

Consultation on the Regulatory Framework for Offshore Hybrid Assets: Multi-Purpose Interconnectors and Non-Standard Interconnectors

Miles Ten Brinke
Regulatory MPIS Manager
National Grid Ventures
Ventures House, Warwick Technology Park, Gallows Hill
Warwick
CV34 6DA
miles.tenbrinke@nationalgrid.com
07976 804186

Ofgem
10, South Colonnade
Canary Wharf
London
E14 4PU0

14 July 2023

Dear Nick, Joshua, Richard,

National Grid Ventures (NGV) welcomes the opportunity to respond to Ofgem's consultation on the 'Regulatory Framework for Offshore Hybrid Assets' alongside the Ofgem and Department for Energy Security and Net Zero (DESNZ) joint consultation on 'Market Arrangements for Multi-Purpose Interconnectors' (MPIS).

NGV, together with our European partners successfully operates five point-to-point (P2P) interconnectors into GB, with a sixth in the final stages of construction. We are developing a number of Offshore Hybrid Asset (OHA) projects – this includes the Nautilus project connecting to Belgium and the Lion Link (formerly Euro Link) connecting to the Netherlands. Both projects passed the initial eligibility requirements and Ofgem on 15 December 2022 confirmed that both Nautilus and Lion link have been selected for the OHA Pilot.

NGV welcomes the progress that Ofgem has made in developing the regulatory framework for OHAs. NGV supports Ofgem's minded-to position for regulatory regime options, and we encourage Ofgem to continue developing the detailed regime parameters and licencing arrangements at pace. At present developers do not yet have sufficient details to determine if the OHA regime is investible. Complex offshore assets which combine multiple purposes such as connecting offshore wind and interconnection or transmission, present fundamentally different risk profiles and therefore

regulatory regimes need to be developed which reflect this risk profile. NGV considers it is particularly important that Ofgem considers the risk premia to be applied to the floor and cap returns to reflect the higher risk of OHA. NGV is available to work with Ofgem and other relevant stakeholders on the detailed regime design.

NGV also supports Ofgem's OHA regime design principles, in particular the 'cost and revenue alignment principle' that seeks to ensure 'a fair and proportionate risk and reward balance between the relevant parties'. NGV notes that developers are facing increased risks caused by a tight supplier market. Our engagement with the supply chain indicates that manufacturers have responded to the significant demand in HVDC cables and converters by seeking to agree large orders and payments in advance in return for reserving manufacturing capacity or building additional capacity. This creates a risk that developers will have to make significant financial commitments prior to a Financial Investment Decision without regulatory certainty on cost recovery.

NGV notes that our European partners have earlier certainty on the recovery of their OHA investments and as a result are able to undertake development activities e.g. seabed surveys at a faster pace. NGV recommends that Ofgem considers the extent to which a similar approach could be adopted, for instance providing regulatory allowances as part of Ofgem's Initial Project Assessment in 2023. NGV considers that this would be in line with Ofgem's OHA regime principle of 'coordinated regulatory treatment'.

In the remainder of this response we consider each of Ofgem's main 'minded-to' or 'preference' positions per chapter and respond to the consultation questions.

Ch. 2 – Licensing Arrangements

NGV supports Ofgem’s licensing proposals, both the creation of new terminology and new licensing arrangements. We however urge Ofgem to develop the licensing arrangements at pace and urgently prioritise the amendments to the interconnector licence for category 1 OHAs. We also propose an alternative term for category 1 – European Wind Interconnectors (EWIs).

Section consultation questions

1. **Do you have any views on our proposal to use, when appropriate, a wider common term of an offshore hybrid asset that could apply to both: category 1 assets (NSIs) and category 2 assets (MPIs)?**
2. **Do you have any views on our proposal to use the term of non-standard interconnectors (NSIs) for category 1 assets?**
3. **Taking into account the relevance of the provisions of the Electricity Act for the type of the licence that can be granted to an applicant, do you have any views on how we propose to license the operators of category 1 assets (NSIs) and category 2 assets (MPIs)?**

NGV agrees with Ofgem’s proposal to use the wider common term of an offshore hybrid asset replacing the catchall of MPI. OHA aligns to EU and partner Transmission System Operator (TSO) terminology when discussing offshore hybrids. We agree with the separation of category 1 and category 2 assets, to reflect jurisdiction of dual activity. NGV agrees with retaining MPI as the terminology for category 2.

As noted within this response, NGV supports the need for a new category and terminology to reflect Interconnectors with no connected offshore wind in GB jurisdiction, however, NGV proposes that the category 1 terminology of Non-Standard Interconnector (NSI) is amended to European Wind Interconnectors (EWI).

