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

09 June 2022

Dear Adam,

Offshore Coordination - Early Opportunities: Consultation on Ofgem's Minded-to Decision on Anticipatory Investment and Implementation of Policy Changes

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. In general, we believe that the minded-to decisions laid out in this consultation represent a positive step forward. We have responded to your individual consultation questions further below, but in summary, we would like to draw your attention to the following points:

- We strongly support the need to enable anticipatory investment (AI), with a model of risk sharing between consumers and generators that recognises the commercial realities facing developers when making investment decisions and does not impede projects from advancing quickly to deployment.

- While we support the UK-wide ambitions of the Early Opportunities workstream, the number of opportunities for electrical integration of transmission assets between in-flight projects in Scottish waters is limited. This is for several reasons. Consented but unconstructed Scottish projects are at an advanced stage of readiness and face a highly competitive CfD round in which amplified and uncertain TNUoS costs play a major role.

- Specifically, we need to avoid any model that creates unworkable commercial interdependency between projects that remain competitors in CfD auctions. Any future project integration will require carefully managed socialisation of risk and a form of gateway cost assessment process by Ofgem that would formally allow projects to progress with the security that efficient costs will be recoverable.

- Industry would also like to see greater clarity in relation to the interaction between the Early Opportunities workstream and Pathways to 2030 (PT2030). For example, it is not clear if the early-stage assessment process will apply to projects who connect in the 2030s.

- The industry needs clarification regarding how later users will pay the AI cost gap if projects are delivered at different stages. Given that the OFTO licence is 25 years, and the Tender Revenue Stream (TRS) is recovered over that period, it is unclear if some projects will face 25 years of TNUoS charges and others less than that.

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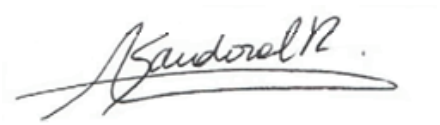
- Finally, the industry needs clarification regarding how the user commitment arrangement will work for later projects. The proposed solution works well for the first generator connecting, but it is unclear how it would work for later projects, or what would happen if the sequence of projects changes. New user commitments for later projects could involve very high costs which could place an undue burden on developers.

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

Yours sincerely,



Angeles Sandoval
Policy Manager | Grid & Systems
Scottish Renewables

Anticipatory investment - consumer sharing

Question 1: Do you agree that consumers should underwrite the risk of the AI Cost Gap by funding the AI Cost Gap until the later user starts paying TNUoS charges?

Yes, we believe this proposal benefits both consumers and generators. Projects will have the reassurance required to utilise Anticipatory Investments (AI) and consumers will benefit through the reduction of demand charges from the lower onshore substation CAPEX. Consumers could also face social and environmental benefits from this. For example, the ESO's Offshore Coordination Phase 1 cost-benefits analysis (CBA) indicates that a coordinated offshore network could reduce the number of lines/cables by 60% and lead to a 50% reduction in negative impacts through a reduction in landing points, as well as offshore and onshore cables[1].

However, uncertainty around TNUoS costs for generators connecting later could have a negative impact on CfDs. For example, if the later users bid into CfDs not knowing what their TNUoS costs are going to be, there is an unpredictable cost that could become substantially more expensive than expected, which could result in a stranded asset issue for developers. This could cause uncertainty and failure to join up as a later user.

In our consultation response last year, we said; *we need to avoid any model that creates unworkable commercial interdependency between projects that remain competitors in CfD auctions. Any future project integration will require carefully managed socialisation of risk and a form of gateway cost assessment process by Ofgem that would formally allow projects to progress with the security that efficient costs will be recoverable.* We stand by this position and request that Ofgem addresses the issue in relation to the potential cost from TNUoS that could affect CfDs for later users, otherwise this could cause the later user not to connect at all.

We acknowledge that BEIS has committed to review the CfD mechanism and the changes that may be required to facilitate coordination[2]. However, given the interaction between TNUoS and CfDs this is something that Ofgem should also look into.

We note that the AI gap may be difficult to estimate. This given that the most efficient design may differ significantly from individual and coordinated windfarms. We believe that the AI gap identification analysis should be started early and agreed by all parties.

Question 2: Do you agree with the proposal to recover the AI Cost Gap from the later user if the later user connects? If so, do you agree that this should take place over the period of the relevant OFTO licence, starting from the date that the later user starts to pay TNUoS charges?

It is neither possible to agree or disagree with this proposal at this stage, as some points need clarification.

