

Decision

Decision on Health Reviews

Publication date:	14 November 2024
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This document sets out decisions related to the Offshore Transmission Owner (OFTO) regime that Ofgem has taken after carefully considering feedback from stakeholders to our August 2024 consultation on Health Review Guidance. We also have engaged directly with key parties, including through bilateral meetings, a workshop for generators and OFTOs and appearances at industry events. We received eight written responses to the consultation, setting out views from four generators and their representatives, three existing OFTO asset owners and the Crown Estate. In the interest of transparency, where responses are not confidential, we have uploaded them alongside this decision paper.

These decisions provide technical detail on the process for extending, where appropriate, regulatory revenue periods for offshore transmission assets under the OFTO regime. We intend to publish a further consultation on outstanding policy questions relating to the extensions regime around the end of this year.

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Executive Summary

Under the Offshore Transmission Owner (OFTO) regime, Ofgem runs a competitive tender process to select and licence OFTOs which own and operate transmission assets for offshore wind farms. The regime has operated successfully since June 2009. There are 27 operational OFTOs now in place, licenced across 8 tender rounds and comprising investment of around £9 billion in offshore transmission. Ten of these OFTOs have already passed the midpoint of their current revenue periods with several others following close behind. These OFTOs will start to reach the end of their current revenue periods, and become subject to decommissioning requirements, from 2030 onwards.

In August 2024, Ofgem issued a Minded-To Decision on guidance related to the Health Reviews of windfarm and OFTO assets. This document sets out our final decision on that guidance.

Introduction

Context and related publications

Over recent years, Ofgem has been engaging with industry on the details of extending the lifetimes of offshore windfarms and the associated transmission assets through a series of working groups, bilateral conversations and formal consultations. We published our first consultation document on extensions policy in March 2021¹, followed by a decision in July 2021² on roles, responsibilities and timings.

Our second consultation document in June 2022³ set out questions in relation to four areas: overarching policy objectives, the role of competition, the approach to OFTO asset value and the performance incentive mechanism. We published our decisions following that consultation in January 2024⁴.

We issued a third consultation document in November 2022⁵ setting out a number of proposed modifications to offshore transmission licences. We published our decisions on those modifications in June⁶ and July 2023⁷.

This year, Ofgem developed guidance on our expectations of the Health Reviews of the windfarm and OFTO assets. The Health Reviews are a prerequisite to assess the viability of extending the lifetime of the assets beyond the initial Tender Revenue Stream (TRS) period and will therefore enable Ofgem, in close collaboration with generators and OFTOs, to make a judgement on the appropriate length and level of any new Extension Revenue Stream (ERS). Ofgem published a Minded-To Decision on the Health Reviews guidance on 22 August 2024, and following engagement with industry on the guidance and related issues, we are now publishing our decision.

The guidance document, published alongside this decision, sets out the process through which generators and OFTOs will assess the condition of their respective assets; any investment works required to facilitate extensions; and their evaluation of the case for, and best approach to, those extensions. It also sets out the information-sharing processes between generators, OFTOs and Ofgem required to support decision-making

¹ [OFTO End of Tender Revenue Stream- Consultation concerning policy development \(March 2021\)](#)

² [OFTO End of Tender Revenue Stream – 1st decision document \(July 2021\)](#)

³ [OFTO End of Tender Revenue Stream- 2nd Consultation concerning policy development \(June 2022\)](#)

⁴ [OFTO End of Tender Revenue Stream- 2nd decision document \(January 2024\)](#)

⁵ [Statutory consultation on proposed modifications to OFTO licences \(November 2022\)](#)

⁶ [Decision on proposed modifications to offshore electricity transmission licences \(June 2023\)](#)

⁷ [Decision on proposed modifications to offshore electricity transmission licences \(July 2023\)](#)

on the duration of any extensions and level of the corresponding extension revenue stream (ERS).

Our decision-making process

This document sets out our decisions on the guidance for generators and OFTOs undertaking Health Reviews and the related information-sharing which will inform extension decisions, including Ofgem’s decision on the appropriate Extension Revenue Stream (ERS).

We have carefully considered feedback from stakeholders, including that submitted in response to the consultation. Non-confidential responses are available to view on the consultation page. We will engage further with industry on outstanding policy issues relating to extensions in a further consultation before the end of the year.

