Email to:
offshore.coordination@ofgem.gov.uk

09 June 2022

Dear Patricia,

Offshore Transmission Network Review – Multi-Purpose Interconnectors: Minded-to Decision on interim framework

Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs, social benefits and reduce the carbon emissions which cause climate change. Our 300 members work across all renewable energy technologies, in Scotland, the UK, Europe and around the world. In representing them, we aim to lead and inform the debate on how the growth of renewable energy can help sustainably heat and power Scotland's homes and businesses.

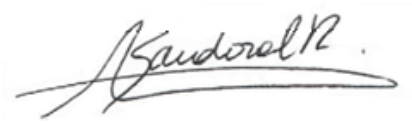
Scottish Renewables welcomes the opportunity to provide our view on the proposals outlined in this consultation. MPIs will have an important role to play in delivering net zero at least cost to the consumer and meeting the Government ambitions of 50GW of offshore wind and 18GW of interconnection by 2030. An Enduring Regime will need to coordinate changes to legislation, codes and methodologies in order to enable MPIs on the electricity grid.

The current legislation for interconnectors (Electricity Act 1989) was not developed with MPIs in mind, and instead defines interconnectors as point-to-point connections with other countries. MPIs also do not fit into the definition for offshore transmission, which only considers a radial link connecting a single generator back to the shore. The current regulations do not provide an easy mechanism for these elements to interact through licensing, connection policy, charging or ownership.

Current legal and regulatory frameworks focus only on existing onshore transmission with 'bolt-on' regulatory arrangements for offshore transmission. Therefore, we welcome any changes wherein the compartmentalisation of the transmission system between offshore and onshore is reduced or removed. Development of an integrated offshore and onshore transmission system is needed in order to support the overall delivery of net zero.

Scottish Renewables would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,



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Minded-to decisions

Q: Do you have any concerns with the minded-to decisions set out in Section 2?
This section is divided up based on the minded-to decision laid out in the consultation document.

MPI models under consideration
Ofgem says: We will not limit the interim framework to one MPI model. We will be open to applications for both the IC-led model and the OFTO-led model, as well as others that might be in development.

We welcome Ofgem's decision to consider applications for both models, as well as others that have not yet been suggested. The different models reflect the fact that there are different configurations for MPIs, depending on where offshore generation connects. It is in everyone's interest to provide pilot MPI projects with as much flexibility as possible so that they can get off the ground, and gain experience which can be passed on to future developers. We note that offshore wind farms linked via interconnector (IC-led model) should have priority access to the onshore GB system, and the same access rights as a radial OFTO link. They must also be able to comply with CfD requirements.

Ofgem should ensure that the regulatory and code changes required to facilitate MPIs do not exclude any of these concepts or variations that may develop in the future, as the regulatory and commercial landscape surrounding MPIs evolves.

Asset classification and primary use
Ofgem will require licence applications for multi-use assets to demonstrate the expected primary or main use of the asset. We recommend, as a minimum, that this includes a simple calculation using the estimated load factor of the connecting OWF and the L1 cable capacity to show how often the asset is expected to be available for cross-border flows compared with OWF output transmission over the lifetime of the asset, which would be monitored by developers and Ofgem on a regular basis.

In the long term, we believe that MPIs should be classed as their own asset within the regulation framework, and that an Enduring Regime must include the flexibility required to regulate multi-use assets. We note that the development of an MPI Licence in time to be used for the Early Opportunities and Pathway to 2030 workstreams would overcome the current legislative constraints of the primary use reporting currently in the Electricity Act. We urge government and BEIS to include a new asset class and licencing provision in the anticipated Energy Security Bill, as announced in the Queen's Speech in Spring 2022. This new MPI asset class could be applicable for projects connecting in before 2030 not just for the Enduring Regime (post 2030).

However, we appreciate that at this stage, Ofgem must rely on existing tools. Requiring the reporting of the MPIs 'primary use' to ensure the current license is used is understandable; however, there are some potential issues. Classifying assets based solely around their primary function runs the risk of unintended consequences around load factors.

We consider that basing the calculations for determining the primary use of the asset on capacity and load factors (of the connected offshore wind farm) is appropriate but will need to allow some flexibility. For example, this needs to be reflective of the variation that may be seen in load factors during the initial commissioning years but also in a low wind year. Further detail on how Ofgem would take this into account when determining primary use would behelpful.