NGV believes non-standard implies the Interconnector is unusual and not straight forward, which has potential negative connotations. This would negatively impact external communications, for instance when developers are required to discuss our projects to local communities in the area as Non-Standard. EWI is clearly distinct as a term, and we think better reflects the inherent dual activity – European OWFs being connected at the other end, with opportunities for shared learning in areas of development and construction of the assets. It also ensures no overlap with ‘Offshore Hybrid Asset’, so avoids any potential confusion with the catchall term.

NGV supports the licensing proposal based on the provisions of the Electricity Act and recognises the requirement of different licences between category 1 and category 2. However, NGV has concerns regarding the speed of implementing The licence changes for category 1 (EWI) and the new licence terms for category 2 (MPI).

NGV understands that the current timescale for the MPI licence being available is mid to late 2024, this is later than required. Although the new MPI licence will need to reflect the dual activities, MPI licence conditions should build on existing arrangements (most esp. interconnector licence standard conditions) and could therefore be produced rapidly. If the licence is not available until late 2024 this could impact the consenting activities of future MPI projects, such as submission of final planning consents application and where applicable Compulsory Purchase Order, whereby the licence granted must correspond to the project definition of an MPI.

The consultation provides no timescales for when Ofgem anticipates EWI licensing will be available. In addition, the lack of confirmed direction of travel for this activity causes similar concerns regarding consenting implications. We propose this is to be addressed in Ofgem's decision to follow this consultation.

For the EWI licence changes to progress urgently, NGV consider that as per the definition of an EWI, whereby any dual-purpose activities are only conducted in the connected (non-GB) jurisdiction, minimal changes are required to the existing interconnector Standard Conditions. NGV propose that amendments to the EWI licence should primarily be related to the individual project's cap and floor special conditions.

For the MPI licence to be available sooner than mid to late 2024, NGV propose that the MPI licence should build on existing licence conditions, by using the current Interconnector Licence as a guideline. NGV also considers that whilst Ofgem will no longer pursue proposals set out for interim regime in 2022¹, the work on reviewing how the current interconnector licence could evolve could still be used for the MPI enduring regime.

NGV welcomes the opportunity to continue engagement with Ofgem bilaterally and through the MFDG Workstream 2 to accelerate the development and implementation of the EWI licensing arrangements and creation of the new MPI asset class and licence.

¹ Offshore Transmission Network Review – Multi-Purpose Interconnectors: Minded-to Decision on interim framework <https://www.ofgem.gov.uk/publications/offshore-transmission-network-review-multi-purpose-interconnectors-minded-decision-interim-framework>

Ch. 3 – Regulatory Regime for OHAs

NGV supports the conclusion that a new regulatory framework is needed to incentivise investment in Offshore Hybrid Assets (OHAs), and both welcome and support Ofgem’s thinking on:

- A RAB based mechanism for the Offshore converter platform, and a narrow cap and floor for the MPI cable;
- A narrow cap and floor regime for the European Wind Interconnector.²

Whilst acknowledging the progress made by Ofgem and other stakeholders on the regulatory regime framework for OHAs, there remains significant challenges both to the existing GB regulatory framework and wider macroeconomic and legislative environment.

The lack of access to European development funding combined with increased capital expenditure requirements, and a tight supplier market are creating a heightened financial and operational risk environment for developers. The ambiguous future on market trading arrangements and licencing if not resolved fast enough would deter investment and commitment to progressing the pilot schemes.

NGV further notes that our European partners have earlier certainty on the recovery of their OHA investments and as a result are able to undertake development activities e.g., seabed surveys at a faster pace. NGV recommends that Ofgem considers the extent to which a similar approach could be adopted, for instance providing regulatory allowances as part of Ofgem’s Initial Project Assessment in 2023. NGV considers that this would be in line with Ofgem’s OHA regime principle of ‘coordinated regulatory treatment’

A development expenditure regulatory allowance for the pilot OHA schemes as part of Ofgem’s IPA decision would enable commitment and progression of pilot schemes in alignment with a fair risk and reward balance.

Also important is the recognition that as the North Sea grows into a hub for renewable electricity generation, regulatory frameworks are expected to continually evolve from the initial arrangements and learnings built from the OHA pilots and electricity transmission development. NGV is keen to work with Ofgem to support a holistic approach in delivering this.

The following sections of our response provide further details of our position on the regulatory regime for OHAs and proposals on cross-border sharing of costs and revenues. The section also draws attention to various risks and uncertainties that pilot projects in the challenging environment from a developer perspective and provides suggestions on what Ofgem could do to mitigate some of the risks and ensure progression of the pilot schemes.