Ofgem recognises that licence extensions are a new area of work and we will look to refine the guidance as required to address any lessons learned after an initial group of projects have carried out and submitted their Health Reviews.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall quality of this document?
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. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments to [\[stakeholders Ofgem email address\]](#).

1. Timing of decisions and extension durations

This section covers stakeholder feedback and Ofgem’s decisions on the timing of decisions in the extension process, and on the minimum term of the extension period.

Timing of decisions

1.1 We have proposed that:

- Generators carry out a health review of the windfarm assets at T-6;
- OFTOs carry out a health review of the transmission assets at T-5 alongside setting out the key cost components for extension; and
- Ofgem issues a minded-to decision at T-4 on the potential extension of the OFTO asset.

1.2 Following these initial processes, we have proposed that:

- The OFTO will submit a finalised revenue stream bid at T-4
- Ofgem will issue their decision on whether the incumbent OFTO will retain the asset in extension at T-3; and
- The generator will then make their final decision on whether to extend at T-2, ahead of the extension commencing at the end of the TRS.

Stakeholder views

1.3 Generators asked for more certainty to be provided earlier in the Health Review process, including sharing preliminary cost figures from OFTOs at T-5 and firmer costings at T-4. They stated that in the absence of continued subsidies from government akin to those available in the initial revenue stream period, the business case for extensions would be marginal and the level of the ERS would therefore make a significant difference to their decision of whether to extend.

1.4 Generators also stated that the suggested timeline would not allow adequate time to allow for decommissioning delivery, which requires action before T-2 to align with Department of Energy Security and Net Zero’s (DESNZ’s) existing guidance on the milestones for industry engagement with government on this issue. One generator stated that planning and approval for decommissioning would take approximately six years to perform.

1.5 One generator suggested that Ofgem should set the ERS at T-4 instead of T-3, to give generators earlier sight of the ERS and more time (if needed) to prepare for decommissioning. One generator also noted that it is vital that the ERS figures

remain firm from the point at which Ofgem confirm them, to provide generators with confidence that those figures can be relied upon when deciding whether to extend windfarm lifetimes and for how long.

- 1.6 OFTOs emphasised the significant challenges of reaching reliable estimates of costs of extensions earlier in the process. One OFTO suggested that it might be possible to provide some very highly provisional estimates of cost figures (as percentages of the TRS) to underpin an early estimate of the ERS and to share this with generators to support the development of their business cases. However, another OFTO who responded was strongly against this, noting that such figures would be of limited value, particularly noting that any changes to the length of the extension would impact the ERS. One OFTO noted that if they were required to provide an estimate of costs, it would take them longer to deliver the report due to the work required to produce the figures.
- 1.7 One generator was concerned that some of the wording used in the guidance document suggested that the extension period for the OFTO asset would be considered in isolation to that of the generation asset. Generators, their representative body and the Crown Estate also noted that it would be helpful to receive more information on how the retendering process would work, including a methodology, duration and timelines. One generator also asked for clarity on what would happen if the OFTO's situation changed after decisions were made at T-2.

Our decision

- 1.8 Ofgem agrees that asking for a preliminary ERS bid at T-5 would be burdensome on OFTOs and of limited value. We are therefore asking for a preliminary view of key 'building block' cost components instead to be shared with Ofgem, as opposed to a full preliminary ERS.
- 1.9 Ofgem also agrees that rather than sharing these full estimates with generators in parallel at T-5, OFTOs should – as suggested by one of the OFTOs – instead share an estimated range of costs as a proportion of the existing TRS to provide early sight of the general direction of travel. However, we note that these figures will only be indicative estimates are subject to change between T-5 and T-3, when the ERS will be finalised.
- 1.10 Ofgem notes generators' comments on the extensive timeline for decommissioning and is open to discussing this further with generators and DESNZ as planning proceeds. However, Ofgem also notes that this is a DESNZ-led process, and it is for generators to decide whether they want to commit to an

extension or instead move to decommissioning, and that earlier decisions by generators on extensions would limit the need of both parties to prepare for decommissioning as a contingency.

