RWE

Via email: Cap.Floor@ofgem.gov.uk

Email: Lois.Leslie@rwe.com / James.Brabben@rwe.com

14th July 2023

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

Dear Future Coordination/Offshore Coordination/Electricity Network Charging Team,

RWE is a leading global energy player, with a 38 GW global generating capacity worldwide, and a clear target: to get to net zero by 2040. With its new strategy 'Growing Green' (announced in November 2021) RWE expects to invest €50 billion gross in its core business globally - an average of €5 billion gross each year for offshore and onshore wind, solar, batteries, flexible generation and hydrogen.

RWE is the UK's largest power producer, accounting for around 15% of all electricity generated across a portfolio of onshore wind, offshore wind, hydro, biomass and gas, amounting to over 10 GW pro rata[1] (12 GW installed capacity) - enough to power over 10 million UK homes.

RWE is also one of the largest renewables generators in the UK, with a combined installed capacity of over 2.79 GW (pro rata) (4.8 GW installed capacity) across our onshore wind, offshore wind, hydro and biomass assets. In addition to its growing renewables portfolio, RWE operates around 7GW of modern and efficient gas-fired capacity in the UK, making us one of the largest providers of firm flexible generation, which is crucial for security of supply.

Overall, and including its committed investments in projects already under construction, RWE expects to invest up to £15 billion in new green technologies and infrastructure in the UK by 2030.

Thank you for the opportunity to respond to the consultation on the Consultation on the Regulatory Framework for Offshore Hybrid Assets: Multi Purpose Interconnectors and Non Standard Interconnectors. A summary of our responses is provided below.

[1] Pro-rata – based on equity share

Summary

- We agree with the proposal to use the term offshore hybrid assets going forward and that a separate term (NSIs) is required for projects that only undertake interconnection activities in GB and for which offshore transmission takes place outside of the GB jurisdiction.

- We agree that an MPI will be performing a new type of licensable activity in GB and as does not fit into existing licencing regimes. We wouldtherefore support the introduction of new MPI related provisions in the Energy Bill 2022-23. We encourage Ofgem and DESNZ to develop the MPI related licence provisions and provide draft licence conditions as soon as practicably possible.

- We agree that the anticipatory investment policy already in development should be extended to MPIs as opposed to developing new arrangements. We think this is most likely to be needed for sequential build projects where there is a time lag between development milestones, such as FID by the MPI developer and the offshore wind farm developer.

- The nature of the appropriate charges for an offshore windfarm is dependent upon the market model under which it operates. We agree that offshore generators in an OBZ should not face wider TNUoS, we also agree that generators in an OBZ should face the same charges for use of the interconnector as onshore generators in other jurisdictions. Where an offshore generator is operating in a HM model and has firm access we consider it appropriate that the generator face charges equivalent to if connected via an OFTO connection.

Licensing Arrangements

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)?**

We agree with the proposal to use the term offshore hybrid assets and offshore hybrid projects going forward as this aligns with the terminology being used in the EU. We agree that this term may also include different build permutations like simultaneous build and sequential build. We also agree with the proposal to use the specific wording of recital 66 of the EU Electricity Regulation.

2. Do you have any views on our proposal to use the term of non-standard interconnectors (NSIs) for category 1 assets?

We agree that a separate term is required for projects that only undertake interconnection activities in GB and for which offshore transmission takes place outside of the GB jurisdiction.

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 proposed to licence the operators of category 1 assets (NSIs) and category 2 assets (MPIs)?

We agree that an MPI will be performing a new type of licensable activity in GB and as such does not fit into the existing legal framework or licencing regimes available. We therefore support the introduction of new MPI related provisions in the Energy Bill 2022-23.

We agree that the interim licencing approach previously proposed, whereby the licence is determined based on primary use of the assets would not provide the certainty that developers require. We set out our concerns with this approach in our response to Ofgem's April-June 2022 consultation. We therefore agree that the focus should be on developing an MPI licence with DESNZ as soon as possible for category 2 projects and adapting the existing interconnector licence for category 1 projects.

