

OFGEM

Submitted via email only.

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Elia Transmission Belgium response to the consultation on:

“Consultation on further detailed regime parameters for the Offshore Hybrid Asset pilot scheme”

Dear Kevin, Nick and Future Interconnection Team,

Elia Transmissions Belgium highly welcomes the opportunity to respond and provide our feedback to the consultation launched by OFGEM on the further detailed regime parameters for the Offshore Hybrid Asset pilot scheme.

We have answered to both questions in a joint response that you can find in the following two pages.

Your sincerely,

Benjamin Genêt

Head of Market – Grid & Offshore concepts

Elia Transmission Belgium

Bert Maes

Project Director Nautilus

Elia Transmission Belgium

Q1. Do you agree with our assessment of the risk considerations for the Pilot NSIs set out in this Section 2 and in Appendix 1? If not, please describe your rationale, to what risks it applies, and what its effects would be on the approach to the regime parameters for the Pilot NSIs.

Q2. Do you agree with how we have set the further detailed regime parameters for the Pilot NSIs, as described in this Section 3? If not, please describe your rationale, to what parameters it applies, and what its effects would be on the selection and values of regime parameters for the Pilot NSIs.

Elia and NGV are building the Nautilus project, an OHA that will create a second interconnection between UK and Belgium of 1,4 GW and the integration of 1,4 GW through the Princess Elisabeth Island, located in Belgian waters.

Nautilus is one of the UK's most advanced offshore hybrid projects, offering a viable opportunity for the UK to extend its energy cooperation with Belgium with coordinated offshore infrastructure. Nautilus is part of the Window Three application period for the Cap and Floor regime as a NSIs in the OHA pilot scheme. Ofgem's OHA pilot scheme provides a valuable opportunity for 'learning by doing' as we progress our understanding of this new asset class, as such some adaptability should be allowed within the regime.

Elia acknowledges that NSIs are a new asset class with new or exacerbated risks with respect to P2P interconnectors. Therefore, Elia welcomes positively the new risks assessment of pilot NSIs proposed by Ofgem, mindful that the applied regime should reflect these new identified risks.

Elia answered already to the *2023 Consultation on the Regulatory Framework for Offshore Hybrid Assets: Multi-Purpose Interconnectors and Non-Standard Interconnectors* stating that the associated risks of OHA differ significantly from P2P interconnectors.

Therefore, in line with our previous answer, Elia reiterates its support to a different risk assessment between OHA and P2P interconnectors. Nautilus is an early mover project, thus it requires an adjustment in the balance between developer risks and reward.

Elia believes that a narrow cap and floor mechanism is the second-best alternative for the revenue regime for de-risking pilot NSIs. Elia would prefer a Regulatory Asset Base (RAB) scheme for the necessary de-risking of these hybrid interconnectors.

Elia stresses on the answer given to question 9 of the *2023 Consultation on the Regulatory Framework for Offshore Hybrid Assets: Multi-Purpose Interconnectors and Non-Standard Interconnectors* that a RAB model is the most suitable for OHAs to provide stability, transparency and addressing uncertainties and incentivizing interconnector expansion without creating competition between interconnectors and loss of congestion rent. Moreover, it would further align with the Belgian and EU regulated approach.

However, Elia sees the introduction of a narrow cap and floor regime as a compromise between the full merchant model and the RAB model, that will stabilise revenues and mitigate the risks described in the consultation.

Above all, Elia highlights the importance of a narrow cap and floor regime that is consistent with any CBCA decision taken by the respective governments/regulators on both UK and EU side.

As noted by Ofgem in this consultation, some pilot NSIs are developing innovative cost and benefit sharing solutions on the two Lines on the OHA, that would make OHA revenues more predictable. It is paramount for Elia that the narrow cap and floor regime developed for pilot NSIs is coherent and robust with the revenues agreed by the cost & benefit mechanism that will be developed on the OHA.