



Email to:

oftobuild@ofgem.gov.uk

05 June 2024

Dear Ho Man Lo, Richard Johnson and Agustin Mengoni,

Re: Response to consultation on initial proposals for an OFTO Build model to deliver non-radial offshore transmission assets

About RenewableUK

RenewableUK members are building our future energy system, powered by clean electricity. We bring them together to deliver that future faster; a future which is better for industry, billpayers, and the environment. We support over 500 member companies to ensure increasing amounts of renewable electricity are deployed across the UK and access markets to export all over the world. Our members are business leaders, technology innovators, and expert thinkers from right across industry.

Introduction

RenewableUK welcomes the opportunity to respond to Ofgem's consultation on initial proposals for an Offshore Transmission Owner (OFTO) Build model to deliver non-radial transmission assets.

Up until now, all offshore transmission assets have been delivered using the 'developer build' model. However, while developer build has proven successful in delivering radial, point-to-point connections, it has to date failed to deliver coordinated grid solutions. In the context of the most recent network plan¹ from National Grid ESO, it is clear there is a need for changes to the offshore grid delivery models that both incentivise and provide security for generators to undertake anticipatory investment, or allow a competent 3rd party to undertake grid delivery for coordinated transmission assets.

As such, we are pleased that Ofgem is looking at changes to the OFTO build model to support delivery of coordinated offshore transmission infrastructure. However, our view is that wider reforms beyond those set out in the consultation are required for the OFTO build model to be seen as a viable option for delivery. Not least of these are changes to the profile of the entities that win OFTO tenders, which are currently thinly capitalised Special Purpose Vehicles (SPVs), with little construction experience.

¹ [National Grid ESO - Beyond 2030](#)

RenewableUK

6 Langley Street
London WC2H 9JA
United Kingdom

Tel: +44 (0)20 7901 3000

Email: info@RenewableUK.com

renewableuk.com



Fundamentally, for the reforms proposed in the consultation to be successfully implemented, the profile of OFTOs must change – which will require a change to how OFTO tenders are run and how winners are chosen. In our response² to DESNZ call for evidence³ on the OFTO regime, RenewableUK called for a root-and-branch review of the OFTO regime to ensure that it remains capable of delivering on the UK's offshore wind ambition. We encourage Ofgem to read our response to the DESNZ call for evidence in full to see our views on this.

The prospect of an integrated offshore network is right for consumers and right for a net zero system. This requires a simple delivery model that reduces uncertainty and complexity if it is to be effective. Within the scope of this consultation, the most important point to raise is that in an OFTO build model must be structured in a way that does not add complexity, uncertainty and therefore risk. Specifically, the generator no longer has control over the construction of the key asset required for them to have a route to market. Any changes to the OFTO build model must reflect that the generator no longer holds the construction risk and as such must include robust compensation and delivery targets. Further to this, there must be a clear pipeline of projects for OFTOs to gain a foothold with suppliers and ensure that they are able to secure orders.

Please see below for our detailed answers to the consultation questions. As always, RenewableUK is happy to engage with Ofgem beyond the content of this response to further progress policy development in this area.

Yours sincerely,

Peter McCrory

Policy Manager – Networks and Charging

RenewableUK

peter.mccrory@renewableuk.com

² [RenewableUK response – OFTO regime call for evidence](#)

³ [DESNZ Call for Evidence - OFTO Regime](#)

RenewableUK
6 Langley Street
London WC2H 9JA
United Kingdom

Tel: +44 (0)20 7901 3000
Email: info@RenewableUK.com
renewableuk.com

1. Which party should be responsible for procurement in the late competition OFTO build model and why?

There are challenges associated with both options presented by Ofgem for procurement in the late competition OFTO build model.