Principles and cross-border sharing

NGV welcomes Ofgem’s commitment to a regime underpinned by principles that we have contributed to. In addition, we support the approach of treating the OHAs as point-to-point

² See our proposal in Chapter 2 of this response that the category 1 terminology of Non-Standard Interconnector (NSI) is amended to European Wind Interconnectors (EWI).

interconnectors in terms of sharing revenues and costs for the pilot projects. We support Ofgem's commitment to a transparent, predictable regime that provides a level playing field for developers.

4. Do our proposed principles capture the basis upon which the OHA Pilot Regulatory Framework should be designed and developed?

We welcome Ofgem's engagement on this and the opportunity to have contributed to the outputs. Thus, we remain supportive and committed to a regulatory framework design approach that is underpinned by principles and that encourages consistent evaluation of proposals for new OHA. This will create significant benefits for consumers, including lower prices, improved security of supply and managing intermittency, in addition to the reduction of environmental, community, and social impacts of offshore infrastructure.

NGV welcomes the 'cost and revenue alignment principle' that seeks to ensure 'a fair and proportionate risk and reward balance between the relevant parties. Without the implementation of this principle, it will not be possible to achieve coordinated offshore infrastructure.

5. How should the cost and revenue sharing boundaries of an MPI or NSI be defined?

We agree with the importance of establishing physical boundaries and the relevant scope of assets when considering which costs and revenues to share and on what terms, and welcome Ofgem's involvement and engagement with the relevant NRAs to achieve an equitable settlement for all parties, including consumers of connecting jurisdictions.

NGV support the approach of treating the OHAs as point-to-point interconnectors in terms of sharing revenues and costs. In the case of MPIs, we are supportive of a compartmentalised regulatory approach to the cable and offshore converter platform, where the cable, the offshore converter platform and the OWF have independent income streams from each other. We agree with Ofgem's assessment that the approach to considering the whole system to system does carry significant disadvantages thus making it impracticable.

6. Q6: How should costs and benefits of MPIs and NSIs be shared with connecting countries?

As OHAs are cross border assets, NGV proposes a regulatory framework that recognises the difference in jurisdictions and legislative arrangements with connecting countries. Our starting point is a preference for an equitable costs and benefits sharing agreement with the connecting countries.

Costs, revenues and risks

We remain cautious due to the difference in risk between standard point to point interconnectors and the offshore Hybrid pilot projects and suggest that Ofgem's proposals should reflect a fair and well-balanced risk allocation between the relevant parties.

7. Do you agree that the Reasonable Delay Event mechanism should also apply to MPIs and NSIs?

We welcome Ofgem's proposals aimed at improving its treatment of project delays under the cap and floor regime. And whilst the Reasonable Delay Event mechanism is a good starting point, OHAs as indicated in the consultation carry significantly higher project specific risk relating to the

development and construction of the assets. This is further exacerbated by the challenging macroeconomic conditions in addition to constrained supply chains. NGV calls for flexibility and a well-balanced risk allocation framework for the pilot schemes and a recognition that the OHA pilot projects face significantly more hurdles not limited to engineering and technology but to supply chains and commercial frameworks.

8. Are there any additional risks faced by MPIs and NSIs relative to point-to-point interconnectors?

As covered in sections 3.15 to 2.24 of the consultation, overall risks for OHAs will be higher than for point-to-point interconnectors (particularly for early-mover pilot projects). The table below provides a summary albeit not exhaustive of the risks.

