



Direct Dial: 0207 901 7193 (Ofgem)

/ 0207 215 6052 (BEIS)

Email: Offshore.Coordination@ofgem.gov.uk

Offshore.Coordination@beis.gov.uk

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BEIS and Ofgem joint response to the Open Letter engagement

In July 2020, the Minister of State for Business, Energy and Clean Growth launched the Offshore Transmission Network Review (the Review) to support the Government's ambition of delivering net-zero emissions by 2050, in which offshore wind is expected to play a key role. The current approach to offshore transmission was developed when the offshore wind target was 10GW by 2030. The increased target of 40GW by 2030, as set out in Prime Minister's Ten Point Plan¹, is likely to require an alternative approach to offshore transmission. The aim of the Review is to ensure that the transmission connections for offshore wind generation are delivered in the most appropriate way, considering the increased ambition for offshore wind to achieve net zero. This will be done with a view to finding the appropriate balance between environmental, social and economic costs, whilst enabling the delivery of 40 GW by 2030.

In August 2020, the Department for Business, Energy and Industrial Strategy (BEIS) and Ofgem published a joint Open Letter², inviting stakeholders to share their views on the Review, identify perceived barriers to coordination and propose pathfinder projects. We received 48 responses from a range of stakeholders. This letter summarises the responses we received to our August 2020 publication and outlines our proposed next steps.

Key themes

We have carefully considered all the responses and have identified seven broad themes.

1. Policy, Regulation and Process

A number of stakeholders identified elements of the existing offshore regime, underlying policy frameworks and processes as significant barriers to enabling a more coordinated approach.

1.1 OFTO regime

Several respondents proposed changes to the existing OFTO regime to encourage coordination, in particular to set out a clear and fair method for the allocation of costs and risks between the developer and any third parties involved in the project. Stakeholders noted that the developer-led OFTO model

¹ <https://www.gov.uk/government/news/pm-outlines-his-ten-point-plan-for-a-green-industrial-revolution-for-250000-jobs>

² <https://www.ofgem.gov.uk/publications-and-updates/increasing-level-coordination-offshore-electricity-infrastructure-beis-and-ofgem-open-letter-developers-offshore-wind-generation-electricity-transmission-licensees-and-other-interested-parties>

provides control over delivery timelines which helps developers to manage the risk around delivery of infrastructure. Respondents felt that this would have to be addressed in any new framework if a third party were responsible for delivering the transmission. It has been proposed that new, codified processes for anticipatory investment should allow investment from multiple parties (e.g. onshore TOs, OFTOs or developers) and provide clarity on risk-reward balance and cost recovery.

Some stakeholders highlighted the potential for alternative commercial regimes, for example applying the 'CATO' model³ to offshore transmission.

1.2 CfD framework

Respondents also highlighted the importance of maintaining competitiveness in the CfD process where, in the case of coordinated projects, benefits secured by the first bidder may be shared with future users.

Stakeholders also noted that the relationship between the CfD regime and the Cap and Floor regime can act as a barrier to sharing infrastructure assets between offshore wind and interconnector projects. Stakeholders suggested that the Review clarifies the interaction between the two regimes in the context of multi-purpose interconnector projects (MPIs).

1.3 TNUoS Network Charging regime

A number of respondents raised concerns that the current network charging regime can be a barrier to coordination and that they would welcome a review into the existing methodology. In particular, respondents called for greater clarity and certainty on recovering anticipatory investment through local TNUoS charges. Some stakeholders also argued that the mechanism for calculating onshore transmission charges discourages investment in offshore in certain regions. Stakeholders also requested further clarity and guidance on the treatment of MPI projects under the existing charging regime. Lastly, stakeholders emphasised the importance of providing clarity on future charges to help manage the uncertainty that can hinder offshore projects' development.

1.4 Grid Code and Licensing

Respondents noted that changes may be required to the existing Grid Code and licencing regimes to specify the treatment of coordinated projects. These proposals included clarifying the interaction between OFTO and interconnector licences, Grid Code development to address the treatment of MPI assets, and the potential need for changes to the System Operator – Transmission Owner Code (STC) in the event that OFTOs need to interact with each other.

1.5 Connections processes

Some respondents raised concerns that the current connections process, specifically the Connections and Infrastructure Options Note (CION), ran by the ESO does not give sufficient consideration to coordinated options. Respondents proposed a review of the current Cost Benefit Analysis methodology alongside a more whole system view from ESO in granting connections.

Further proposals included a review of the 'connect and manage' and 'invest and connect' processes and potential application of the former to MPI projects as well as a development of a multi-purpose connection agreement suitable for connecting both MPIs and offshore wind.

1.6 Consenting process

On the consenting process several respondents highlighted the need for alignment with other competitive processes to help promote coordination, such as aligning regulatory approvals with CfD results. It was suggested that the flexibility of the consenting process could be addressed by exploring coordination and consolidation of projects post-consent. Furthermore, respondents called for the development of a consenting process for MPIs with a focus on hybrid seabed uses.

2. Wider network planning and the interaction between the onshore and offshore regimes

³ Competitively Appointed Transmission Owner (CATO)

Several respondents emphasized the need for coordinated network planning across both offshore and onshore and applying a consistent policy and regulatory framework across the whole transmission network. Ideas for more strategic spatial planning included carrying out a regular 'Offshore Networks Options Assessment (ONOA)' that would account for offshore generation in delivery of overall infrastructure as well as integrating interconnector planning into offshore planning.

3. Roles and Responsibilities

Respondents highlighted the overarching need for clarity of the roles and responsibilities of different stakeholders involved in the Review, including the ESO, BEIS and Ofgem, arguing we should work in tandem as well as facilitate inputs from a wide range of external stakeholder groups. Stakeholders also stated that Devolved Administrations should be sufficiently included throughout the Review.

