
Decision on Market Arrangements for Multi-Purpose Interconnectors

Publication date: 2026

Contacts: Jasper Simon (Office of Gas and Electricity Markets) & Simon Thölke (Department for Energy Security and Net Zero)

Teams: Cross Border Market Arrangements (Office of Gas and Electricity Markets) & Cross-Border Electricity Trading (Department for Energy Security and Net Zero)

Email: CBMA@ofgem.gov.uk

In June 2023 we consulted on market arrangements for Multi-Purpose Interconnectors (MPIs), in particular our views on the relative merits of both Home Market (HM) and Offshore Bidding Zone (OBZ) market configurations for these infrastructure projects. We welcomed views from organisations and individuals with an interest in market arrangements for MPIs, as well as in cross-border trading arrangements and MPI development in general. We have published a summary of responses in December 2023.

In this publication we provide a government response to the consultation. We outline our decision on MPI market arrangements and will refer to future consultations on outstanding regulatory questions for MPIs.

Throughout this publication references to “we” include both organisations, DESNZ and Ofgem. Where only one organisation is concerned, this is clearly outlined at the beginning of a paragraph and any pronouns in those paragraphs should be read accordingly.

© Crown copyright 2026

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at:

10 South Colonnade, Canary Wharf, London, E14 4PU.

This publication is available at www.ofgem.gov.uk. Any enquiries regarding the use and re-use of this information resource should be sent to: psi@nationalarchives.gsi.gov.uk.

Contents

Decision on Market Arrangements for Multi-Purpose Interconnectors	1
Executive Summary	4
1. Introduction	5
Background – OHA pilot and market arrangements for MPIs	5
Policy development processes	6
The June 2023 Consultation	6
Responses to the June 2023 Consultation	6
Related publications	7
General feedback for consultation.....	8
2. Recent developments	9
Cross-border trading arrangements	9
Contracts for Difference	9
3. Trading arrangements and bidding zone configuration	11
Preference of trading arrangements and bidding zone configurations.....	11
Consultation questions	12
Consultation responses.....	12
Decision	14
Transition between configurations	15
Consultation questions	15
Consultation responses.....	16
Decision	16
Trading timeframes.....	17
Consultation questions	17
Consultation responses.....	17
Decision	19
4. Support schemes under an OBZ model	20
Offshore wind farm compensation	20
Consultation questions	20
Consultation responses.....	20
Decision	22
5. Operability and other issues.....	24
Operability.....	24
Consultation questions	24
Consultation responses.....	24
Decision	25
6. Conclusions and next steps	27
Outstanding issues.....	27
Trading arrangement certainty.....	27
Contracts for difference development.....	27
Other workstreams	27
Next steps in MPI development	27

Executive Summary

This document sets out HM Government's decision on market arrangements for Multi-Purpose Interconnectors (MPIs). Following extensive consultation and engagement with industry, system operators, and developers, we have carefully assessed the relative merits of different market configurations and trading arrangements, including whether offshore wind farms connected to MPIs should participate in the Home Market (HM) bidding zone or operate within a separate Offshore Bidding Zone (OBZ).

This consultation decision confirms our intent to pursue OBZs under implicit trading arrangements as the preferred model. The decision reflects strong stakeholder support and aligns with the wider trajectory of GB–EU cross-border trading arrangements as set out in the Trade and Cooperation Agreement (TCA) and the Common Understanding agreed as part of the UK-EU Summit in May 2025. OBZs under implicit trading arrangements are expected to deliver greater market efficiency, improved asset utilisation, and enhanced integration of renewable generation, while reducing adverse flows and overall system costs compared to the HM model.

We recognise, however, that the benefits of OBZs are partially contingent on the successful implementation of implicit trading arrangements between GB and the EU. We therefore remain open to considering the HM model in the future pending the development of GB–EU cross-border trading arrangements, but our policy work will continue to focus on delivering the OBZ target model under implicit trading arrangements.

We also recognise that implementing the OBZ model will require addressing several challenges. These include designing compensation mechanisms for offshore wind farms (OWFs) to mitigate revenue risks, adapting support schemes such as Contracts for Difference (CfDs) to ensure compatibility with MPIs and OBZs, and resolving operability issues related to system balancing, curtailment, and contractual frameworks. HM Government is committed to tackling these challenges through further policy development and consultation, providing regulatory certainty and a clear roadmap for developers and investors.