In 2021/22, the generic average load factor (ALF) for offshore wind was 49%, which suggests that an MPI connected to an 'average' wind farm would list is primary use as interconnection, as it is available over 50% of the time. However, the ALF of offshore wind farms is likely to increase as turbines become larger, more efficient, and located in windier areas (i.e. further offshore). This leads to the possibility that the primary use of the MPI could change, and would not be available for cross-border trade frequently enough for the primary use to be interconnection. It is unclear how licensing would work in this instance; in the consultation document, Ofgem states that:

"We are unable to confirm… how we would manage the situation whereby the activity undertaken on an asset switches… into the threshold of another Section 4 licensable activity".

Any clarity that can be provided on this would be much appreciated. Large infrastructure projects require regulatory certainty for the duration of the project, from early development to construction and through to the end of the operational phase. We would therefore expect any designated asset class and associated licence to be granted for the lifespan of the asset.

Additionally, the consultation document notes the uncertainty around near-term MPI projects, which are at different stages of development and sit within a regulatory and commercial environment that is shifting rapidly. Given this, we welcome Ofgem's recognition that configurations presented by developers may be subject to change.

Finally, the new reporting should not be burdensome, and must add value – see below for more on this point.

Primary use reporting
Ofgem says: We will introduce a reporting mechanism to monitor the asset use over time to ensure that the asset licence granted remains fit for purpose. We would expect to be a measurement based on the method the applicant has used to demonstrate asset usage in the first place e.g. OWF load factors and cable capacity. Should asset usage fall out of the parameters agreed at the point of Ofgem granting the licence, we will deal with this on a case-by-case basis to avoid penalising early adopter projects while remaining compliant with our duties under the Act.

We agree that Ofgem should be flexible, and work with near-term MPI projects on a case-by-case basis regarding primary use reporting. To ensure that reporting does not take up additional time and resources, basing a new reporting mechanism on a version of the Cap & Floor framework (for MPIs with interconnection as primary use) or OFTO Performance Available Revenue Adjustment Term (PAt) (for MPIs with transmission as primary use) is a good decision.

As described above, we seek further clarity on the penalty for MPI owners if the primary use of the asset differs from agreed-upon parameters.

Key requirements of reporting framework	Key objectives for Ofgem
Conduct monitoring and submit annual declarations of primary usage of the asset	Inform up front decisions concerning regulatory classification of project assets
Ofgem to undertake an in-depth assessment of this after 5 years	Retain and evaluate evidence on compatibility of observed operational flows with this up-front classification once an MPI has been commissioned
	Inform an in-depth five-year review of information submitted to assess whether the

	licensee has complied with the declaration made up front.

The industry questions how Ofgem would use the annual declarations submitted by the licensee – will these feed into the in-depth assessment? Would an assessment be brought forward if Ofgem was not satisfied that a licensee was complying with the declaration?

Licensing additional activities on multi-use assets

Ofgem says will introduce changes to the interconnector standard licence conditions so that interconnectors that form part of an MPI are bound by the appropriate obligations in relation to their additional activities. We will introduce changes to the OFTO standard licence conditions so that OFTOs that form part of an MPI are bound by the appropriate obligations in relation to their additional activities. We note that before an OFTO licence is granted, there is a need for the competitive tender process to be undertaken first. We have not considered that in scope of this document.

One of the key challenges for MPI projects prior to reform of the Electricity Act (1989) is the need to amend license provisions to allow for additional activities beyond the 'primary use'. We welcome Ofgem's commitment to introduce changes to standard license conditions, however the promise to make "necessary amendments… in due course" is vague. We seek greater clarity on the timelines for such amendments, given that they will be essential for near-term MPI projects to advance. It would be helpful to understand when we will have the opportunity to comment on any changes proposed to the OFTO standard licence conditions and whether this will be via a statutory consultation.

Evolution of pre-exiting assets to MPIs

Ofgem says: We will not be inviting licence applications for pre-existing assets to evolve into MPIs. While we will not be setting out a process for these, in the interests of being open to early innovation at this stage in the OTNR, we will consider such situations on a case-by-case basis. We will bear in mind our 2015 ITPR conclusions to maintain continuity of regulatory approach for assets that evolve into multi-purpose projects (which include MPIs).

We believe this is a sensible decision – the complexity of transforming existing assets into MPIs means that it should not be a consideration at this time. In the short-term, focus should be placed on supporting upcoming MPI projects on a case-by-case basis, and in the long-term on creating an Enduring Regime to allow MPIs to connect to the grid without issue.