Table 1: Risk Assessment of Offshore Hybrid Assets

Risk Factor	OHAs risk relative to Point to Point Interconnectors
Revenue Risk	<p>OHAs have greater uncertainty over the revenue sharing with the partner TSO. Cap and floor guarantees minimum revenue at floor under normal circumstances. Developer is subject to revenue risk between bounds. Revenue above floor dependent on arbitrage opportunities between GB and European energy markets exposed to interconnector competition and from generator entry in high priced markets. Should OWFs have priority access to OHA capacity, this will limit capacity available for arbitrage opportunities. The offshore windfarm connecting to the OHA could lead to delay in the operation of the cross-border interconnector.</p>
Capex Risk	<p>Ex-post regulation allows efficient and economic costs to be recovered, mitigating capital cost risks. However, relative newness of the asset type means accurate cost estimation is difficult, adding uncertainty. Marine environment and length of cables creates difficult design requirements that can result in defects during operation, and the requirement to construct an offshore DC converter station adds a significant additional layer of risk to a typical P2P interconnector. As OWFs connecting to the OHAs rely on that connection to access the market, delays in the construction phase may lead to OWF damages payments, which the developer may not be able to pass down in full to contractors or recover through the regulatory regime. Delay risk mitigations are downside asymmetric.</p>
Operating Costs Risk	<p>Difficulty to predict the opex of the offshore platform, e.g., insurance costs. Total opex for regime duration determined at the post construction review (PCR) stage, exposing project to forecasting risk. Regulatory mitigation provided via opex reassessment (conducted once at least 10 years after start of licensee’s cap and floor regime). This may lead to adjustment of the cap and floor levels. Uncontrollable costs reviewed every 5 years and passed through as a revenue adjustment. Force majeure costs also passed through. Maintenance of interconnectors in marine environment prone to higher costs than onshore activities (e.g., use of helicopters to maintain the offshore DC converter platform). Operating cost risk also affected by interface and co-dependency risks, e.g., the level of downtime for outages, including those associated with OWF</p>
Operational Performance Risk	<p>Performance of the offshore converter station is less certain than other OHA’s assets. If asset availability below agreed levels, then no floor revenues are received. Penalties (e.g., LD) may be payable to the OWF if availability is below agreed levels. Cap and floor levels are assumed to be adjusted annually depending on whether predetermined availability targets are met, and associated incentives apply 2% incentive at the cap; binary application of the floor, i.e., either full floor or no floor depending on whether minimum availability is achieved). To qualify for a floor, payment in any given year, interconnectors must achieve a minimum of 80% availability. Low risk of supply disruptions as these are fixed assets that do not rely on the ongoing availability of a fuel source or an equivalent input to function. However, there is enhanced risk of failure of assets, particularly converter stations.</p>

Risk Factor	OHAs risk relative to Point to Point Interconnectors
Fist of a kind (FoaK) Risk	OHAs require a number of new combinations of assets and operational interfaces. This includes the requirement to construct a large offshore platform and the need to interact with multiple parties (OWF, multiple contractors, multiple regulators). This results in an increased risk of capex delays and cost overruns that are not recoverable through the regulatory regime and means that operating cost are more difficult to forecast. The need to develop the regulatory regime and legal framework for OHAs increases the risk that regulatory protection may not operate as intended or are not available.
Completeness of regulatory regime risk	In the context of regulated industries, the regulatory framework for OHAs is relatively incomplete - there are multiple jurisdictions, and there is no clear framework for the interconnector or OWF (in a post Brexit world). ³ Even if this were to be addressed by the time of the investment decision, it will still be a relatively new and untested regulatory regime. OHAs introduce several additional elements incremental to P2P interconnectors the interface with OWFs, together with the increased technical complexity of the assets, increases the risk of issues arising that are not explicitly provided for within the regulatory regime on an ex-ante basis and which may need to be resolved on a case-by-case basis post the FID, with uncertain outcomes. There is also uncertainty on what happens if the asset's 'purpose' changes during the cap and floor period.
End-of contract	Useful asset lives of interconnectors can exceed 25-year duration of the cap and floor regime. However, initial capex and decommissioning costs are expected to be recovered through regime. If project not undertaken or abandoned, there is no compensation for development costs and other sunk costs. Separate allowance for decommissioning in cap and floor regime is applied to interconnectors.
Financing Risk	Long duration of asset life and large upfront costs create significant financing risks. However, these can be mitigated through regulatory regime (can recover financing costs during construction and cost overruns and receive floor payments during operation). However, a prolonged period of floor level income may weaken the ratios, which may require refinancing at higher costs.
Change in law or policy	The interconnection and offshore wind components of the asset are each exposed to a change in law or policy risk, as detailed below. Political and legal risks during construction or operation of the interconnector relate to the risk of a change in the UK's relationship with the connected country, heightened in the context of Brexit and the Trade and Cooperation Agreement (TCA), and to the straddling of different jurisdictions. These are deemed low risk on the GB side and are to some extent mitigated by room for adjusting the cap and floor levels if legislative changes result in certain higher costs. Brexit and the TCA also expose offshore wind to some risk of change in law or policy.

³ Although the TCA provides high-level principles which should apply to any interconnector between the UK and EU post-Brexit, there remains many questions of implementation which would need to be resolved to deliver an operable market and trading arrangements for OHAs

9. Which of our proposed regime concepts - Pure RAB, Narrow Cap and Floor, Partial RAB or Cap and Floor with IRR, do you consider most appropriate and why?

In our response to question 8 above, we provide a summary of the risks and uncertainties that OHA developers face at both development, construction, and operational project phases. Some of the risks are project specific and are a function of the characteristics of the projects and the regulatory regime in question. In NGV's view, the current cap and floor framework would expose OHA developers to significant downside risk and uncertainty that would most likely deter investment.

Examination of our EU partners / connecting countries finds that OHAs are developed in arrangement with the respective Transmission System Operators under a Regulatory Asset Base (RAB) regime thereby significantly de-risking the projects.

