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FAO: Future Interconnection / Offshore Coordination / Electricity Network Charging Team
Submitted via email: Cap.Floor@Ofgem.gov.uk

14/07/2023

WindGrid's Response to OFGEM's Consultation on
'Regulatory Framework for Offshore Hybrid Assets:
Multi-Purpose Interconnectors and Non-Standard Interconnectors

Dear Nick, Joshua and Richard,

WindGrid welcomes the opportunity to respond and provide feedback to OFGEM's aforementioned consultation.

WindGrid is a subsidiary of international electricity transmission utility Elia Group, the 5th largest transmission utility in Europe. WindGrid develops, builds, owns, and operates offshore transmission infrastructure and leverages Elia Group's decades of experience in offshore transmission infrastructure gained through its subsidiaries Elia and 50Hertz, transmission system owners and operators in Belgium and Germany, respectively. Elia Group's experience covers HVAC and HVDC technologies with a total of circa 5GWs of offshore transmission infrastructure in operation, and circa 15GW of offshore transmission projects at various development stages across the North and Baltic Seas.

In relation to the consultation, we consider a number of key points worthy of mention and have elaborated on these directly below, after which the consultation questions are addressed.

In relation to regulatory regime options, WindGrid supports a Pure RAB approach throughout i.e., converter station and cables. A Pure RAB approach is simple, provides stability, transparency, addresses revenue uncertainty, and incentivises offshore grid expansion. Combining regimes, for example RAB and Cap & Floor, will not deliver the lowest cost financing to MPI projects and will therefore increase the cost to consumers. Furthermore, we believe that in the pursuit of an optimized design solution, a Pure RAB approach does indeed incentivise developers to locate MPI projects on borders that maximise social economic welfare; competing MPI projects will be subject to a rigorous evaluation process undertaken by OFGEM (similar to the current C&F process), with only the highest-ranking projects being selected and

taken forward. In addition, a RAB model can be enhanced to include 'availability' incentives, cost over-run provisions (such as cost containment measures) and other liquidated damages, to increase risk-sharing between the developer and the consumers, as seen in other jurisdictions.

In relation to costs and revenue sharing, we recognise that congestion revenues are likely to be asymmetrical across the OHA asset and in this respect an end-to-end approach is likely to result in a more equitable sharing outcome. However, there are practical issues that may render this approach unworkable i.e., in-flight NSI projects – characterised by both offshore converters and energy islands – with a regulatory funding arrangement mechanism already in place in the other jurisdiction. In this respect – and until a number of NSI and MPI have reached commercial operation and the regulatory framework has been fully tested with market participants – it is likely that the most appropriate sharing boundary should be assessed and agreed upon based on the project specificities e.g., maturity, jurisdiction(s) involved, design topology, scope definition, phasing etc.

We support a transmission-led approach to MPI development. An OWF-led approach to MPI project development is fraught with complexities and many challenges, including unbundling, which we believe can be best overcome by adopting an interconnector-led approach whereby the offshore transmission assets are built, owned and operated by a transmission-led MPI developer.

Please refer to question responses below.

Comments to Specific Consultation Questions

Licensing Arrangements

1. Do you have any views on our proposal to use, when appropriate, a wider common term of an offshore hybrid asset (OHA) that could apply to both: category 1 assets (non-standard interconnectors) and category 2 assets (MPIs)?

   Distinguishing between (MPI) projects with OWF(s) and offshore converter stations located in GB waters, and (NSI) projects with these assets located in the jurisdiction of connecting countries is helpful. Worthy of consideration is an alternative approach whereby OHA assets are defined at a component level (e.g., interconnectors between different bidding zone etc.) which can lead to a more robust design that is future-proofed in anticipation of the expected gradual evolution of the offshore transmission network over time. This suggestion aligns with the principles outlined in Elia Group's White Paper on offshore hybrid development.

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

   No additional comments to add.

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 (non-standard interconnectors) and category 2 assets (MPIs)?

   Due to the complexities and challenges associated with an OWF-led sequentially-build MPI project, we support an interconnector-led approach whereby the offshore transmission assets are built, owned and operated by the MPI developer. One such complexity and challenge relates to an interim period during which time the OWF developer operates the offshore transmission assets, in advance of divestment. This interim period between commissioning the offshore transmission assets (Stage 1) and commissioning the interconnector assets (Stage 2) could be many years due to the differing planning regimes, licensing regimes etc. within the connecting countries. It is doubtful that unbundling rules would allow the OWF developer to temporarily retain and operate the offshore transmission assets indefinitely. In any case, a staged divestment of the MPI assets is not permitted under the requirements of the MPI license due to the offshore transmission assets alone not being considered qualifying assets. In the case of OWF-led sequentially built MPI projects, both the unbundling rules and MPI license requirements look to be problematic.

   Notwithstanding the above, we support and indeed encourage the joint promotion, collaboration, and coordination of MPI projects by MPI developers and seabed lease owners during the early stages of development.

Regulatory Regime for MPIs and NSIs

Principles

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

   We very much support the level playing field principle whereby the regulatory framework facilitates third-party developers and treats them impartially and without bias – not only with respect to incumbent TSOs and non-TSOs but with respect also to OWF developers in possession of a seabed lease.

   In relation to the principle of cost and revenue alignment, we support a fair and proportional risk/reward balance – please refer to response below.

Cross-border sharing of costs and revenues

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

Whilst recognising that congestion revenues are likely to be asymmetrical across the OHA asset and an end-to-end approach likely to result in a more equitable sharing outcome, there are practical issues that may render this approach unworkable i.e., in-flight NSI projects – characterised by both offshore converters and energy islands – with a regulatory funding arrangement mechanism already in place in the other jurisdiction. In this respect – and until such time as a number of NSI and MPI have reached commercial operation and the regulatory framework fully tested with market participants – it is likely that the most appropriate sharing boundary should be assessed and agreed upon based on the project specificities e.g., maturity, jurisdiction(s) involved, design topology, scope definition, phasing etc.