We agree that the MPI licence for the regulation of category 2 projects should, where appropriate, follow the structure of the electricity interconnector licence to ensure sensible comparisons can be made.

However, because the dual licensable activity of the MPIs also includes offshore transmission activities we encourage Ofgem to review key aspects of the Offshore Transmission Owner licence (referenced in paragraph 2.67 of the Consultation) and follow the structure of the OFTO licence where appropriate. The OFTO licence currently determines key operational aspects of the transmission infrastructure through which offshore wind farm developers are connected. For example;

The OFTO availability incentive is typically set at 98%. This is a much higher threshold than for an electricity interconnector licence. As the GB connected offshore generator will rely on the MPI as the sole method of transmitting power to the shore, any outage has a direct impact on the revenues of the generator and GB consumers and we therefore urge Ofgem to adopt a similar availability threshold in the MPI licence.

In the OFTO regime, OFTOs are also encouraged to take planned outages in certain months when wind capacity is at its lowest. This directly benefits GB consumers and we would encourage Ofgem to use the same approach in an MPI licence.

We encourage Ofgem and DESNZ to develop the MPI related licence provisions as quickly as possible. The current timeframe proposed of mid-late 2024 will mean that neither developers of MPIs nor the connecting offshore wind farms have certainty on key aspects of operation which may be critical to determining the business case. We encourage Ofgem and DESNZ to provide draft licence conditions as soon as practicably possible.

Regulatory Regime for OHAs

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

We broadly agree with the six principles set out in Table 1 of the Consultation underpinning the OHA pilot regulatory framework. It would be useful for Ofgem to clarify that the overarching "level playing field" principle also applies to offshore wind developers and not just developers of transmission infrastructure.

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

We agree that Ofgem should consider the whole system-to-system assets when considering cost and revenue sharing, as this approach is consistent with the existing point-to-point interconnector approach.

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

We agree that costs and benefits resulting from cross border trade should be shared equitably between connecting countries and should not distort flows.

OHA revenue, costs and risks

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

We agree that the reasonable delay event mechanism should also apply to MPIs and NSIs as it does for existing point-to-point interconnectors.

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

We agree that OHAs may have an increased risk profile compared to point-to-point interconnectors due to the first of a kind technical risk, supply chain issues and increased coordination risk arising from sequential risk. However, we note that some of these risks are applicable to both the developer of the OHA and the connecting offshore wind farm as highlighted in paragraph 3.21 of the Consultation.

Paragraph 3.22 of the Consultation highlights that future development may mean early OHA projects are exposed to further changes as more offshore wind farms are built, which could disrupt revenue streams and operation. We agree this is correct, however this would also disrupt the revenue stream and operation of the existing, connected offshore wind farm. There should be an appropriate mechanism to address this for both parties, the MPI operator and the offshore wind farm operator.

<u>Existing and future regulatory regime concepts</u>

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?

No response

<u>Other Issues</u>

Q16: Do you support, in principle, the extension of AI policy to MPIs?

We have previously highlighted to Ofgem and DESNeZ that it is highly likely that there will be a time lag between key development milestones, such as FID, by the MPI developer and the offshore wind farm developer. As such, a mechanism needs to be put in place to provide assurances to the MPI that costs/risks are underwritten to allow them to proceed and take FID ahead of the offshore wind farm.

We agree that the AI policy developed to date should be extended to MPIs as opposed to developing new arrangements. However, the Consultation focuses on the need to oversize MPI assets to accommodate offshore wind farm projects and not on the time lag/misalignment of development milestones, mentioned above. We consider the AI policy can do both.

Q17: Do you support our minded-to position that AI policy should not apply to NSIs?

We agree that it would not be appropriate to extend the AI policy decision to NSIs to account for requirements of OWFs connected in a non-GB jurisdiction.

Q18: 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?

