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Consultation on the onshore electricity transmission Early Competition commercial framework
Submitted via email: OnshoreCompetitionsPolicy@ofgem.gov.uk

Dear Jon Sharvill,

WindGrid welcomes the opportunity to respond and provide feedback to Ofgem's consultation on the onshore electricity transmission Early Competition commercial framework, issued 21st October 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 Ofgem's aims to introduce early competition to onshore electricity transmission. The government's finding that onshore competitions can deliver consumer savings of up to £1bn by 2050 is clear evidence of the need to deliver a competitive market for delivering electricity transmission infrastructure. The addition of private competition can support the work being carried out by the TOs, as well as accelerate delivery timelines by incentivising bidders to optimise project plans and streamline processes. Competitive pressure will also drive innovation and cost efficiencies that ultimately benefit consumers.

There are a number of points which Ofgem should consider in the implementation of its commercial framework for onshore competition:

Extension of the Advanced Procurement Mechanism (APM) to all CATOs

The introduction of the APM shows that Ofgem is aware of the supply chain constraints in the electricity transmission market. However, the proposal not to extend the APM to third parties is a direct contradiction to Ofgem's competition rationale for the CATO regime.

Furthermore, we see the current proposals as a clear competition risk. It is likely that third party transmission developers will compete directly with TOs or their subsidiaries. It is difficult to see third parties being able to compete fairly, given that the entire industry has been constrained by supply chain factors. Inclusive funding policies attract a broader range of participants, including smaller and emerging players, diversifying the market

and reducing the risk of monopolistic practices by established TOs. On the other hand, it is challenging to assess the merits of the commercial framework without addressing the potential distortion between TOs and third parties.

Without extending the APM to third parties, Ofgem risks low uptake of the CATO regime, reducing the competition rationale. We have seen similar challenges with aligning incentives and timelines in the OFTO regime. Although an OFTO-Build regime has been an option for offshore wind generators, there have been no OFTO-Build projects chosen by generators. This is in no small part due to the financial and timing risks presented by a third-party build regime. Anticipatory Investment (AI) mechanisms, similar to the APM, have long been advocated as a clear solution to addressing this gap. We therefore see this as a no-regret solution to extend the APM to all parties in the CATO regime.

Early inclusion and consideration of HVDC projects

WindGrid believes that increased competition can accelerate timelines for transmission delivery, in line with the aims of the Government's Transmission Acceleration Action Plan (TAAP). The scale of the network buildout ahead represents a challenge for the existing pool of Transmission Owners (TOs) to deliver the number of upgrades required.

However, there are unique challenges facing HVDC transmission. It is for this reason that European developers such as TenneT, Elia, and RWE have locked in long-term HVDC deals. While we note that the initial prioritisation of CATO projects for competition do not include HVDC projects, as the scale and complexity of transmission projects increases, HVDC will become an increasingly prevalent solution. However, there is a significant shortage of both manufacturing capacity and qualified resources. The lead times for HVDC procurement is growing, simply due to the fact that manufacturers have their order books full for the next few years.

For these reasons, we would encourage Ofgem to consider the distinction between HVAC and HVDC projects within the commercial framework. In particular, the post-award security award of 10% of construction costs may not be suitable for HVDC, due to the higher capital investment and technological complexity. Similarly, there may be a need for a s higher cap for cost adjustments due to the higher risk and potential for unforeseen costs in HVDC projects. Extending the revenue period for HVDC projects beyond 35 years may also allow developers to better amortise the higher costs and encourage investment. Finally, this is also where the benefits of the APM could be key for unlocking competition for HVDC projects.

In summary, we support Ofgem's efforts to introduce competition into the development of transmission infrastructure. However, we strongly recommend that Ofgem extends the APM to CATOs as part of an equitable commercial framework. We also reiterate the pressing need to begin prioritising HVDC projects, which may have distinct commercial considerations.

We look forward to further policy developments in 20225, including the supporting CATO licence in early 2025. If you have any questions about our response, please get in touch at Jack.Counihan@windgrid.com.

Yours sincerely,

Jack Counihan

Regulatory Affairs Manager

WindGrid