- 1.11 Ofgem has considered generators' suggestion to move the final ERS decision up to T-4 but decided on balance to retain the current timelines for T-4 and T-3 as we consider that – given the preceding work required, information available at the time and the remaining time to the extension point - OFTOs would not be able to provide preliminary figures earlier than 4 years in advance of the potential extension date. Ofgem will come to a preliminary view on whether extensions appear viable and the potential length of extension at T-4, after careful consideration of the health reviews submitted by the generator and OFTO concerned, and meetings with both parties. We will then discuss the way forward with the incumbent OFTO and look to set the ERS at T-3.
- 1.12 In relation to re-tendering, as stated in our January 2024 decision, our initial preferred approach when setting the ERS, where appropriate, will be bilateral negotiation with the incumbent OFTO. In evaluating the OFTOs' extension bids, Ofgem will – as it does in establishing the transfer value of transmission assets initially and on other regulated assets outside the OFTO regime – be applying a robust approach to evidence and challenge proposed costs. Ofgem intends to use expert consultants as part of this process as appropriate to deliver the best value for money for the consumer on revenue stream extensions.
- 1.13 Should Ofgem need to run a re-tendering process for any reason, we will provide further information on this in relation to the specific project(s) in question. We recognise that OFTOs and generators need sufficient notice of the process and outcome in order to be able to deliver any necessary transitional arrangements and the extension decision and preparations in this scenario.
- 1.14 We will respond to any additional developments on specific cases that need to be addressed, including OFTOs changing their decision after T-2 where required, as and when needed. This could involve utilising the OFTO of last resort process in certain circumstances if appropriate.

Extension durations

- 1.15 In the minded-to decision, Ofgem set out that we will consider the appropriate durations of extensions for projects individually. Given the lead-in time for decisions by the generators, OFTOs and Ofgem to extend, as well as the implementation timeline, we anticipated that extensions of viable projects would usually occur on a multi-year basis, for example 5 years or more, and noted that

we would consider requests for shorter extension periods on a case-by-case basis and may allow it in exceptional circumstances.

Stakeholder views

- 1.16 Generators and their representative body asked that Ofgem remove the requirement for a five-year minimum extension term, with explicit consideration for developments that require shorter or longer extensions. Generators noted that we should not waste any opportunity to extend renewable capacity on the grid, where it is economically feasible to do so, and that extensions of less than five years should not be treated as exceptional cases. One generator noted that a minimum timeline of five years could disincentivise extension for many sites, alongside suggesting rolling twelve-month extensions.
- 1.17 The representative body noted that there is currently no mechanism for scenarios where a generator requests a longer extension than the OFTO. They flagged that although the OFTO health review will aim to prove the asset’s viability for iterative extension periods, without any means of generator compensation or dispute process, developers would face the risk of early decommissioning without any means for appeal. They suggested including a conflict resolution mechanism for such instances.
- 1.18 The Crown Estate also confirmed in their response that TCE seabed leases for offshore wind generation are typically for 50-60 years and as such easily allow for extensions.

Our decision

- 1.19 Ofgem will consider the appropriate duration of extensions for projects on a case-by-case basis. We note that longer extensions of five years and above would provide greater certainty for OFTOs that are looking to invest efficiently in their systems, so that they can take appropriate measures to operate reliably for a longer time (thereby supporting generators’ ability to maximise the life of the connected windfarms, and efficient spending in consumers’ interests), and also make repairs should failure events occur.
- 1.20 We are therefore prepared to consider extensions for shorter periods but note that these could potentially undermine OFTOs’ ability to most effectively steward the assets to maximise life, and to do so in the most cost-effective manner for consumers. We do not consider the suggestion that extensions should be renewed every twelve months to be tenable given the lead-in time to renewal or decommissioning, noting for example that DESNZ require two years’ advance notice to review final decommissioning proposals from OFTOs in depth.

Early withdrawal

- 1.21 Ofgem’s objective is to deliver value for money for consumers, including by protecting them from additional costs in the event that a windfarm ends generation earlier than expected which would leave consumers to fund the residual regulatory revenue stream and potentially other costs as well.
- 1.22 This is why we proposed protections both in terms of a guarantee by generators to cover OFTOs’ sunk costs, as well as curtailing payments to the OFTOs early if assets are taken offline earlier than expected. These twin measures are intended to ensure a balanced mechanism that fairly distributes sunk costs of extensions across parties and protects consumers.