1. Introduction

Background – OHA pilot and market arrangements for MPIs

- 1.1 In June 2023 we consulted on market arrangements for Multi-Purpose Interconnectors (MPIs).¹ We set out our thoughts on the relative merits of both Home Market (HM) and Offshore Bidding Zone (OBZ) market configurations for this future class of infrastructure projects.
- 1.2 We welcomed views from organisations and individuals with an interest in market arrangements for MPIs, as well as in cross-border trading arrangements and MPI development in general. We published a summary of responses in December 2023.²
- 1.3 The consultation ran in parallel to an Ofgem consultation on the regulatory framework for Offshore Hybrid Assets (OHAs) which covered two types of asset: MPIs and Non-Standard Interconnectors (NSIs).³ Unlike the OHA consultation, we have made no consideration of NSIs as they do not feature offshore generating activity in GB and therefore behave similarly to regular point-to-point interconnectors for market arrangement purposes.
- 1.4 We note that the European Union’s target model is the OBZ.⁴ NSIs with our European neighbours will therefore likely operate under the OBZ market arrangement for the EU wind farm.
- 1.5 No MPI applicants have emerged from the OHA Pilot Scheme launched in 2022.⁵ We recognise the importance of providing developers with as much certainty as possible and aim to do so with this decision for the market arrangements for MPIs.

¹ [Consultation on Market Arrangements for Multi-Purpose Interconnectors | Ofgem](#), June 2023.

² [Summary of responses to the consultation on market arrangements for multi-purpose interconnectors | Ofgem](#), December 2023.

³ [Consultation on the Regulatory Framework for Offshore Hybrid Assets | Ofgem](#), June 2023.

⁴ European Commission 2020, *COMMISSION STAFF WORKING DOCUMENT, Accompanying the document COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE OF THE REGIONS: An EU strategy to harness the potential of offshore renewable energy for a climate neutral future.* eur-lex.europa.eu/legal-content/EN/TXT/PDF/?from=EN&uri=CELEX%3A52020SC0273.

⁵ [Decision on the Initial Project Assessment of the Offshore Hybrid Asset Pilot Projects | Ofgem](#), November 2024.

- 1.6 As with the drafting of the consultation document and the summary of responses, this decision has been prepared jointly between Ofgem and the Department of Energy Security and Net Zero market arrangements teams.

Policy development processes

- 1.7 The consultation was preceded by engagement with the industry via responses to previous publications (listed below) and targeted stakeholder engagement, including via the MPI Framework Discussion Group (MFDG). This engagement has continued post-consultation and we have had the opportunity to further test some of the feedback received. Work with the MFDG was paused in Autumn 2024, as we awaited further certainty from the Review of Electricity Market Arrangements (REMA) programme.
- 1.8 Our aim with this publication is to outline the market arrangements for MPIs and the cross-border trading arrangements to support them, which the Government has deemed most efficient. We have outlined DESNZ's current work towards future efficient trading arrangements.
- 1.9 Some questions touch upon support schemes and the regulatory framework for MPIs. We will consult on the ongoing policy development in early 2026.

The June 2023 Consultation

- 1.10 The consultation explored several important issues that would need to be considered in developing the optimal frameworks for the development of MPIs in GB. In particular, the consultation explored the optimal bidding zone configuration for generators connecting to an MPI. It further linked this question to different electricity trading arrangements and asked respondents to rank those options in order of preference.
- 1.11 In other chapters, the consultation explored various potential support schemes for the offshore windfarm (OWF) in an MPI. It discussed direct subsidies and options to reallocate congestion income from the interconnector to the OWF. In the final chapter, the consultation laid out our thoughts about the balancing timeframe for MPIs and invited respondents to comment.

Responses to the June 2023 Consultation

- 1.12 Twenty-two responses were received to the June 2023 Consultation on market arrangements for MPIs, a summary of which was published in December 2023.²

1.13 We were pleased to receive responses from 11 offshore wind / transmission adjacent developers as these stakeholders were under-represented in our earlier in-person engagement via the MFDG. We also received responses from three developers, five trading parties and three system operators.

1.14 The consultation was open to written responses for six weeks and, in certain cases, was followed up with direct engagement. We express our thanks to all the respondents.

Related publications

1.15 Development of MPI policy can be tracked chronologically through the publications listed.

- [Interconnector policy review: Working paper for Workstream 4 - multiple purpose interconnectors | Ofgem](#), June 2021
- [Consultation on changes intended to bring about greater coordination in the development of offshore energy networks | Ofgem](#), July 2021
- [Offshore Transmission Network Review: Enduring Regime and Multi-Purpose Interconnectors | GOV.UK](#), September 2021
- [Interconnector Policy Review - Decision | Ofgem](#), December 2021
- [Update following our consultation on changes intended to bring about greater coordination in the development of offshore energy networks | Ofgem](#), January 2022
- [Offshore Transmission Network Review: Multi-Purpose Interconnectors: government response | GOV.UK](#), April 2022
- [Offshore Transmission Network Review – Multi-Purpose Interconnectors: Minded-to Decision on interim framework | Ofgem](#), April 2022
- [Update following our consultation on the Multi-Purpose Interconnector interim framework | Ofgem](#), December 2022
- [Open letter on market arrangements for Multi-Purpose Interconnectors | Ofgem](#), January 2023
- [Consultation on the Regulatory Framework for Offshore Hybrid Assets: Multi-Purpose Interconnectors and Non-Standard Interconnectors](#), June 2023
- [Consultation on Market Arrangements for Multi-Purpose Interconnectors](#), June 2023

