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Brussel, 2024-10-15

FAO: Future Interconnection Team

OFTO Build: Consultation on further detailed regime parameters for the Offshore Hybrid Asset pilot scheme.
Submitted via email: Cap.Floor@ofgem.gov.uk

Dear Kevin,

WindGrid welcomes the opportunity to respond and provide feedback to Ofgem's consultation on further detailed regime parameters for the Offshore Hybrid Asset pilot scheme issued 20th September 2024.

WindGrid is a subsidiary of international electricity transmission utility Elia Group, the fifth 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.

WindGrid supports the progress made to date on delivering the OHA regulatory framework. In particular, we approve of the development of the pilot NSI regime and look forward to the imminent publication of the IPA decision for the two NSI pilots. We are hopeful that the regulatory progress made with the NSI pilots will accelerate progress for MPIs and we eagerly await policy developments in that space. Regarding the pilot NSI process, we note three points in this latest consultation:

We are supportive of the updated risk assessment on pilot NSIs: We believe the approach broadly reflects the risks presented by these new type projects. It is important to note that MPIs will encompass many of these risks similarly, as well as additional risks associated with the offshore platform. Therefore, we believe this comprehensive risk assessment can serve as a useful starting point for developing MPI policy. By building on this foundation, policymakers can better address and mitigate the unique risks posed by MPIs.

While we are generally in favour of a RAB regime for de-risking hybrid interconnectors, we also see the narrow cap and floor as a suitable revenue regime for pilot NSIs: In Ofgem's OHA consultation in June 2023, we advocated for a RAB regime for hybrid interconnectors. This is reflective of the need to de-risk this new class of projects for investors. In particular, this was based on the high capital costs of the offshore platform, which we believed could not be captured in a Cap and Floor mechanism. Since the further policy development on NSIs, we believe a narrow Cap and Floor regime can provide sufficient bankability for NSIs,

in which the offshore platform is regulated by the connecting jurisdiction. In the case of MPIs, we support treating the offshore platform separately under a RAB mechanism while treating the cables under a narrow Cap and Floor. We look forward to supporting the work of Ofgem towards reaching similar policy decisions on MPIs.

We recommend that Ofgem considers a proportional approach to setting the Cap and Floor: We look forward to seeing further details from Ofgem about the approach to setting the Cap and Floor levels for NSIs. We do not believe that the adjustment to the cap and the floor should necessarily be equal and opposite, as the corresponding financial impacts to the project are not symmetrical by nature. While we are supportive of an increase in the floor to provide a safety net for investors, we caution against an equal narrowing of the cap. Such an equal narrowing would be disproportionate and could potentially deter investment. A more balanced approach, taking into account the specific financial dynamics and risk profiles of these projects, would be more effective. If Ofgem would like to discuss specifics of our proposed approach to setting the Cap and Floor, we would be happy to set up a discussion.

We would welcome the opportunity to discuss these points with Ofgem further.

Yours sincerely,

Jack Counihan
Regulatory Affairs Manager
WindGrid