

CMP402 - Introduction of Anticipatory Investment (AI) principles within the User Commitment Arrangements

The case

- User commitment arrangements introducing significant pre-FID commitments will act as a barrier to coordination

The objective of this change in policy is to **reduce the risk associated with AI for developers and reduce the barriers to coordination**. The changes in our 2022 Minded-to Consultation to help achieve this objective included:

- Allocating some of the risks and costs of AI between consumers and developers.
- Introducing an early-stage assessment for developers.
- Inviting National Grid Electricity System Operator (NGESO) to bring forward a Connection and User of System Code (CUSC) modification proposal for the Authority's approval to extend **appropriate user commitment arrangements** to new offshore transmission assets which provide offshore transmission works for more than a single user.

OFG1162

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

Example

- Consider two OWFs, each 600 MW
- «HND» decides a common HVDC transmission system is optimal coordinated solution
- Assuming «typical» 1200 MW HVDC cost is £960 m
- AI cost £480 m?
- G2 AI liability (33%) £160 m?
- 10-20-30 times the «onshore liability»!

Dogger Bank A

Wind farm capacity: 1200MW

Initial Transfer Value: £960.1m

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Why is offshore AI liability different than liabilities for onshore wider/attributable works?

- AI investment cost is of a very different dimension than the average onshore liability (wider+attributable works)
- Construction start of onshore attributable works «usually» coincide with user's trigger date (and FID)
- AI investment does not build up gradually like cost for attributable works but will be more or less «fixed» when Ofgem approves the AI cost in the Early Stage Cost assessment prior to G1 CfD bid
- AI user commitment for G2 may kick-in more than 1 year prior to G1 FID which means 2-4 years ahead of G2 FID
- A fixed percentage AI liability will be a barrier to coordination
 - Needs to be capped, same level as the onshore liability?
- Solutions need to be bankable
- Need to find a balance between «appropriate» and «demonstrate commitment»



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