- [Summary of responses to the consultation on market arrangements for multi-purpose interconnectors | Ofgem](#), December 2023
- [Decision on the Regulatory Framework for the Non-Standard Interconnectors of the Offshore Hybrid Asset pilot scheme | Ofgem](#), February 2024
- [Decision on the Initial Project Assessment of the Offshore Hybrid Asset Pilot Projects | Ofgem](#), November 2024

General feedback for consultation

We believe that consultation is at the heart of good policy development. We welcome any comments about how we have run this consultation. We would also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk.

2. Recent developments

Cross-border trading arrangements

- 2.1 Following further engagement with the EU, there has been significant progress on the topic of efficient UK-EU electricity trading arrangements. On 19 May 2025, the Prime Minister of the United Kingdom and the President of the European Commission met for the UK-EU Summit, where they set out their intention to strengthen UK-EU cooperation in a number of areas, including energy.
- 2.2 The UK and EU published a Common Understanding following the Summit which sets out their priorities for deepening this cooperation. The declaration stated that the UK and the EU share the view that close cooperation on energy is in the interest of both the European Union and the United Kingdom. A commitment was made to explore the United Kingdom's possible participation in the European Union's internal electricity market, including participation in the EU's electricity trading platforms.⁶
- 2.3 The European Union's day-ahead and intraday markets work on the basis of implicit price coupling. Price coupling is the most efficient form of cross-border electricity trade and is important for maximising the benefit of existing and future interconnection capacity for all parties. Efficient trading has the potential to better facilitate the development of offshore hybrid assets, including MPIs.
- 2.4 The internal electricity market also features common forward market rules and trading platforms for the balancing timeframe. Our future policy development on forward trading and balancing arrangements for MPIs is mindful of these explorations.

Contracts for Difference

- 2.5 The Review of Electricity Market Arrangements (REMA) programme has been concluded. HM Government has published their decision to retain a single national GB-wide wholesale market and introduce an ambitious package of reform to improve the efficiency of our future power system.⁷

⁶ [UK-EU Summit - Common Understanding | GOV.UK](#), May 2025.

⁷ [Review of electricity market arrangements \(REMA\): Summer update, 2025 | GOV.UK](#), July 2025.

- 2.6 In the government response to the consultation on Allocation Round 7 (AR7) the government confirmed its intention to increase the contract length for Contracts for Difference (CfD) from 15 to 20 years.⁸
- 2.7 HM Government will update on further development of the Reformed National Pricing (RNP) delivery package, including CfD reform, in due course.

⁸ [Government response to policy proposals in the consultation on further reforms to CfD for AR7 | GOV.UK](#), July 2025.

3. Trading arrangements and bidding zone configuration

Preference of trading arrangements and bidding zone configurations

3.1 For MPI market arrangements, our consultation distinguished between two separate issues:

- Cross-border trading arrangements: specifically, implicit or explicit capacity allocation and which trading arrangement is preferable in the context of MPIs; and
- Bidding Zone configuration: specifically, whether generating assets, namely offshore wind farms (OWFs) connected to interconnectors, should be deemed part of the domestic bidding zone (HM), and get priority access over cable capacity, or whether they form their own, separate bidding zone (OBZ) and compete for access to the cable.

3.2 We outlined that future implicit trading arrangements were under development following the commitments under the Trade and Cooperation Agreement (TCA) and would be based on the concept of multi-region loose volume coupling (MRLVC).⁹

3.3 Based on preliminary engagement, we presented consultees with a table setting out an order of preference and rationale for such order. We suggested implicit trading arrangements were better placed to deliver efficient markets than explicit trading arrangements. We proposed the OBZ as being the configuration allowing for optimal capacity allocation under implicit arrangements.

⁹ [Trade and Cooperation Agreement between UK and EU | GOV.UK](#), December 2020.

Figure 1: Table with bidding zone configurations and trading arrangements.

- | | |
|--------------------------------------|---|
| 1. Implicit trading & OBZ | <ul style="list-style-type: none">• Combines the benefits of implicit trading (selling capacity on the interconnector and electricity together) and OBZ configuration (separate bidding zone created for the MPI and OWF(s)). |
| 2. Implicit trading & HM | <ul style="list-style-type: none">• Captures the benefits of implicit trading, but inefficiencies and challenges of HM configuration (trade as part of domestic market zone) remain, influencing the overall design. |
| 3. Explicit trading & HM | <ul style="list-style-type: none">• A 'fallback arrangement' in the 'status quo' scenario where there is no implicit trading available. (post-EU-exit: capacity and electricity sold separately) |
| 4. Explicit trading & OBZ | <ul style="list-style-type: none">• Operational complexities and inefficiencies of explicit trading are potentially exacerbated under the OBZ configuration. |

Consultation questions

3.4 The consultation asked stakeholders the following questions:

Q1. Do you agree with the ranking of options (OBZ-implicit, HM-implicit, HM-explicit, OBZ-explicit) presented in the table?

