as BEIS' Review of Electricity Market Arrangements (**REMA**).[8]

In terms of a potential transition between the HM and OBZ models, four respondents expressed a concern in relation to transitioning part way through the operation of an asset and the need to have certainty of regulatory regime throughout the asset life. They expressed concern that it would be difficult to amend CfDs contracts, and it would create uncertainty for developers on their revenues and long-term outlooks. One of the four respondents mentioned that a change from the HM to the OBZ model would fundamentally change the risk-reward balance of an asset. That respondent recommended transitioning market model would require extensive consideration before Final Investment Decision (**FID**) stage as such change could affect CfDs and PPAs arrangements and post-CfDs period outlook for an OWF.

The market models are one of the fundamental building blocks to determine the market arrangements for MPIs but are strongly interlinked with other areas, such as the future cross-border market arrangements envisaged under the Trade and Cooperation Agreement (the **TCA**).[9] We recognise the link between the choice of market model, including any potential transition between models, and the application of CfDs - we will work closely with BEIS to further explore these interactions and dependencies. It is clear that further work and analysis is required to determine in more detail benefits and challenges of both HM and OBZ concepts before an optimal solution, or set of solutions, can be agreed upon. This work should look at, among other areas, impacts on markets, efficiency and revenues, system operability as well as any potential transition between the two models, while recognising feedback raised on the need for certainty on the regulatory regime.

Cross-border market arrangements

In our April 2022 Publication, we explained that cross-border electricity trade on the interconnectors between GB and the EU has changed following the UK's exit from the EU and

[8] BEIS Review of Electricity Market Arrangements
[9] Trade and Cooperation Agreement between the United Kingdom of Great Britain and Northern Ireland, of the one part, and the European Union and the European Atomic Energy Community, of the other part

the end of the transition period. We also described what the current arrangements are and how these are applied on GB's borders.[10] We explained that the future cross-border trading arrangements between the UK and the EU are being developed, as required by the TCA, by the UK and EU TSOs and the day-ahead electricity trading model is envisaged to be based on the implicit trading concept of multi-region loose volume coupling (**MRLVC**). We referred to the MRLVC CBA, conducted by the UK and EU TSOs, which preliminarily indicated that to avoid underutilisation of the asset and adverse flows implicit trading arrangements are needed in the future. Three respondents expressed their considerations around the future cross-border market arrangements in the context of interactions of implicit and explicit trading with the OBZ and HM market models.

One respondent strongly voiced their support for returning to day-ahead implicit auctions as soon as possible. They said that additional complexities of MPIs will make explicit trading much less efficient and thus a form of implicit trading would be required as a key enabler for the development of MPIs.

Another respondent agreed in principle with our view that explicit trading is less efficient than implicit and, especially under the OBZ model, explicit auctions will most likely lead to suboptimal results. They also shared that in their view explicit intraday markets are the most economic and efficient operational tool that the system operator currently utilises to manage flows across interconnectors. Therefore, in their opinion, suitable market arrangements need to be considered from a whole system perspective, rather than just a market one, to ensure maximum value for the end consumer.

Finally, one more respondent also supported the view that implicit coupling arrangements are more efficient and will support MPIs better, especially under the OBZ set-up. They pointed out that optimisation of flows closer to real-time will be important for efficient capacity allocation on MPIs. The respondent also flagged that MPIs will need to consider changing wind forecasts and thus flows should be optimised around predicted generation of an OWF. Lastly, they noted that to facilitate efficient trading on MPIs, and arrangements that are fair for both asset owners and meet commercial requirements, good cooperation and coordination arrangements would be required between operators of an MPI and an OWF.