Stakeholder views

- 1.23 One OFTO noted that there was a necessity for their sunk costs to be covered as these are fixed far in advance, including long term arrangements with suppliers, financing requirements, and bringing forward decommissioning activities.
- 1.24 Generators and their representative body all strongly disagreed with any proposal for a generator guarantee in the case of early withdrawal, noting that in their view this would place an unacceptable level of risk on generators.
- 1.25 However, one generator said that they could be open to a solution whereby generators would cover cost of OFTO investment works if they ended generation earlier than expected.

Our decision

- 1.26 We note the comments submitted by generators and will consult further on the issues surrounding early withdrawal in our upcoming consultation in December. Our preliminary view is that OFTOs’ sunk costs should be covered – in part if not in their entirety - if generation finishes early and will explore further how this should be done in December.

2. Health Review process and information sharing

This section covers stakeholder feedback and Ofgem’s decisions on information sharing, and the logistics of the Health Review process.

Health Review Process

Stakeholder views

- 2.1 Generators, OFTOs, the Crown Estate and the generators’ representative body all had comments in response to both the Health Review guidance and how Ofgem has set out that they envision the process working in practice.
- 2.2 All respondents were keen that OFTOs and generators communicated with each other during the health review process, including aligning on the scope of the review before it begins, ensuring that OFTOs give generators ‘sufficient and reasonable’ notice for key events, and share with generators information on the follow-up remedial measures identified as an output to the health review.
- 2.3 Generators noted that it is important for all parties involved to understand the key risks and the structure of the remedial measures (whether inspections, monitoring, maintenance etc) proposed to address the risks which have been identified through the health review.
- 2.4 Generators also raised the outages required to deliver the health review and noted that they consider the seven day period to trigger an Ofgem assessment too long and proposed that it should be reduced to four days. They stated that making sure that the outage is as short as possible is important, as an extended outage (beyond what is necessary) would have a significant impact on lost revenue.
- 2.5 Generators also asked for a formal dispute resolution process in the event that the OFTO and generator disagree on the findings of the OFTO health review and resulting inspection and maintenance strategy. They also asked that we define what ‘reasonable’ notice periods are to support their engagement with OFTOs.
- 2.6 OFTOs requested further clarity on the process, mechanism and timings by which the cost of investment works can be recovered. One OFTO also flagged that the requirements for insurance as set out in the guidance may be too prescriptive for assets which are towards end of life and asked for further flexibility on this.
- 2.7 One OFTO also set out their understanding of ‘residual value’, saying that they expected there to be some residual value left at the end of the TRS because they

had modelled a longer term than the TRS when they made their original bid, and not to have written down the whole asset value through the TRS term. They noted that as a result there may be less of a reduction from the TRS than Ofgem may be expecting, as some OFTOs have factored in possible life extensions when bidding for the TRS.

Our decision

- 2.8 As set out in the minded to decision in August, we agree with the value of a baseline scope and structure for health reviews to enable consistent and comprehensive decision-making across projects, as set out in the template within Annex 2 of the guidance. The template reflects good industry practice and risk-based assessment of the assets. The specifics of each project will need to be factored into the health review process, and the guidance sets out that generators should be given an opportunity to make reasonable suggestions on this at the beginning of the process⁸.
- 2.9 We have updated the guidance to make it clear that OFTOs are required to give generators 'sufficient and reasonable' notice for inspections and works and that both sides should work together on the outputs from the Health Review. The same requirement will apply where generators provide notice to the OFTOs if they are shutting down or carrying out their health reviews.
- 2.10 We have chosen not to define 'reasonable' outside how it is normally understood, as we expect generators and OFTOs to work closely together and meet regularly to make the OFTO Health Review process as efficient and productive as possible. We do not consider it appropriate to set individual deadlines for each step in the process, or to introduce a formal dispute resolution mechanism as this would add unnecessary complexity to the process. In the event that generators have any outstanding comments on the final report that they deem material, they may submit these to Ofgem for discussion – after first discussing them with the OFTO.
- 2.11 Ofgem consulted on the cutoff needed to trigger full Ofgem assessments of outages in November 2022 and made the necessary OFTO licence amendments in June and July 2023. We are not minded to revisit that decision but note that we expect OFTOs to conduct their reviews efficiently and keep any outages as short as possible.

⁸ [Minded-to Decision on Health Reviews \(ofgem.gov.uk\)](https://www.ofgem.gov.uk)

- 2.12 Ofgem wishes OFTOs to obtain LEG3 insurance cover wherever possible in the extension period but recognises that this will not be possible in all cases, as reflected in the guidance.