Q2. Do you believe that some of the permutations are not workable and should be ruled out? Why?

Q3. Which of the four options is your preferred one, and why?

Q4. Under implicit trading (loose volume coupling), which bidding zone configuration (HM or OBZ) best supports: a) market efficiency? b) consumer benefits? c) integration of renewables?

Consultation responses

3.5 Responses were split between those supporting our order of preference for bidding zone configurations and trading arrangements, those questioning some aspect of the ordering, such as whether HM is preferable under explicit arrangements, and those arguing that we should hold off on committing to specific arrangements at this time.

Preference for implicit trading

3.6 There was unanimous preference for implicit trading arrangements amongst respondents. Respondents cited a reduction in adverse flows and greater asset utilisation amongst their justifications for preferring the implicit model.

Limited support for explicit trading

3.7 There were limited arguments made in support of explicit trading, which were insufficient to sway most respondents to change their order of preference. The ESO¹⁰ noted that an explicit model would give them more scope to take mitigating actions when interconnector flows exacerbate network constraints. As such, implicit arrangements, particularly in a HM model, might result in higher balancing costs.

Support for implicit trading and OBZ combination

3.8 There was majority support for our most preferred option, that of implicit trading combined with an OBZ. Reasons cited were similar to those given for implicit trading more generally. OBZ-implicit was also the preferred option across each of the dimensions of market efficiencies, consumer benefits and integration of renewables.

Acknowledged drawbacks with the OBZ-implicit model

3.9 Several of the respondents acknowledged that, while OBZ-implicit might be the most efficient configuration for trade across MPIs, its implementation presents challenges that require mitigation: particularly that there is a need to compensate OWFs for volume risk in this scenario.

OBZ preference even under explicit trading

3.10 Some respondents felt that the OBZ-explicit combination might be unworkable or may lead to low prices or redundant markets as consumption in the OBZ would likely be low or non-existent. However, more felt that OBZ was the preferable configuration in either trading arrangements because of better asset utilisation and lower cost to consumers. This opinion was popular with MPI developers – some suggesting that the HM approach was not investible.

¹⁰ At the time of consultation the Electricity System Operator (ESO); meanwhile the ESO has been succeeded by the National Energy System Operator (NESO). Where we refer to responses, we use the terminology ESO, where we are referring to actions taken in the future, we are referring to NESO.

Deferring decisions on preferred arrangements

- 3.11 A small number of respondents suggested we were too early in the process to consider eliminating options. Some indicated that we lacked an adequate quantitative basis for making the decision and that more in-depth analysis of each of the configurations would be advantageous.
- 3.12 Others suggested that because this is a novel asset type, there is value in maximising flexibility and being able to select trading arrangements and bidding zone configuration on a case-by-case basis depending on the project being proposed.

Decision

- 3.13 We recognise that, of the options presented, the broadest support amongst respondents was for the **OBZ-implicit** arrangement. We are minded to implement OBZs under implicit trading arrangements. HM Government will continue working with the European Commission as per the Trade & Cooperation Agreement and Common Understanding to deliver efficient (implicit) trading arrangements. DESNZ is also exploring further steps necessary to introduce OBZs in GB.
- 3.14 As outlined above, we are currently exploring with the European Commission the UK's possible participation in the EU's electricity trading arrangements in all timeframes. This includes implicit price coupling in the day-ahead and intraday timeframes.
- 3.15 We acknowledge that we originally asked for this preference under implicit volume coupling trading arrangements. We have noted the technical differences of volume and price coupling in the consultation without prejudice towards either arrangement.
- 3.16 Most respondents have commented on the specific question we asked, not distinguishing between implicit volume or price coupling. Some respondents have pointed out their preference for implicit price coupling over implicit volume coupling, deeming price coupling the most efficient solution.
- 3.17 Respondents also raised concerns with the OBZ-implicit model, including the need for more certainty around future trading arrangements and the need to compensate connected OWFs.

- 3.18 At the time of the consultation analysis on MRLVC was ongoing and identified several implementation challenges.¹¹ The Common Understanding expresses a clear intent by both Parties to explore future trading arrangements that are not facing the same technical challenges.
- 3.19 HM Government is investigating the necessary steps for the implementation of OBZs for MPIs and we will provide updates on this process in due course.
- 3.20 We address the need for compensation for OWFs in the chapter below on support schemes.