We recognise that as the future arrangements are in development between the UK and the EU there is a degree of uncertainty at this time. We are working closely with BEIS, and relevant European stakeholders, to ensure this does not become a barrier to assets going live. We recognise the need for efficient trading solution which does not only allow for efficient flows and capacity allocation, but also considers wider system operation. It is essential that

[10] Currently, the trading arrangements on GB's interconnectors to the continental Europe are explicit across all timeframes, while Moyle and EWIC both utilise implicit intraday trading arrangements for the allocation of their capacity (these intraday arrangements have not changed post-Brexit, but day-ahead trade has ceased) and NSL has a bespoke implicit day-ahead trading solution (without other timeframes). Implicit trading is where the capacity on the interconnector and the energy product are bought together, while explicit trading is where the capacity and the energy need to be secured by market participants separately at distinct auctions.

during the development and implementation of the future cross-border trading arrangements, both required by the TCA and with connected countries outside of the EU, future offshore assets in the North Sea region such as MPIs are taken into consideration.

Margin Available for Cross-Zonal Trade

In the April 2022 Publication, we recognised the need to consider how the requirements of Article 16(8) may impact the development of MPI projects linked to EU Member States.[11] We received five responses touching upon this area, broadly agreeing that the requirements of Article 16(8) would influence the choice of MPI market model, but containing additional feedback which we present below.

One responded stated that the OBZ solution could help to solve challenges that might arise with HM set-up in relation to the requirements of Article 16(8). In particular the challenge that offering 70% of the physical capacity for cross-border trade could potentially lead to significant curtailment or operational costs for an OWF. Two respondents expressed their strong view that the requirements of Article 16(8) should not be applied to MPIs at all, as these serve a dual functionality in comparison to a single-purpose interconnectors. Another respondent said that Article 16(8), which in their opinion was not drafted with MPIs in mind, creates a significant barrier for MPIs connected to EU Member States as it will restrict asset operations. They also remarked that if a derogation is to be granted it should cover the whole asset life to avoid regulatory uncertainty. Two respondents acknowledged that Article 16(8) does not apply in GB, but they encouraged Ofgem and BEIS to continue a dialogue with EU regulators and governments to address the above concerns and to clarify application of Article 16(8) to MPI projects.

We recognise that stakeholders are expressing uncertainty on the application and requirements of Article 16(8), which could potentially create a barrier in the development of MPI projects. We will continue to engage with BEIS and our EU counterparts to better understand these interactions, and to support the development of future solutions and clarity.

Priority access, priority dispatch and curtailment

In our April 2022 Publication, we summarised responses related to topics such as priority access, priority dispatch and curtailment. Since that publication, we received four further comments on these topics.

Three respondents stated a view that OWFs linked via an MPI should have a priority access to the onshore GB system, and the same access rights as a radial OFTO link. One respondent stated that, in their opinion, it is important that OWFs are not curtailed based on the day-ahead trading position if wind forecasts change nearer to physical delivery due to the

[11] Article 16(8) of the EU's Electricity Regulation (Regulation (EU) 2019/943) states that the volume of interconnection capacity made available to market participants shall not be limited, with a minimum level of 70% of capacity available for cross-zonal trade.

allocation of market flows, and if the windfarm is curtailed it should be full compensated. That respondent also said that, in theory, OWFs should be prioritised on an economic basis since they will be bidding lower in the merit order than market flows. However, the respondent added that they see a difference between physical priority and priority dispatch and that OWFs should have the physical priority where cross-border flows are optimised around wind output of OWFs. One respondent agreed with our view that there is a relationship between curtailment of OWFs and the future cross-border trading arrangements being developed under the TCA.

We acknowledge received feedback and we will continue to consider these concerns further as we look to develop potential options for market arrangements for MPIs. We also recognise that some of the challenges highlighted by respondents identify links between market arrangements for MPIs and the future cross-border trading arrangements being developed under the TCA and we will continue to work with parties involved in development of these arrangements.

Further engagement

We previously said that we will look to work closely and openly with future project developers, wider industry, other regulatory authorities, and EU institutions, and we continue to pursue this way forward. We received quite a large number of responses regarding this area, with stakeholders agreeing with our approach and encouraging further engagements.