Sharing information relating to outputs of Health Reviews

- 2.13 The health review guidance sets out the scope and timing of information to be shared between OFTOs and generators, and with Ofgem, to best enable each party to make their respective (and ultimately collective) decisions on extensions.

Stakeholder views

- 2.14 There were a number of comments from both generators and OFTOs on the information that they were prepared to share with each other and with Ofgem.
- 2.15 Generators and their representative body all noted that generator business cases for extension were confidential and based on commercially sensitive assumptions, and that they were not comfortable sharing the full cases with Ofgem or with OFTOs. They proposed instead to share with Ofgem in T-6 a basic revenue and operating expenditure view for the different required OFTO cost level scenarios. They noted that if power price assumptions were required, using a recognised third-party report would be the most suitable option.
- 2.16 As noted in Section 1, one of the OFTOs who responded was content to share with generators in T-4 a preliminary ERS as a range of percentages of the existing TRS, with the caveat that it would be highly uncertain, but noted that it would support generators in developing their business cases. Another OFTO suggested that it would be prepared to share information about the 'building blocks' that underpin the ERS with Ofgem at T-4.
- 2.17 OFTOs asked that they be given further information and guidance by Ofgem if they are required to provide Ofgem with a preliminary ERS in T-5. They also requested that they be given additional time after the Asset Health Review to undertake the detailed financial analysis that would be required, alongside a suitable cost recovery mechanism for producing the preliminary ERS.

Our decision

- 2.18 Ofgem has carefully considered the amount of information it has requested from generators in order to inform the extension discussions and decisions. The scope of information set out in the guidance has been iterated in discussion with generators over recent months, and we consider it to be the necessary information to support effective decision-making in line with Ofgem's objectives. We also reserve the right to ask both generators and OFTOs for more information

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to support our decision making if required, and may evolve the guidance more broadly as we work through our first pilot extension cases.

- 2.19 Ofgem will provide further guidance on the estimates of costs that OFTOs are required to provide alongside their health review, as well as the more detailed information required for the full ERS bid, in due course.
- 2.20 We do not intend to introduce an upfront cost recovery mechanism for the costs of producing an ERS estimate, in line with the way that costs for producing estimates are treated in the initial TRS bidding process.

3. Additional feedback raised relating to wider extensions framework

This section covers further feedback relating to the wider extensions framework and future consultation processes.

Stakeholder Views

- 3.1 OFTOs also asked that Ofgem give guidance on the following issues:
- the availability regime for the extension period;
 - the Financial Security / Performance Reserve treatment;
 - the insurance requirements; and
 - the degree of risk transfer by way of regulatory regime support (e.g. exceptional event / income adjusting event).
- 3.2 Representative bodies and the OFTO asked for a clear timetable of next steps, including when they can expect to engage. The representative body of the generator also asked that any future consultations include the following:
- clarity on the OFTO Asset Value at the point of end-of-revenue tender streams prior to any Invitation to Tender (ITT) process;
 - reference to an estimated range in reduction of ERS compared to the TRS to guide understanding;
 - clarity on selected pilot projects and/or criteria used to identify these; and
 - explicit expectation of Ofgem’s subsequent review of the guidance, e.g., set dates for review/revised iterations.
- 3.3 All generators asked that Ofgem further consider the case for generator ownership. The Crown Estate also suggested that alternative ownership models should be considered so that there is an “operator of last resort.”

Our decision

- 3.4 We plan to consult in December on a number of outstanding issues relating to the policy framework for the extension period, including the availability regime and the Performance Reserve treatment. While our consultation will seek to provide clarity as far as appropriate, we note that a number of issues – including on ERS – require careful evaluation on a project-by-project basis and therefore we do not intend to broad policy statements where not appropriate or reflective of the

necessary specifics. As we pilot our extensions framework with TR1 projects, we will be alert to any lessons learned and review the framework as appropriate based on experience.

- 3.5 As stated in the July 2023 decision document, it would not be possible to transfer assets to generators without government making changes to legislation. The Department for Energy Security and Net Zero intends to consider the merits of the generators' proposal, alongside other options being considered by Ofgem consistent with the existing OFTO regime, over the medium-term. In the meantime, Ofgem will continue to develop its policy framework in line with the prevailing legislation.