We think the likelihood of simultaneous build is very low. Taking into account the normal process and steps required for the development of an offshore wind farm and interconnector, key milestones such as FID take place at different times and as such development and construction is unlikely to be aligned. However, we agree that under a simultaneous build there, with perfect alignment, there would be no need for AI policy to be applied.

We agree that in order to provide certainty to developers of the MPI assets and the offshore wind farm assets, which are more likely to happen sequentially, the AI policy should be extended.

We agree that under scenario 1 there is no need for the AI policy to be applied. To date the AI policy has focused on underwriting risk and costs when multiple developers are involved as there are key aspects that are not within the control of the Initial User. In scenario 1, the MPI developer is responsible for both phases of the construction.

We consider scenario 2 to be the more likely approach taken in reality. Whereby there is a gap in time between the MPI developer and the offshore wind farm developer connecting. Under this approach, we agree that the MPI developer may need certainty provided via the AI policy.

Q19: 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?

We agree that for projects funded by AI, user commitment arrangements should be extended to the Later User and that the process should align as much as possible to the existing processes already in development linked to the Early Stage Assessment process.

Q20: 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?

Under the sequential approach, wherever the interconnector is the first user, with the windfarm due to connect subsequently, there are likely to be some assets (eg. an offshore platform) which are evidently only constructed for the benefit of the windfarm and therefore may be considered as anticipatory investment. However, for other assets, such as the sub-sea cable to be considered to include anticipatory investment, it should be incumbent on the interconnector to demonstrate that the connection itself is over-sized, and that it is not able to commercialise the capacity that is not taken up by the windfarm.

The appropriate mechanism for recovery of AI cost when the later user fails to connect or reduces its capacity will depend on the market arrangement, and the phasing of development (interconnection first or offshore transmission first).

	Home Market (assumes OSW pays equivalent to local TNUoS on interconnector flows)	**OBZ (Assumes OSW pay no TNUoS equivalent on interconnector – just capacity charge as per generators on other end of interconnector)**
Interconnector First	AI recovered through demand residual and paid to the interconnector, independent of cap and floor. This mirrors the anticipated arrangement if the windfarm were to have gone ahead and paid a charge equivalent to a TNUoS local charge.	Adjustment to cap and floor to take account of any AI demonstrably relating to the offshore wind farm.
Offshore Wind Radial Connection first	AI recovered through demand residual. Windfarm only pays for capacity of the cable that reflects the windfarm's TEC.	There are likely to be different implications of reduced capacity or non-delivery of second phase. Reduced capacity: Cap and floor to be adjusted to account for reduced interconnector capacity. If any stranded AI has actually taken place will likely depend on the relative capacities of the windfarm and interconnector. Non-delivery of second phase: assume conversion to Home Market and OFTO arrangement, and therefore AI cost recovered through demand residual.

Q21: 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?

It is possible that under a RAB model the AI policy would not need to be applied to a sequential build MPI. However, we consider interconnector developers are best placed to respond to this question.

<u>Ownership unbundling requirements for MPIs and NSI operators</u>

Q22: 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?

No response

Regulatory safeguards and compliance requirements for MPIs and NSIs

Q23: 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?

No response

Q24: 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?

No response

Q25: 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?

No response

Charging

Q26: Do you agree with the above principles relating to connection and onshore charges for offshore generators connecting to an MPI and NSI?

The nature of the appropriate charges for the offshore windfarm is dependent upon the market model under which it operates.

OBZ

We agree that offshore generators participating in an OBZ should not face wider TNUoS, for the reasons set out in the document – they do not have firm access to the MITS, and are only able to access it having paid for capacity across the interconnector. We also agree that OBZ generators should face the same charges for use of the interconnector as onshore generators in other jurisdictions.

Home Market

Assuming an offshore generator operating under the HM model can be deemed to have financially firm access to the MITS, it is appropriate that the generator face charges equivalent to if connected via an OFTO connection. Ie. Local TNUoS charges. To do anything else would create an uneven playing field between MPI offshore generators and those that are radially connected. The appropriate charging methodology for this resides in the CUSC.