Wider Policy Considerations

Q: Do you have any comments or concerns with the updates provided on wider policy considerations, as set out in Section 3?

MPI ownership structure

We would like to note the challenge of MPIs under the current regime - the same entity cannot hold an IC license and a transmission/generation license concurrently.

We agree with Ofgem's assessment that in the short-term, MPIs will need to operate with different components owned and operated by different legal entities. This is messy, but necessary, and highlights the need to move as quickly as possible to amend primary legislation for licenses and move to an Enduring Regime.

Ultimately, MPIs are commercially complex and difficult – developers do not want to risk a stranded asset, so need the ability to fall back on a regular interconnector or OFTO framework.

Migration from interim to enduring framework
We would like to re-emphasize that large scale infrastructure projects require regulatory certainty. MPI projects that come forward during the interim regime should not have to migrate to a future Enduring Regime, as this may act as a deterrent to developers from proceeding with pilot projects in the first place. It may be appropriate to transition such projects to an MPI Licence but only where the conditions of the Pilot Licence are maintained or amendment is agreed by all relevant parties.

Interaction with ICPR pilot MPI Cap & Floor framework
We welcome the announcement that Ofgem will run a pilot MPI Cap & Floor application framework in mid-2022. SR members are keen to learn further details on the bespoke process for developing eligible projects and their special license conditions, and the timings for this. We will endeavour to participate in any consultations on the further project-specific conditions that will need to be developed.

Commercial and regulatory barriers – CfD
Offshore wind farms linked via interconnector (IC-led model) should have priority access to the onshore GB system, and the same access rights as a radial OFTO link. They must also be able to comply with CfD requirements.

Commercial and regulatory barriers – charging in IC-led model
Currently, it is not clear how transmission charging would be considered in the IC-led model. The offshore wind farm (OWF) would use the interconnector to convey its electricity to the GB onshore system but as interconnectors are not regarded as part of the GB NETS, there is currently no regulatory mechanism for the OWF to pay TNUoS charges.

It is important that offshore wind farms connected via an MPI with an IC-led model are still able to access the onshore GB system as normal and paying appropriate TNUoS charges is an important part of this. Scottish Renewables members intend to be closely involved with the work of the upcoming TNUoS Task Force, and likewise will also be involved in any engagement Ofgem undertakes with stakeholders on this particular challenge.

In general, the implementation of charging arrangements for MPIs should be transparent and robust to ensure that any future proposed changes (for example to remove defects) are subject to due process and do not cause unreasonable levels of uncertainty, in particular for MPI pilot projects.

Market arrangements
For MPI projects, coordination between two territories' regulatory provisions is needed, which adds complexity and may therefore delay the project. The GB electricity network needs to remain compatible with the EU to facilitate efficient cross-border projects. This requires partnerships with TOs, developers and government in the partner countries (both EU commission and member states), and the OTNR should make provisions for their inputs. It must also take into account the compatibility of the GB Enduring Regime with future European models.

Regarding cross-border market arrangements, the industry does not have a specific preference for either the Home Market (HM) and Offshore Bidding Zone (OBZ) models at this stage. Ofgem has stated that: "hybrid offshore projects have not yet been widely established in Europe, so it is difficult to determine best models of trading arrangements based on operational examples". In the next phase

of development, they also promise to “look to work closely and openly with future project developers, wider industry, other regulatory authorities, and EU institutions.” We would like to better understand this aspect before setting out a preference.

We have concerns in relation to transitioning from one model to another (i.e. from the HM model to the OBZ model) part way though operation of an asset. We consider it would be very difficult to amend CfD contracts, for example, and would create uncertainty for developers of both interconnectors and generation on their revenues and long-term outlook if a change could be “triggered” at a later stage.

If an OBZ model is taken forward by the EU, and GB needs to follow suit, there are potential barriers to MPIs caused by the 70% merchant requirement rule (Regulation on the internal market for electricity (EU) 2019/94318). In the EU Offshore Renewable Energy Strategy, the European Commission argues that to increase market and grid efficiency (and to comply with the 70%-rule), offshore generations assets in MPIs shall be placed in separate offshore bidding zones.

Establishing offshore bidding zones would allow the broader allocation of congestion rents. We argue that in general the 70%-rule should not be applying to MPIs, as these serve dual functionality in comparison to classic interconnectors.

Consideration of future market design both in the UK and Europe, including potential offshore pricing zones, will be required.