Under Option 1 (OFTO undertakes procurement), we agree with Ofgem that the current profile of OFTOs do not possess the requisite procurement experience to successfully engage the supply chain. This is particularly true given the highly constrained nature of the supply chain for transmission equipment and even more so again for High Voltage Direct Current (HVDC) equipment. At the current levels of imbalance between supply and demand for transmission equipment, the Original Equipment Manufacturers (OEMs) have the ability to pick and choose which contracts they wish to take up, and are much more likely to prioritise large and standardised orders from well established clients. However, as stated in the introductory remarks, for the OFTO build model to be utilised it must attract a different profile of bidder. As part of the moves to achieve this, Ofgem could include some form of measure within the tender process to show that prospective bidders have sufficient technical and procurement experience to undertake a procurement exercise for the OFTO assets. A second issue that arises from the OFTO procurement model is that it may not deliver a sufficient pipeline of works to engage the supply chain. OEMs are increasingly looking for large 'block' orders and a small 'project-by-project' approach may not be seen as attractive.

Under Option 2 (generator undertakes procurement), there are advantages as the generators have a proven track record in successful procurement exercises for large-scale offshore transmission assets. However, there are significant additional complexities in this option, relating to the splitting of procurement and construction. The generators will need to spend time and effort negotiating multiple contracts, only to then pass them on to the OFTO, which may not be satisfied with the terms agreed. A clear process for transferring construction contracts must be established in this option, as well as how the OFTOs can ensure that the procurement undertaken by the generator was sufficiently efficient. Without this, there is a risk that the OFTO may dispute the terms agreed by the generator and seek renegotiation or compensation. This becomes more complex when understanding that there could be multiple developers

transferring multiple procurement processes over to the OFTO. Similarly to the issues under Option 1, the challenges of the constrained supply chain also play a part here. OEMs may see the increased number of parties involved (e.g. OEM, developer, OFTO) and chance of dispute or renegotiation as an unnecessary risk and choose not to engage. As such the process must be sufficiently clear and robust to mitigate this risk.

2. At what point should the OFTO tender process commence? Does option 1 or option 2 present the best approach?

RenewableUK agrees with Ofgem's minded-to position that Option 1 (tender commences at grant of consent) is the better approach. Ofgem are correct in their surmising that the risk posed by Option 2 (tender commences at consent submission) is too great to attract bidders.

Within the consultation document Ofgem only refer to the consent of a single windfarm. We feel this is inadequate as there are added complexities due to coordinated designs. Different windfarms within the design may be on different completion timelines, so waiting for consent for all affected projects could lead to significant delay. Ofgem should consider how best to ensure efficient delivery and tenders within a multi-windfarm design.

We acknowledge that there is significant work underway to reform network planning, particularly in the form of the Strategic Spatial Energy Plan (SSEP) and Centralised Strategic Network Plan (CSNP). It is our view that for these plans to be useful, they must have sufficient weight within the planning regime. If the end result of a new network planning regime stemming from the SSEP and CSNP is in effect a 'pre-approval' within planning and a significant reduction in consenting challenges, in this instance it may be possible to move to an Option 2 approach.

3. Do you agree with the view that, providing stakeholder engagement is properly conducted ahead of consent submission, developers should have a reasonably clear view, at the time of consent submission, as to whether the consent is likely to be granted in the form requested, and that an OFTO would be comfortable to submit tender bids on this basis?

We do not agree with the view given in this question.

However as stated in our previous response this may change following the implementation of the SSEP and CSNP.

4. As compared with commercial liquidated damages, how effective are options 1 and 2 in incentivising timely delivery and managing the risk of delay? Could these options make OFTO build a meaningful option for the developers?

Ofgem is correct that a significant reason that the OFTO build model has not been used in its present form is that it takes control of delivery out of the hands of developers. Our members' view is that ultimately, by taking the construction of the transmission assets out of the developers' hands, this also takes away their ability to manage any associated risk. Therefore, the compensation model must reflect this risk dynamic and provide sufficient comfort to developers that their investment is secure.