On the other hand, Ofgem has expressed a preference for a narrow cap and floor regime. In NGV's view the starting point is then to recognise the increased risk of OHA via risk premia applied to the floor and cap returns. Once this has been done, NGV supports a symmetrical adjustment to the Cap and Floor regime. Subject to suitable adjustments that take account of the OHA risk that is signalled in our response and consultation, we submit that a narrow cap and floor could remain appropriate in maintaining the commercial incentives to maximise congestion revenue whilst at the same time deliver the maximum benefits to consumers.

We submit that without adjustments to the cap and floor levels⁴ the regime would neither address the uncertainty of wind coordination on expected revenues over the regime period⁵ nor allow for the separate recovery of any additional capex associated with an offshore platform for MPIs.⁶

Therefore, once risk premia are applied to the floor and cap returns, NGV supports the symmetrical narrowing of the wide band of exposure between the cap and floor as a means of reducing revenue uncertainty and welcome the treatment of an adjustment factor requested by a developer as a variation and consideration for Ofgem. We look forward to further engagement and details on how this could be applied in practice.

Proposed regime packages

NGV supports the application for a RAB regime to the offshore platform element of an MPI like the EU Transmission System Operators. The approach avoids cross subsidization.

We note that the 'Regulated Asset Base (RAB) model'; the 'Option 4 – OBZ with narrow cap and floor and amended CfD for MPIs' or the 'Option 6 – a narrow cap and floor model' for EWIs are all frameworks that are consistent with the position of reducing uncertainty and striking the right balance between risk and reward.

⁴ A narrower (lower) cap and (higher) floor

⁵ As more interconnection is constructed in the North Sea this reduces the level of congestion income generated by all cross-border trading as prices converge which makes the investment unviable.

⁶ Consequently, NGV advocates for a separate revenue stream (i.e., RAB) to address the incremental asset costs borne by the GB MPI developer.

10. Do you agree with applying the features of a RAB regime to the offshore platform element of an MPI project? Is there a better form of regime for the offshore platform element and, if so, what would be the rationale for it?

We agree with the application of the features of a RAB regime to the offshore platform element of an MPI project because a regime solely based on a higher floor (in the case of a narrow cap and floor) would not sufficiently allow for the separate recovery of the capex associated with the offshore platform. More importantly, application of the RAB regime to the offshore platform element of an MPI mitigates against cross-subsidisation.

11. Which of our proposed offshore hybrid asset package options is most appropriate for MPIs and NSIs in your view and why? We invite you to consider if there are other viable options not shortlisted here, if we can disregard any options entirely, and which options best reflect the draft principles.

As indicated earlier, the macroeconomic conditions combined with constrained supply chains and a rapidly changing regulatory and unpredictable legislative environment pose significant risk and uncertainty to investing in OHAs.

In NGV's views a Regulated Asset Base (RAB) model; Option 4 – OBZ with narrow cap and floor and amended CfD for MPIs or Option 6 – a narrow cap and floor model for NSIs are frameworks that are consistent with the position of reducing uncertainty and striking the right balance between risk and reward whilst also delivering and protecting customers.

In addition, we agree that windfarms in an OBZ should have the CfD reference price being OBZ price to achieve a level playing field with OWF connected radially. Congestion rents should not be taken from MPI developers to compensate OWF, else it distorts the level playing field for interconnectors, making coordinated infrastructure undeliverable.

On regime parameters, we note Ofgem's commitment to consulting on a position in early August. NGV note that OHA parameters need to consider the differences in risk and uncertainty between standard point to point interconnectors and an offshore hybrid pilot schemes.

NGV asks that any suggested parameters consider the uniqueness of the pilot projects' risks related to the development and construction in addition to operations. We support an approach that implements Ofgem's principles and provides transparency and predictability and is therefore good for attracting investment for the pilot schemes.

Are there any other alternative options to ensure commercial incentives to invest in OHAs that have not yet been considered.

NGV submits that the changing context of increased capex requirements driven by a tight supplier market and inflationary pressures is causing significant pre-FID financial commitments on cash flows and financeability. This is exacerbated further by supply chains seeking early financial commitments because of the significant demand in HVDC cables and converters by seeking to agree large orders and payments in advance in return for reserving manufacturing capacity or building additional capacity. This is creating a substantial risk for UK developers, meaning that projects that are in the interest of GB consumers might not proceed due to development expenditure risk.

NGV would like for Ofgem to provide some guarantee that a developer is able to recover a portion of its development expenditure should the project not proceed to a final Investment Decision (FID). For instance, this may be in the form of a development expenditure baseline that is recoverable and set at the IPA decision thereby significantly mitigating the risk of these projects not proceeding.

Regime design parameters

12. Do you agree that these regime parameters would be applicable for MPI and NSI pilot projects as described above? If not, what changes should be considered?