Almost all respondents commented on the need for engagement with the connecting countries in the EU, wider EU institutions and with Norway. One respondent urged Ofgem to work closely with counterparts in EU Member States and Norway to develop balanced solutions which will consider risks being assumed by developers. Four respondents said that coordination between regulatory provisions in GB and neighbouring jurisdictions is important. All four also noted that compatibility of regulatory frameworks with any future developments in the EU is relevant given the cross-border nature of MPIs. One respondent also raised the need to consider consistency across GB and EU's regulatory regimes, especially in light of wider market reforms being considered such as BEIS REMA. Finally, one respondent urged Ofgem directly to provide more details on expected market arrangements with each of the neighbouring countries.

Almost every respondent expressed willingness to further engage with Ofgem (and BEIS), and welcomed such approach, across various areas related broadly to the matter of market arrangements for the MPIs expressed earlier in this section. They also acknowledged that there remains still scope for further work on these topics. One respondent stated that, although they do not have specific concerns on wider policy considerations on the conceptual level, they would urge Ofgem to consult on important policy changes, including on market arrangements for MPIs, and give stakeholders a chance to comment on the implementation matters and impacts.

Charging Arrangements

We outlined the current work and next steps with regards to charging arrangements for MPIs above. The following section summarises the stakeholder feedback to this wider policy consideration indicated in the April 2022 Publication.

All nine stakeholders that provided feedback on charging in an IC-led model agreed that this was something to be addressed; particularly because there is currently no regulatory mechanism for an OWF to pay transmission charges in an Interconnector led MPI model.

Stakeholders indicated that charging should be fair, cost-reflective and transparent.

One stakeholder also indicated that the charging arrangements are a key input into CfD bids (as above), and therefore developers need early certainty on charging arrangements.

One stakeholder suggested that charging should be flexible as it would need to consider the uniqueness of each project and its technology.

One stakeholder suggested that a helpful precedent is provided by the arrangements for large (>100MW, licensable) onshore generators that connect to distribution networks. In this instance, charges for use of the local distribution network are levied via a distribution system charging methodology, while the wider use of the onshore transmission network charged for through the CUSC arrangements (where the generator is a CUSC party).

One stakeholder indicated that the current Standard Conditions under 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 could possibly set the basis for the local charges for connection to, and use of, the MPI.

Contracts for Difference (CfDs)

10 stakeholders provide feedback on this wider policy consideration. Nine of which expressed strongly that CfDs were important to OWFs connecting to MPI projects.

There are a number of areas including charging arrangements and commercial considerations which need to be addressed so that projects can still bid for CfDs even if they are connecting to MPIs. Four stakeholders also recognised that market arrangements would also interact with CfD policy.

Six stakeholders indicated the importance of a level playing field, and that any charging arrangements for an OWF under an Interconnector led or OFTO model should not be worse

off compared to radial or other coordinated grid solutions, as this could lead to negative investment signals. One stakeholder indicated the importance of a level playing field also between OFTO and IC led MPIs and that charging solutions should not incentivise or disincentivise developers to adopt one model over the other.

One stakeholder also noted that other support mechanisms as well as CfDs (like merchant and PPAs) need to be considered as available routes to market for offshore wind within the context of MPIs. They noted that this is particularly important as operation of the OWF and associated infrastructure will extend beyond the 15-year span of a CfD contract.

They also noted the importance of a review of the CfD arrangements by BEIS within the context of MPI development. For instance, ensuring wider legislation is fit for purpose, payment mechanisms are considered, and alignment with other regulatory regime timelines such as cap and floor.

MPI Ownership Structure

All nine responses addressing the MPI Ownership Structure wider policy consideration agreed with Ofgem's stance on the requirement for separate legal entities, recognising that this is not ideal but necessary for projects to progress in the interim/short term.

Six of the responses highlighted the need for a stand-alone MPI licence that better facilitates coordination of MPIs in the enduring regime which would ultimately alleviate any barriers to MPI project development under the current ownership framework. One respondent highlighted that there will also be offshore demand and therefore a form of supply licence will be required.