The industry needs more clarity regarding how the timeline of the OFTO licence would work for projects delivered at different stages. At present, the OFTO license runs for 25 years, and the Tender Revenue Stream (TRS) is recovered over that period. Therefore, it is not clear when those 25 years start for each of the projects that connect later. The consultation suggests that the 25 years starts

[1] Available at: https://www.nationalgrideso.com/news/final-phase-1-report-our-offshore-coordination-project
[2] Available at: Offshore Transmission Network Review: update on early opportunities (publishing.service.gov.uk)

when the first project to connect is commissioned, but it is unclear if projects that connect later on will face less than 25 years of TNUoS charges as a result. Clarity on this point is needed.

We also acknowledge that BEIS has committed to reviewing the generator commission clause (GCC), and exploring options to address the problem of projects delivered at different stages with a specific focus on Early Opportunities projects[3]. Again, the timeline of TNUoS charges is unclear for projects delivered at different stages and it is an issue that BEIS or Ofgem should address.

Question 3: Do you agree that, save for any amounts recovered under user commitment arrangements, AI costs should be recovered from consumers if the later user fails to connect?

Yes, this seems a sensible approach.

Question 4: Do you agree with our assessment that policy option 3 (Paid by later user) better meets the aims of the Early Opportunities workstream of the OTNR?

It is neither possible to agree or disagree with this proposal at this stage, as some points need clarification.

From a technological perspective, this leaves generators exposed to a disjointed assets' life. In other words, developers are playing for a direct connection and a plus one connection in the main AC grid, but it is unclear if this will leave developers exposed to the need to develop further reinforcements. As the proposal stands, it is likely that generators that connect later will face a constraint that would leave them exposed to the costs of wider network reinforcements. Therefore, further clarification is needed.

Additionally, we believe that reinforcement cost for projects who connect later should not be solely directed back to generators. More detail is needed on how enabling works on the grid will be timed.

Question 5: Do you have views on the modelled assessment of capital cost savings? Please provide any additional quantitative analysis and any further information.

The modelling assumes that projects are of a similar size, and that an offshore substation platform is required (rather than, for instance, offshore transmission modules). Offshore transmission modules may provide benefits to smaller projects which would not be available for larger windfarms or electrically integrated solutions. This could provide consumer benefit through lower offshore transmission costs for electrically separate but coordinated users.

In general, it is difficult to comment on this as the capital cost savings associated with coordinated grid solutions are generally project specific and dependent on the proposed early opportunity solution.

Anticipatory investment – early-stage assessment

Question 6: Do you agree with the introduction of the proposed early-stage assessment process?

[3] Available at: Offshore Transmission Network Review: update on early opportunities (publishing.service.gov.uk)

Yes, we agree with the proposal. However, as this applies for a limited number of projects, we think that the link with the Pathways to 2030 workstream is important. This is because it is not clear if this will apply to projects who connect later.

Question 7: Do you think the information sought as part of the early-stage assessment process is appropriate and proportionate?

The broad categories of information seem to be appropriate.

We welcome the publication of guidance on this process, which should provide clarity on the information required by Ofgem. In relation to the details required under paragraph 3.9 of the consultation, we consider these to be generally reasonable, but we would guard against these being too prescriptive. Certain details may need to be provided on an indicative or best estimates basis, given that it is in the interests of Ofgem and the industry to engage as early as possible and some information may only be available once a project has been more fully developed. Furthermore, clear guidance is needed in respect of the requirement set out in clause 3.19 for the re-assessment in the event of any "material" change to the coordination activities. This will be important for investors and funders, who will require clarity on the circumstances in which the assessment could be re-opened and the time periods that Ofgem has for any such re-assessment.

Question 8: Do you have any views on the timing of the early-stage assessment process?

This must be **developer led,** for some projects this must be done very early in the project development process as some projects may need to evaluate the early-stage assessment process alongside their planning applications. Other projects may need to factor this into the design freeze and procurement; therefore, the timing for these projects could be a bit later.

Question 9: Is there any other information which you believe should be included in the confirmation to developers?

We think that Ofgem should not underestimate the commercial challenges of coordinating projects. Coordination between projects and agreements on how the grid development will be taken forward is difficult, particularly given the commercial sensitivity across different developers.

Minimising AI risk with user commitment

Question 10: Do you agree with the proposed extension of user commitment arrangements to the potential later user of offshore transmission infrastructure which has been funded by AI?

The industry needs more clarity about how the user commitment arrangement will work for later projects. The proposed solution works well for the first generator connecting, but it is unclear how it would work for later projects, or what would happen if the sequence of projects changes. New user commitments for later projects could involve very high costs which could place an undue burden on developers.

Question 11: Do you have any views on the manner in which the user commitment should be calculated?

No comments.