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

In line with our answer to Q5, we believe that for the foreseeable future an agreement on how costs and benefits are shared between the two connecting countries should be sought on a project-by-project basis, thereby allowing the early NSI and MPI projects to progress in a timely manner.

In the medium to long term, one would also want to consider how broader cost and benefit sharing mechanism could be implemented among all benefitting countries. Indeed, costs are disproportionately allocated to coastal nations, compared to the benefits which are enjoyed by all EU member states, e.g., RES integration, security of supply, decarbonisation etc. Unless there exists a more equitable means of sharing costs and benefits, coastal nations may get increasingly discouraged from supporting OHA projects, aware that their citizens are being asked to carry a disproportional amount of the cost. In this respect, there is a need for sharing arrangements that allow each nation to pay a fair share of costs, while enjoying the associated benefits. Within EU legislation, CBCA looks to share costs beyond the connecting countries. However, this methodology has so far not led to cost and benefit sharing with countries other than the connecting ones.

Costs, Revenues and Risks

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

We agree in principle with the application of a delay mechanism to MPI and NSI projects, similar to the Reasonable Delay Event mechanism.

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

We agree that risks associated with coordination, stranded assets and revenue uncertainty are likely to increase for an OHA project, compared to a point-to-point interconnector project.

In the case of increased coordination risks, examples (non-exhaustive) include the reliance on interdependent OWF projects for the timely exchange of time-critical engineering deliverables and the consequence of the OWF project being delayed. The risk of planned and unplanned outages also

increases when the MPI is built/commissioned in stages, and when offshore (meshed) grid topology changes after the MPI has been fully commissioned.

Risks associated with stranded assets and revenue uncertainty are covered elsewhere in this response paper i.e., anticipatory investment and regulatory regime.

Proposed Regulatory Regime Packages

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 relation to regulatory regime options, WindGrid supports a Pure RAB approach throughout i.e., converter station and cables. A Pure RAB approach is simple, provides stability, transparency, addresses revenue uncertainty, and incentivises offshore grid expansion.

Combining regimes, for example RAB and Cap & Floor will not deliver the lowest cost financing to MPI projects and will therefore increase the cost to consumers.

Furthermore, we believe that in the pursuit of an optimized design solution, a Pure RAB approach does indeed incentivise developers to locate MPI projects on borders that maximise social economic welfare; competing MPI projects will be subject to a rigorous evaluation process undertaken by OFGEM (similar to the current C&F process), with only the highest-ranking projects being selected and taken forward.

In addition, a RAB model can be enhanced to include 'availability' incentives, cost over-run provisions (such as cost containment measures) and other liquidated damages, to increase risk-sharing between the developer and the consumers, as seen in other jurisdictions.

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

Yes, we support a RAB regime for the offshore converter.

11. Which of our proposed offshore hybrid asset package options is most appropriate in your view and why? Within your response consider if there are other viable options not considered here, if we can disregard any options entirely, and which options best reflect the draft principles.

As stated above, we strongly support a Pure RAB approach throughout and consider that combined regimes are likely to be challenging in terms of its practical implementation (including bankability).

Design parameters of the regime (Q11-15) – no comments to add.

Other Issues

Anticipatory Investment

16. Do you support, in principle, the extension of AI policy to MPIs?

    We support the extension of AI policy to MPI, including "early-stage assessment".

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

    No obvious reason why AI policy should 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?

    We agree that AI policy should not apply to simultaneous-build projects. However, we disagree with OFGEM's conclusions regarding sequential build projects. In the case of "offshore transmission first" (scenario 1), the MPI developer will future-proof the cable and offshore converter platform/station to accommodate the OWF e.g., over-sizing cable, specifying HVDC multi-terminal technology, additional bays etc. In this respect, there will be an AI cost gap generated and an exposure to risk.

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?

    We agree that extending the User Commitment arrangements will demonstrate a seriousness of intent on the part of the OWF developer whilst partially mitigating consumers' exposure to AI risk. As stated above, we support too some kind of early-stage assessment by OFGEM to provide the MPI developer with the confidence that the future-proofed design is economic and efficient.

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?

    In the absence of cost-reflective charges on connecting assets – due to late- or non-delivery of the OWF – we agree in principle with the mechanism proposed for recovery of AI cost from both the later user and the consumer i.e., User Commitment and the RAB arrangement, respectively.

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?

    Regardless of regulatory regime an AI cost gap will result from the MPI delivering future-proofed assets. In this respect, an early-stage assessment is necessary to reassure the MPI developer that the AI will be recovered in the event of late- or non-delivery of the OWF, or a reduction in installed generation capacity.

Ownership unbundling

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?

    As mentioned in our Q3 response, unbundling rules for OWF-led sequentially built MPI projects look to be problematic. During the (interim) period between commissioning the offshore transmission assets and commissioning the interconnector assets, the OWF developer will (in theory) need to operate the offshore transmission assets due to the requirements of the MPI license preventing divestment of offshore transmission assets – alone are not considered to be qualifying assets. The implications of this, from an unbundling perspective, is that the OWF will be owning/operating the offshore transmission for an indefinite period whilst at the same time holding a generator licence.

Regulatory safeguards and compliance requirements for MPIs and NSIs (Q23-25) – no comment

Charging

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

    A cost-reflective injection tariff, based on the offshore transmission assets delivered, should be paid for by the OWF.

Yours Sincerely,

Christophe Durieux
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WindGrid