Transition between configurations

- 3.21 This section is concerned with stakeholder views on transitioning from one configuration to another (HM to OBZ) and one set of trading arrangements to another (explicit to implicit) ahead of, or during, the life of an MPI. This may be necessary as a fallback option if the preferred trading arrangements are not available at the point of implementation: creating a scenario in which there would be a transition from a HM-explicit to an OBZ-implicit arrangement.
- 3.22 Respondents highlighted concerns that had also been raised during our early-stage engagement regarding the impact of transition on regulatory certainty and potential difficulties in amending CfD contracts. In the case of day-ahead trade, the consultation set out that under OBZ-implicit, capacity would be calculated and allocated in a similar way to any other market participant under an implicit model (e.g. allocated by a coupling operator via algorithm). Under HM-explicit, however, the capacity calculation process would need to account for OWF reserved capacity. This results in uncertainties around the reservation basis and whether the OWF would need to bid into auctions.

Consultation questions

- 3.23 The consultation asked stakeholders the following questions:

Q6. Do you think that a transition from HM to OBZ is possible and/or desirable?

Q7. What conditions must be met so that a transition from HM-explicit to OBZ-implicit configuration would be viable for developers?

¹¹ [Specialised Committee on Energy: minutes of meeting, 9 November 2023 | GOV.UK](#), November 2023.

Q8. How does this relate to other areas such as regulatory regime design or charging arrangements?

Consultation responses

3.24 Respondents to these questions generally took a negative view to transitioning between bidding zone types. There was also little consensus on what projects would transition to and from: whether it would be driven by a change in bidding zone configuration, trading arrangements or both. Most respondents concluded it was possible, but not desirable.

Increased uncertainty

3.25 The majority of respondents noted that transitioning between trading arrangements would add considerable development uncertainty, with asset owners wishing to minimise exposure to congestion revenue risk. The lack of certainty would also bring into question compatibility with the CfD scheme, the objective of which is to maintain investor confidence over fixed periods of time.

3.26 Many stakeholders noted it might be possible to mitigate uncertainty risks, but not remove them entirely. This might be achieved by providing a long run-up period ahead of any change, extensive modelling of impacts and embedding regulatory protection against negative outcomes.

Transition as an enabler for reaching a preferred trading arrangement

3.27 Several respondents made a case for transitioning arrangements if it was the only way of reaching an OBZ-implicit arrangement end state.

3.28 Some respondents indicated that transitioning between arrangements may be necessary to build a meshed grid in the North Sea or to facilitate multi-phased development whereby the build-out changes over time.

Decision

3.29 Noting the unattractiveness of a change of trading and market arrangements, we are minded to develop a policy framework that does not include transitioning from one trading arrangement to another during the operational lifetime of an asset due to the outlined uncertainties for investors and complexities with the CfD scheme.

3.30 We will update on the development of such arrangements in due course.

3.31 We will publish another consultation on the regulatory framework for MPIs including on the issue of a multi-phased, i.e. sequential build-out of the OWF and the interconnector part of the asset. In this context, we will re-assess the potential

need for varying market arrangements should one part of the asset become operational before the other and the transition from such an interim arrangement to the final arrangement.

Trading timeframes

- 3.32 This section is concerned with the compatibility of MPI models with the three trading timeframes across which cross-border trade operates: long-term, day-ahead and intraday.
- 3.33 In the case of day-ahead trade, the consultation asserted that under OBZ-implicit, capacity would be calculated and allocated in a similar way to any other market participant under an implicit model (e.g. allocated by a coupling operator via algorithm). Under an HM-explicit model, however, we suggested that the capacity calculation process would need to account for OWF reserved capacity and there were uncertainties around the reservation basis and whether the OWF would need to bid into auctions.
- 3.34 In the intraday and long-term timescales, the consultation recognised at the time that available trading options may be limited by focus being given to implementing implicit volume coupling for day-ahead trade in the first instance, with other timeframes to be considered later.

Consultation questions

- 3.35 The consultation asked stakeholders the following questions:

Q9. How do you envisage long-term, day-ahead and intraday trading arrangements working for MPIs under both HM-explicit and OBZ-implicit scenarios? Can explicit capacity allocation work with OBZ configuration, if yes how?

Q10. What are your views on using either Physical Transmission Rights (PTRs) or Financial Transmission Rights (FTRs) in the long-term timeframe? Will OWFs have an active role in long-term capacity allocation?

Q11. Which timeframe is the most vital/relevant for MPIs and why?

Q12. Are there any improvements to commonly understood trading models (explicit trading or implicit price or volume coupling) that can be made to better facilitate efficient market arrangements for MPIs?

Consultation responses

- 3.36 Respondents noted that the intraday timeframe will be of growing significance to future MPIs (with day-ahead remaining important). Stakeholders also flagged that

MPIs, and especially the OBZ configuration, will present significant challenges to trading in the long-term timeframe.