We support Ofgem's position on creating a transparent and robust regime and as such agree in principle with the proposals to align the MPI and NSI regulatory regime design parameters with the regime design parameters used for point-to-point interconnectors in window 3, subject to certain divergencies where appropriate to reflect different balances of revenue and cost and different levels of risk.

Given that the OHAs have significantly a higher level of risk and carry greater revenue uncertainty, we remind Ofgem of the need to uphold the level playing field principle between OHAs and point to point interconnectors and reflect this in regime parameters. As indicated previously, NGV is of the view that there should be risk premia applied to the floor and cap returns, in order to maintain a level playing field and a risk-reward balance.

13. Should the offshore converter platform be treated differently?

We suggest that the offshore converter platform should be treated differently from the rest of the assets to avoid cross subsidization and provide for the recovery of the relevant capex expenditure.

14. What would be an appropriate availability target for MPIs and NSIs? Could a similar methodology as used for interconnectors be applied?

Like earlier sections on upholding the principle of a level playing field, we recommend that Ofgem consider the first of a kind risk (FOAK) nature of the OHAs and set a lower availability target for the pilot projects.

15. What would be an appropriate regime length for the cost recovery of the offshore platform? Would it be appropriate to align the regime length to the one for the cable or can it differ?

We suggest that an appropriate regime length for cost recovery of the offshore platform should allow for efficient and economic recovery of the investment plus an acceptable fair rate of return.

Ch. 4 – Other Issues

NGV welcomes Ofgem providing greater clarity on the applicability to OHAs of Anticipatory Investment policy as well as requirements for ownership unbundling and safeguards. We encourage Ofgem however to extend the applicability of AI policy to more than just sequential build MPIs with the interconnection built first, particularly in light of the challenges ahead to meet post-2030 national targets. We also welcome the greater clarity on separation and compliance requirements, especially that OHAs and P2P can be operated under a single parent company and that EWIs should have similar requirements to P2P. We urge Ofgem however to assess more precisely whether MPIs will require additional safeguarding, and under what parameters.

Our response for this chapter is split into two sections, one focus on the questions for AI and the other for ownership unbundling & safeguards.

Anticipatory Investment

NGV welcomes the extension of AI policy to OHAs, particularly beyond 2030 these projects can play a vital role in delivering GB offshore coordination. We note however that Ofgem's proposed application is only under very narrow circumstances, we encourage Ofgem to consider wide application and especially for post-2030 projects.

It is worth emphasising that Anticipatory Investment holds a prominent position as one of the fundamental pillars in the Strategy and Policy Statement for Energy Policy in Great Britain, and also serving as a central component of Ofgem's strategy for future price controls. Therefore, it is advisable to consider anticipatory investment from the perspective of the **likelihood** of future need, rather than solely focusing on **confirmed** needs tied to specific projects. A 'proactive/low regret' approach would yield maximum value for consumers and enable the pursuit of more expansive investments required to advance our trajectory towards achieving the targets set for 2035 and beyond. The incremental cost of building optionality / future proofing based on likely connections/scenario implication is low and outweigh cost / delay impact of later works.

16. **Do you support, in principle, the extension of AI policy to MPIs?**
17. **Do you support our minded-to position that AI policy should not apply to NSIs?**
18. **Do you agree with the set of scenarios set out for simultaneous and sequential build projects, and our conclusions on where AI policy could/could not apply?**
19. **Do you agree with our suggestions surrounding AI risk mitigation and assurance for MPI developers, namely extending User Commitment (or analogous) arrangements to the later user and developing a process analogous to the Early-Stage Assessment?**
20. **Do you agree with our suggested high-level mechanisms for the recovery of AI cost from the later user, and from the consumer in the instance where the later user fails to connect or reduces the capacity of its project?**
21. **If the RAB model applies, would AI policy still be required for the assets covered by the RAB, given that the consumer would in theory cover these costs?**

NGV supports, in principle, the extension of the AI policy to MPIs, however, we are seeking that Ofgem expands the potential scenarios where AI is applied wider, as further explained within this response.

NGV understands Ofgem's minded-to position that AI policy does not apply to EWIs, however, we encourage Ofgem to not exclude the option of AI applying to EWIs, as OHA development remains at

an early stage. We urge cooperation to continue with Ofgem's EU counterparts to ensure compatible arrangements are created. We believe Ofgem are under valuing the potential GB co-ordination benefit that could be accomplished due to EWI not receiving AI.

NGV argue the proposed applicability significantly limits the possible scenarios where AI policy would apply, and therefore reduces the overall likelihood of AI being undertaken. We do, however, generally agree with Ofgem's description of the potential build permutations.