Our assessment of the options presented in the consultation document is that currently, the profile of current OFTOs would mean that they are unlikely to bid under this risk profile. Scenario B would potentially offer more meaningful compensation due to an element of consumers taking on risk, but ultimately wider changes to encourage bidders with a greater risk appetite are needed before Option 1 becomes viable. We also feel that the compensation required for developers will need to be significant for them to feel comfortable relinquishing control over construction risk, which further increases the need for the OFTO profile to fundamentally change for OFTO build to be viable. We encourage Ofgem to review the lack of availability compensation regimes in other comparable markets where developers do not construct the offshore grid, to understand the level of compensation required.

We also do not agree that Option 2 can be seen as the sole way of managing risk of delay. While we agree with Ofgem's statement that 'generators would much rather have the transmission assets constructed and ready on time than receive compensation from the OFTO for delays', we do not feel that this logically leads to Option 2 as suggested being the best option for achieving this aim. The proposed reduction in TRS proposed in the consultation is not significant in comparison to the losses faced by generators not being able to export to market and does not

represent a fair apportionment of risk. There also may be scenarios where OFTOs feel that the potential reduction in TRS for delay is a 'better option' financially than spending additional up-front capital to complete a project on time, with no recourse for developers.

5. How can the OFTO delay charge and consumer underwriting in option 1, as well as the TRS reduction in option 2, be appropriately set and executed?

Our view is that, following on from our argument in our answer to Question 4, any method of managing delay risk must clearly signal that the risk of delay sits with the party undertaking construction. Therefore, any OFTO build model must weigh the delay risk firmly with the OFTO, with avenues for substantial compensation for developers in the instance of delay.

6. Which of the four proposals offers the most suitable option for the treatment of cost increases during construction?

Similar to our view on delay risk, it is our view that in an OFTO build model the risk of cost increases should be held by the party able to manage it, i.e. the OFTO.

While Options 1 and 2 are less contingent on the level of OFTO capital, there is a perceived likelihood that within Option 2, OFTOs would simply include a risk premium into their bid offer to account for the portion absorbed up to the threshold.

Options 3 and 4 are not preferable as they are asking the generator to absorb some of the cost increases, despite the generator not owning or operating the asset at any point.

We feel that the adoption of an OFTO build model leads to the OFTO essentially operating in a manner similar to an onshore TO, so Ofgem should look to use how risk is apportioned under the RIIO framework as an example of how to apportion risk of cost overrun.

7. What, in your view, is an appropriate calibration for the pain-gain share mechanism outlined in options 3 and 4?

As previously stated, options 3 and 4 are not preferable as they ask the generator to absorb risk they cannot manage. Any adoption of a pain-gain mechanism must have a clear answer to this.

8. Should we expand the refinancing gain share mechanism to cover the conversion of equity to debt or the sale of equity? How could the mechanism work in principle?

No comment.

9. What do you think is the best way to deal with a failure scenario during construction?

10. In the event that the appointed OFTO cannot continue with the project, which party is best placed to take the build to completion? How should the transfer value for a partially completed project be set?

In the first instance, we would encourage Ofgem to ensure that the OFTO build model for coordinated assets is robust enough and attracts bidders with sufficient resilience to make a failure scenario extremely unlikely. The emergence of a failure scenario in delivering these critical assets would undoubtedly lead to serious negative consequences in terms of cost and delay, with exponential impact arising from increased coordination.

Notwithstanding the above, in the event of a failure during construction under an OFTO build model, it seems sensible that developers can have the option to take over construction via step-in rights. Developers are likely to have the best understanding of the project and the best ability to resume construction efficiently. However, the challenges with developer delivered coordinated infrastructure are well documented, so there will need to be significant support both from a financial standpoint and regulatory assurance to complete the buildout.

We also see value in appointing onshore TOs as an 'OFTO of last resort' should the developer feel they are unable to take up construction. This would require similar financial and regulatory support to that needed by a developer to take on construction.



RenewableUK
6 Langley Street
London WC2H 9JA
United Kingdom

Tel: +44 (0)20 7901 3000
Email: info@RenewableUK.com
renewableuk.com