Intraday trading and volume coupling

3.37 As in earlier sections, preference for implicit trading was consistent amongst respondents. It was noted that, at point of implementation, implicit trading enabled by volume coupling may only be available in the day-ahead timeframe as this is the initial objective of the TCA workstream. Stakeholders agreed that day-ahead should be prioritised, but the absence of a short-term solution for implicit intra-day trading led several respondents to make the case for single day-ahead price coupling again. Other respondents, including ESO, noted some benefits to explicit trading in the intraday timescale: simplicity and avoiding the need to dovetail with EU mechanisms.

Challenges with long-term trading

3.38 Many respondents noted the challenge of implementing long-term trading under the OBZ configuration. Some argued that some form of long-term hedge is required. FTRs were supported as the simpler, more efficient solution offering secondary trading options while PTRs were seen as having advantages in allowing OWF to procure access on a longer term basis without having to rely on day-ahead auctions. However, stakeholders also indicated that PTRs would be harder to establish and possibly less efficient overall. Respondents noted that these will be important risk-management tools to mitigate congestion losses. They also noted that FTRs seemed to be the preferred model in the EU at present. Overall, there was a small preference for FTRs over PTRs.

3.39 Respondents also noted a preference for long-term sale of capacity by OWF developers which, although less efficient than implicit trading, would achieve greater certainty in revenue flows. However, some respondents indicated that neither FTRs or PTRs would be appropriate for OWF because of the reliance on weather forecasting.

Case for modelling scenarios

3.40 Respondents agreed to the need for trade across all three timeframes to enable MPI development. They called for further modelling to understand the specific implications of the OBZ configuration across individual timeframes and geographies.

Decision

- 3.41 We note that respondents felt all timeframes were important for trading over MPIs and the preference for implicit (price) coupling.
- 3.42 As outlined above, HM Government are currently exploring with the European Commission the UK's possible participation in the EU's electricity trading arrangements in all timeframes. This includes implicit price coupling in the day-ahead and intraday timeframes and participation in the forward and balancing timeframes.
- 3.43 We note ongoing policy development in the EU towards FTR obligations as the target model, which is in line with respondents' slight preference for FTRs over PTRs.¹²
- 3.44 We will continue to consider the interaction of the OBZ and the different trading timeframes in our continuing work towards an enduring MPI framework.

¹² [Further development of the EU electricity forward market](#), ACER, February 2023.

4. Support schemes under an OBZ model

Offshore wind farm compensation

- 4.1 This section is concerned with ways of compensating OWFs for projected lower revenues earned under an OBZ configuration. The consultation focused on two approaches in particular: the redistribution of congestion revenues from an MPI transmission owner to the connected OWF or the amending of support mechanisms such as the CfD scheme.
- 4.2 In the case of the former, the consultation noted that there were several approaches that could be taken to redistribute congestion revenues. It was noted that the use of preferential FTRs to effect ex-ante redistribution would be complicated and detrimental for market participants. Options for ex-post redistribution also suffer from shortcomings including incompatibility with Article 19 of the Retained Electricity Regulation, which restricts use of congestion revenue from interconnectors to specific purposes.
- 4.3 In the case of CfDs, two key issues were flagged to respondents: the eligibility of participants under current scheme rules and the loss of revenue for OWF in the OBZ scenario when importing.

Consultation questions

- 4.4 The consultation asked stakeholders the following questions:

Q13. Do you agree that OWFs should be compensated for a loss of revenue in OBZ compared to HM? Where should this come from? Should it come from the congestion revenue from the MPI cable derived from cross-border trade?

Q14. How could the existing CfD scheme be changed to support OWFs connected to MPIs, especially considering OBZ market model? How would you envisage this scheme to work?

Q15. Are there any other alternative approaches that we have not considered that would better incentivise an OWF to connect to an MPI?

Q16. How do charging arrangements relate to the considerations on support schemes for MPIs, especially under the OBZ scenario?

Consultation responses

- 4.5 Nearly all respondents were of the opinion that, in an OBZ scenario, OWFs should be compensated for a loss of revenue. There was less consensus over where the compensation should come from, but the majority of stakeholders believed CfDs

were the optimal mechanism. The majority of system operators felt that schemes that result in distortive effects should be disincentivised. Responses from OWFs challenged whether there was adequate incentive for MPI-OWF builds compared to conventional OWF builds, with over half arguing it was not, even after CfD price risk is adjusted for.

Sharing congestion revenue

- 4.6 While support for some compensation was almost unanimous, congestion revenue sharing was only supported by a minority of respondents – and generally those respondents still preferred compensation by some other means. Some respondents felt that revenue sharing was a distortive subsidy ultimately paid by consumers. Cross-subsidisation between transmission and other activities was viewed negatively, with respondents referencing the explicit prohibitions within EU regulations.
- 4.7 Stakeholders were also critical of congestion revenue and CfDs being used together, noting that incorporating payments from another source might be difficult and require a long lead time.