Based on the consultation proposals and bilateral discussions, it seems that AI applicability to OHAs is based on their contribution to GB offshore coordination. We note however that although EWIs only perform interconnection in GB waters and not dual activities, fully excluding them from the policy ignores scenarios in which EWIs contribute further to GB offshore coordination by connecting to the EU OWF.

As an example, we believe AI would apply to EWIs in the scenario where the GB interconnector connects into the EU energy island, with the energy island being subject to an increased capacity in the future. Therefore, within NGV's cap and floor application, we:

1. Would apply for a higher GB project capacity than what is within our current GB connection agreement, in anticipation of the energy island capacity increase,
2. Would include the anticipated increased EU energy island capacity.

There is also the scenario where the NSI capacity is required to be increased, beyond 1.8GW of our current requirements of our GB interconnector, for the capacity on the GB network to be equal with the connecting EU partner.

An MPI project being simultaneously built, instead of sequentially built, is primarily driven from the overall length of the offshore cross border cable route. The longer offshore cable route required ultimately impacts and prolongs the construction period required, including manufacturing, laying, and burying in the seabed.

NGV also assume, to a more limited degree, a similar scenario for the offshore transmission. The further out the offshore platform is from the OFW also increases the construction period, as this is in addition to the offshore cross border cable to connect to the EU jurisdiction. The offshore platform itself also impacts a simultaneous build as we anticipate construction of these assets range from five to seven years, depending on the capacity required, whereby the higher the capacity required the longer the construction period.

From our engagement with GB OWF developers, we note a strong incentive for both the GB OWF and MPI developers to ensure, where possible, construction of the OWF and offshore transmission is completed as early as possible in the overall construction programme for both projects. This incentive progresses both projects overall contribution to net zero and wind targets, in particular for the OWF to meet the connection requirements of their CfD and consents, and for the MPI developer to provide an investible connection date for their prospective partner.

NGV supports Ofgem's suggestions regarding AI risk mitigations, including extending User Commitment arrangements to MPIs for AI policy and developing a process similar to the Early-Stage Assessment, both will provide developers and investors some level of comfort regarding later user(s) commitment.

NGV generally supports Ofgem's proposed cost recovery mechanism with the aim to balance protections for consumers and risk management of asset development, however, we propose some alternative measures for Ofgem's consideration. We agree with Ofgem's assessment regarding home market arrangements whereby the AI cost gap could be recovered from the OWF via their TNUoS charges upon their connection to the MPI assets. In the scenario of OBZ arrangements, while NGV agree with Ofgem's assessment that an alternative method to TNUoS is required, NGV propose that the AI cost recovery should be reflective to individual assets, with cost recovery reflecting the specific commercial and regulatory conditions of those assets once operational, in a similar way as the regulatory regime. NGV understands, in the HM model, the consumer is bearing the risk of the later user not connecting or connecting at a reduced capacity, however, we believe this risk is a reasonable compromise to ensure delivery continues at pace.

Our suggestion is for assets, such as the cross border offshore cable, primarily contributing to the purpose of cross-border flows and therefore generating congestion income, we agree with Ofgem's proposed approach of AI being recovered through adjusted cap and floor levels. Likewise, for assets, such as the offshore platform, whereby the primary purpose is to facilitate connection of GB OWF's, we propose the offshore platform RAB model is to be proportionally adjusted to allow recovery of the AI cost gap.

NGV would argue that if the RAB model applied, AI policy is still required for the offshore platform covered by the RAB model, as even in this scenario an AI cost gap would still be generated from time of construction to the later user connecting. We have included our broader consideration for how asset and regime should determine AI cost recovery within question 20.

NGV believe mechanisms for AI will be critical if the offshore grid is to evolve and grow incrementally in the same way the onshore grid has done, ensuring compatibility between EU (connecting countries) and GB regulatory arrangements being critical.

Ownership unbundling & safeguards

NGV welcomes the additional certainty provided by this consultation on Ofgem's minded-to position for OHA ownership unbundling, regulatory safeguards and compliance requirements. In particular, it is helpful for Ofgem to confirm that OHA and interconnector licensees may be operated under a single parent company and that Ofgem recognises the extensive regulatory safeguards and compliance requirements already in place for interconnectors. We raise concerns however over the remaining uncertainty for OHAs raised by the lack of full clarity in Ofgem's minded-to position.