4. Multi-Purpose Interconnectors (MPIs)

A number of respondents raised the topic of MPIs, arguing that the commercial and regulatory frameworks for offshore generation, transmission and interconnectors are disconnected, hindering coordinated solutions.

Stakeholders argued there are currently a number of perceived barriers to the development of MPI projects⁴. In addition to defining the treatment of MPIs in the connections process, grid code & licensing and network charging, stakeholders suggested exploring novel MPI incentive mechanisms and future proofing these against EU-exit negotiations as well as addressing EU cross-border trading rules.

In addition, a number of MPI pathfinder projects have been proposed with different European Transmission System operators (TSOs), offering an opportunity to accelerate thinking about future frameworks.

5. Environmental Considerations

Several respondents emphasised the need for the Review to clarify how environmental issues and concerns will be addressed before and after 2030. In particular, stakeholders highlighted the significant impact from projects connecting by 2030 on the coast in East Anglia, and asked the Review to address these immediate challenges, for example through a dedicated 'case study'. Beyond 2030, respondents acknowledged that as the volume of offshore generation across Great Britain increases, the potential impact on the environment will likely grow too and will need to be factored into the enduring approach. One respondent asked us to consider the role of floating offshore wind in reducing the environmental impact.

6. Asset end of life options

Respondents expressed the need for a better understanding of the costs of wind-down and end of life options for offshore assets in order to fully maximise their value. In particular, it was suggested that the Review explores the potential for lifetime extensions and how these would be supported by policy.

7. Technology and Design (including other offshore assets)

Stakeholders called for sufficient focus and funding to be dedicated to investigating and developing innovative technology in order to overcome technological and design barriers to coordination and to improve its cost-effectiveness. Stakeholders proposed we consider the use of coastal grid hubs, energy islands, bootstraps, interlinks between OFTO assets and multi-terminal transmission designs, amongst other ideas including specific technology and design solutions to facilitate MPI projects.

Several respondents also suggested that the utilisation of offshore assets could be maximised by further coordination with other types of assets such as hydrogen or CCUS and urged the Review to consider these technologies as well as different commercial models for the use of offshore generation (e.g. private wire networks supplying industrial demand such as the electrification of oil and gas platforms, could reduce the reliance on the wider transmission network for a route to market for offshore generation).

⁴ We discuss these in the relevant themes in this letter.

Next Steps

We have reflected on these themes as we have been developing the approach to the Review, taking into consideration every suggestion made by stakeholders as part of this process. We intend to take a triple-track approach to the Review with three main workstreams plus a fourth cross-cutting workstream specifically on MPIs. We will further ensure that the themes (and specific proposals within them) that have come through from the responses to the Open Letter are considered appropriately. In many cases the themes cut across more than one of our high-level workstreams:

- Early opportunities. This workstream will look at projects that are already in relatively advanced stages of development and consider whether there are flexibilities or minor changes to regulations that could allow them to take a more coordinated approach under the current regime. This may include a different approach to anticipatory investment or specific amendments to regulations where barriers have been identified. We have been discussing with project developers to identify potential opportunities and the changes that would be needed to allow them to progress. Ofgem will then consider with a view to consulting on regulatory changes in 2021.
- Pathway to 2030. This workstream will look at projects with connections planned in the late 2020s and early 2030s. The main focus will be on projects that are not already covered by the Early Opportunities workstream. This could include projects coming through the current Crown Estate's Leasing round 4 and Crown Estate Scotland's Scotwind leasing round. The workstream will seek to ensure that transmission constraints do not present a barrier to delivery of the target to have 40GW of offshore wind by 2030. It will do this by seeking to increase central coordination and accelerate the delivery of the required onshore and offshore infrastructure. This will consider interactions between onshore and offshore transmission. It will consider how to give the onshore TOs and the Ofgem the certainty they require to make anticipatory investments onshore along with a more centralised approach to delivery of offshore transmission.
- Enduring regime. This workstream will develop a new policy framework for projects that are currently starting through the development process, i.e. projects coming through Leasing round 4 and Scotwind (with the exclusion of projects already covered by the Pathway to 2030 workstream), and for all future projects. This is likely to require changes to primary legislation and implementing legislation and changes to regulations and industry codes. We are in the process of developing high-level design options and intend to consult on proposals in 2021.
- MPIs. This workstream will seek to ensure that changes made in other workstreams are compatible with MPIs, and identify and develop additional specific legislative and regulatory changes necessary to facilitate MPIs. This will involve both tactical changes to facilitate the delivery of early opportunity MPI projects from 2027 onwards, as well as developing an enduring regime for effective delivery of projects further in the future. We will ensure that the outcomes from Ofgem's ongoing interconnector policy review are fully captured and explored in this workstream.

We held a stakeholder webinar on the 17th December updating on our plans for the Review and setting our more detail of the workstreams. The materials from this event are available on the Review website at:

<https://www.gov.uk/government/groups/offshore-transmission-network-review#terms-of-reference>

Following on from this, we intend to set out future engagement opportunities in due course. We have recently established an Expert Advisory Group to provide early and ongoing challenge and expert input into the Review. This includes representatives from industry, independent experts, academia and consumer and environmental groups. However, we remain open to hearing from all stakeholders throughout the Review. If you have any questions about this letter, or if you wish to discuss the detail of the content noted above, please contact Offshore.Coordination@ofgem.gov.uk and Offshore.Coordination@beis.gov.uk.

Yours faithfully,

Handwritten signature of Teresa Comey in black ink.

Teresa Comey
Deputy Director
Electricity Systems, BEIS

Handwritten signature of Rebecca Barnett in black ink.

Rebecca Barnett
Deputy Director
Commercial and Assurance, Ofgem