Contracts for Difference (CfD) Scheme

- 4.8 The majority of respondents were supportive of the use of CfDs to compensate OWF. Some had different views on how this would operate in practice. Some stakeholders envisaged payments coming from the same pool as other CfD payments. Others suggested that this would needlessly complicate matters – especially if transitional arrangements were to open MPI-OWF, and potentially all scheme participants, to disputed Principles Reviews. Some respondents favour implementing a standalone CfD category to eliminate such risks. Stakeholders believed CfDs, or any alternative/adapted support model, should be paid by the same entity that would usually pay renewable subsidies to prevent discrepancies.
- 4.9 Some respondents were critical of the design of the existing CfD scheme, noting it disincentivises assets from delivering added system value, distorting wider markets. Key considerations noted in applying CfDs to MPIs included establishing what reference price would be used and avoiding subsidisation of electricity in the connecting country. Respondents also agreed that a solution will need to be found to the duration misalignment between the project life of an MPI (25-30 years) and the 15-year CfD duration.
- 4.10 Respondents were also keen to suggest broader amendments to the CfD scheme that may be better suited to the MPI arrangements. These include possibly allowing

a portion of generation to marketing outside of the CfD strike price. Another suggestion, raised by multiple respondents, was remuneration based on deemed generation of an OWF rather than physical generation with so called 'capability based' CfDs, which are in use in a number of European contexts.

Alternative suggestions

4.11 Some respondents suggested that integrated ownership might address the issue of projected lower revenues for OWF if it were permitted. One respondent also suggested that alternative routes to market could be used to bridge the revenue shortfall such as connection to hydrogen / carbon capture, utilisation and storage (CCUS). Other benefits were also cited as adding value from the perspective of the OWF, particularly network charges, reduced cost of shared infrastructure, ease of building further from land and additional redundancy. Finally, some respondents wondered whether priority access could be provided even in the OBZ scenario.

Incentive adequacy

4.12 Several respondents remarked that the incentives for OWFs to develop products under an MPI model were weak, even with CfD compensation. Conversely, other respondents suggested that limited available OWF opportunities might actually make MPIs more attractive.

Decision

4.13 We note there is a clear preference for using CfDs over other mechanisms to compensate OWF in an OBZ scenario. There is also unanimous agreement that OWFs should be compensated for a shortfall of revenues in the OBZ compared to a conventional radial connection.

4.14 The Government has confirmed that, in principle, eligibility for MPI-connected OWFs in the CfD scheme is possible. HM Government has further outlined that a flexible CfD would be a suitable way of mitigating against lower revenues in an OBZ and thereby decreasing an OWF's CfD strike price bid. Eligibility and the confirmation of a flexible CfD are subject to an impact assessment showing good value¹³ for consumers and wider benefits for the electricity system.¹⁴

¹⁴ [Policy considerations for future rounds of the Contracts for Difference scheme: government response](#), October 2024.

- 4.15 Such an impact assessment is dependent on a mature MPI policy framework, including explicit or implicit trading arrangements and an OBZ or HM approach. We have outlined in this decision the market arrangements the Government is minded to implement. We will consult on the wider MPI policy framework that we have developed to provide further certainty for an impact assessment for CfD eligibility.
- 4.16 In the context of respondents noting the misalignment of the CfD contract length (15 years at the time of consultation) and the MPI asset lifetime (25-30 years) we refer to the recent decision mentioned above to extend the general CfD contract length to 20 years. We acknowledge that this does not fully align the CfD contract duration with MPI asset lifetime, however, it brings the two further together and is in line with the implicit notion that a longer than 15 year CfD contract length would be required for OWFs connecting to MPIs.
- 4.17 Respondents have highlighted concerns with regards to volume risks in the MPI and favoured deemed or capacity-based CfDs. The RNP programme is still considering reform of the CfD and will announce further reform decision in due course. In the meantime, HM Government acknowledges the increased volume risk for OWFs in MPIs and continues work towards appropriate support schemes to mitigate against this risk.
- 4.18 As for concerns over incentives to participate in MPIs, we note there are significant advantages to building OWFs as part of an MPI compared with stand-alone radial projects and would expect that these would at least partially offset the higher risk profile. We note that these advantages depend on the wider regulatory framework for MPIs, which we are developing. We will consult on our policy development for the wider MPI regulatory framework soon.

5. Operability and other issues

Operability

- 5.1 This section is concerned with challenges that MPIs present to system operability and the changes NESO will need to consider and implement to support such projects. The consultation noted a few specific challenges, including priority access, balancing and ancillary services. Central to these challenges is whether the system operator should have a relationship with both the MPI transmission operator and the connected OWF or just manage interactions via the MPI: having both contractual and practical (metering etc) implications.

Consultation questions

- 5.2 The consultation asked stakeholders the following questions:

Q17. Does the chapter on operability capture the key topics that should be included when considering the impact of market arrangement models on system operability? Are there other important implications that need to be considered?