- 22. Do you have any views on how the ownership unbundling requirements applicable to MPI and NSI operators may influence the delivery of these assets (and/or delivery of offshore generators connected to MPI assets)?**
- 23. Do you have any views as to the regulatory safeguards and compliance requirements that should apply to MPI licence holders, taking into account the dual activity (interconnection and transmission) that they will perform?**
- 24. Do you agree that the inclusion of a RAB as part of the regulatory regime for MPIs should be subject to appropriate safeguards, including appropriate compliance requirements? If no, please explain why. If yes, do you have any specific suggestions?**
- 25. Would the regulatory safeguards as well as compliance and independence arrangements already applicable to standard interconnector licence holders constituting subsidiary companies under a single parent company be sufficient if MPI licence holders were added,**

as subsidiary companies, to this corporate structure? If yes, please explain why. If not, what additional safeguards should be implemented?

We welcome Ofgem's minded-to position that:

- entities holding MPI licences and entities holding interconnector licences, for P2P or EWI, may all constitute subsidiary companies under a single parent company
- Ofgem will not impose stricter or higher regulatory safeguards and compliance requirements than are necessary for regulatory purposes

We also welcome Ofgem's recognition that excessive regulatory safeguards and compliance requirements may disincentivise OHA development and that substantial requirements already exist and should be expected to apply (including unbundling requirements for TSO certification, licence provisions such as prohibition of discrimination and cross subsidies, and the GB REMIT Regulation).

NGV has engaged with Ofgem and DESNZ on an ongoing basis on the provisions of the Energy Bill, creation of new MPI asset class and general licensing arrangements. In our assessment, the substantial existing requirements for interconnector development and operation fulfil separation, safeguarding and compliance obligations and allow for sufficient scope of adaptation for future OHA projects.

Additional requirements would not just be unnecessary and inefficient, but act as a significant barrier to OHA development and to the realisation of their contribution to offshore coordination and national climate targets.

To expand further on this point, there are existing licence conditions which require business and operational separation between Transmission Owner (TO) and interconnector licensees. This strict separation and compliance requires physical separation of offices as well as legal separation of information, systems, activities and staff. Although appropriate for the distinction between onshore TO and interconnector activities, if this level of separation were to be applied between OHA and P2P this would have significantly deleterious impact on cross-border assets with any P2P interconnector operator having to develop OHAs in entirely separate businesses. Imposing such a level of separation and additional regulatory safeguarding on any type of OHA would mean no sharing of resources, making it very difficult for existing P2P interconnector developers to invest in OHAs and apply existing learning and expertise to these new cross-border assets. It would make the economic and efficient deployment of OHA assets much more challenging, and constrain the consumer benefit more generally from cross-border development and operations.

In response to Question 23, we do not agree that the dual-role for OHAs necessitates any additional compliance requirements, and that applies to both EWIs and MPIs. We recognise that business separation requirements have been developed and implemented between OFTO and ICs historically, however we do not agree with the rationale for that decision as we see no risk of market distortion resulting from common ownership/operation of OFTO and ICs.

This is due to the application of existing regulatory/compliance requirements in terms of funding arrangements, market rules and regulations and ownership/unbundling requirements. Existing requirements are sufficient – they ensure compliance through the principles of vertical unbundling, non-discriminatory access to network assets and market integrity.

In response to Question 24, we do not agree that inclusion of a RAB requires any additional safeguards. It is unclear why Ofgem has raised this point and no evidence is provided to support the concern. The inclusion of a RAB provides revenue certainty for the part of the MPI that does not generate revenue (but all other project risks remain. It is unclear how this could lead to any heightened risk of non-compliance or a requirement for additional regulatory safeguards between such an MPI and a P2P interconnector (which would be subject to entirely separate regulatory funding arrangements). We also note that a RAB for the platform does not fully de-risk a project, the challenging risk profile of an MPI we set out in response to Ch.3 above would remain.

In response to Question 25, for the reasons stated above, we consider that the existing regulatory and compliance safeguards would be sufficient in the scenario described.

Ch.5 – Charging

NGV supports Ofgem’s initial proposals for charging arrangements, that they be linked to market arrangements and so under an OBZ , MPI-connected OWFs need not be liable for offshore connection charges and onshore charges would only be applicable when the OWF has priority access and there is a known or likely impact on the GB onshore transmission network.

26. Do you agree with the principles relating to connection and onshore charges for offshore generators connecting to an MPI and NSI?

Yes, NGV supports Ofgem’s principles and in particular the approach of linking charging to market arrangements and the resulting condition of connection for GB OWFs. We agree with Ofgem that the charging methodology set out in the existing interconnector licence can provide the basis for setting MPI charging. We also agree that charging is not applicable to EWIs as the wind connection is not within UK jurisdiction.

NGV supports Ofgem’s preference that under an OBZ, MPI-connected OWFs should not be liable for the connection/offshore charge as they are not provided priority access. For onshore charges, we argue that these would need to be suitably reflective of the OWF’s onshore impacts on the Main Integrated Transmission System (which may be limited).