Q18. Do you have any views on how curtailment and compensation might work under both HM and OBZ configurations?

Q19. Do you have any comments on how balancing might work under both HM and OBZ models?

Q20. What are your views on contractual agreements that will need to be established between the system operator, MPI operator and an OWF? Do they differ depending on HM or OBZ configuration?

Consultation responses

- 5.3 Respondents thought that the consultation chapter broadly captured the operability questions that will need to be addressed through future work. They were keen to be involved in future discussions and to ensure that operators in connected jurisdictions were also involved. There were a range of conflicting opinions about how curtailment and compensation should work and how balancing might work, set out below. In terms of contractual relationships, of those who raised an opinion on this question, there was a general preference for OWFs having a direct relationship with NESO as opposed to an indirect relationship via the MPI.

Curtailment and compensation

- 5.4 Respondents set out a number of principles they believe should be followed in applying curtailment/compensation: it should be market-based, make the prejudiced party whole, no party should profit unfairly and arrangements should be as symmetrical as possible with connected jurisdictions.
- 5.5 It was noted that OWFs are normally compensated through the balancing market if curtailed by the system operator. Interconnector flows are managed through various tools by NESO. One of the key questions to address will be what flow management will look like for MPIs, and how the interconnector operator and the OWF will be compensated for any reduction in capacity.

Balancing and contractual relationships

- 5.6 Those respondents who commented on balancing requirements suggested that it might work as with existing assets, but with options around balancing units and contractual arrangements dependent on the relationship desired and bidding zone model chosen. The ESO suggested that under OBZ, the MPI may be responsible for actions to be carried out by the OWF connected to it. Other respondents were less keen on this option – seeing the direct relationship and individual balancing units and metering as being preferable.
- 5.7 Generally, OWF developers felt that having a contractual relationship with the MPI rather than direct with NESO would result in value being lost in terms of balancing services or ancillary services being provided. Such arrangements might also prove challenging should assets later evolve into meshed grids. Additionally, contractual relationships would likely become very complicated, with the OWF having to sign up to codes and the MPI having to be party to the CfD agreements etc.

Decision

- 5.8 Responses to this section have agreed that our chapter on balancing has captured broadly the key issues for consideration. They have provided feedback on further considerations that will need to be taken into account in further policy work.
- 5.9 On curtailment and balancing, we acknowledge the opinions raised by respondents and the preference for symmetry between arrangements in both connected jurisdictions. In light of the Common Understanding and responses raised, we continue to develop the wider policy framework for curtailment and compensation arrangements in MPIs and aim to follow the principles preferred by respondents.

- 5.10 We note the various considerations laid out by respondents and note the benefits and disbenefits of various options. With the responses in mind we continue developing balancing arrangements for MPIs that are fair to all parties.
- 5.11 Additional to the general considerations set out in the consultation we have continued considering necessary arrangements for imbalance management in the OBZ. An issue we are continuing to develop together with connected jurisdictions is the management of OWF imbalances in the OBZ, which will affect cross-border flows and will require balancing in connected onshore markets.
- 5.12 We note the general consensus that the OWF should have separate contractual relationships with NESO instead of interacting with NESO through the MPI. We will consider this preference in our future policy development.
- 5.13 We have further developed the wider MPI regulatory framework and will consult on this framework in due course. We will continue to assess how balancing in the OBZ would work in case of GB participation in the EU's internal electricity market.

6. Conclusions and next steps

Outstanding issues

Trading arrangement certainty

6.1 Our position remains that OBZ-implicit is the optimal solution for cross-border trade across MPIs. We will continue to work towards these arrangements and develop a framework that supports operation of MPIs under these arrangements. We outlined our current work towards implicit trading arrangements with the EU in all timeframes. We will continue to explore the best route to implementing OBZs.

Contracts for difference development

6.2 We conclude that CfDs provide the preferred way of mitigating against price risk for OWFs. We acknowledge that a standard CfD in an OBZ creates a revenue shortfall for OWFs and have outlined in previous publications that, in principle, a flexible CfD is required to mitigate against price risk in an OBZ. We note that there are further concerns with regards to volume risk in an OBZ and we continue to consider possible mitigations. We will continue to develop an enduring MPI-framework that enables an impact assessment for the eligibility of MPI-connected OWFs for the CfD scheme.

Other workstreams

6.3 Further work is required on some questions raised in this consultation. We have outlined in this decision our intent to pursue the OBZ under implicit trading arrangements as the preferred market arrangement for MPIs. Our further work on a wider MPI framework will be based on this decision.

Next steps in MPI development

6.4 We have continued the development of the MPI framework. We have identified in the MFDG together with industry nine workstreams that form the minimum viable product for MPIs and continued working on the policy issues in these workstreams. We aim to consult on our current development for an MPI framework in early 2026.