



Shell U.K. Limited

Shell Centre

London

SE1 7NA

Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

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Dear Ho Man, Richard and Agustin,

Subject: Shell response to Ofgem’s consultation on initial proposals for an OFTO Build model to deliver non-radial offshore transmission assets

Shell welcomes the opportunity to respond to Ofgem’s consultation on initial proposals for an OFTO Build model to deliver non-radial offshore transmission assets.

We continue to be concerned about the risks of the coordinated design proposed in Beyond 2030 / the Holistic Network Design Follow-up Exercise (HNDFUE). Fundamentally we are concerned about its viability; it is likely that a few delays or changes will undermine the rationale for the entire design. We are already seeing a similar situation on the Pathway to 2030 / Holistic Network Design (HND) design where developers are submitting, and succeeding, in Impact Assessments to revert to radial connections. Overall, we view that it is likely that radial connections will be more efficient. However, if a coordinated design is necessary, it is essential the regulatory arrangements minimise the risk on generators. Otherwise, these risks (and costs) could lead to them being uncompetitive with radially connected generators (eg. in CfD auctions) and render the projects unviable.

We support your work to continue to develop the details on an OFTO build model. The complexity and detail of these proposals highlights the significant risks that will exist with a non-radial framework and it is key that this framework allows generators to be confident in their grid connection date, and that they won’t be impacted by the decisions of other generators. In our view you are assessing many of the key areas needed for an OFTO build model. We would further suggest that Ofgem should consider the option of an earlier OFTO build model for the Holistic Network Design Follow-up Exercise (HNDFUE) assets as it is likely to be more efficient if OFTOs seek consent for the assets that they will need to build. We also recommend Ofgem shares how they expect the Tender Revenue Stream (TRS), and any

changes, to impact generators and consumers as unlike historical OFTOs these are not single user assets.

We have provided our views on your questions below.

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

In our view the OFTO needs to be responsible for procurement. It will be inefficient and introduce significant interface risk if the generator is responsible. We expect this will also enable the OFTO bidders to make more accurate bids.

We also view that with HND FUE assets Ofgem should consider the option of an earlier OFTO model where the OFTO is responsible for submitting planning consent. This is a more logical transfer point and with HND FUE assets being targeted for later connection dates compared to HND there isn't the same time pressure to seek consent as quickly.

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

We currently don't have a firm view and can see the pros and cons of either option.

3. *Do you agree with the view that, providing stakeholder engagement is properly conducted ahead of consent submission, generators 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?*

Currently we are not sure. However, we will note that consent risks are generally significantly lower for transmission assets that are physically offshore compared to onshore.

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 generators?*

We expect option 1 to be more feasible. A direct compensation payment is clear and simple to understand. Option 2 works through TRS, which feeds through to TNUoS. We would like to understand how Ofgem expects changes to TRS to feed through to Transmission Use of System charges (TNUoS) for non-radial offshore assets. Non-radial offshore assets usually connect and impact multiple generators, unlike radial OFTOs which connect one generator and as a result the OFTO's TRS can feed directly into a generator's local TNUoS. We also understand that the non-radial offshore assets are in

scope of CMP419: Generation Zoning Methodology Review to determine how they are exposed to TNUoS.

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?*

We appreciate that Ofgem is considering how an appropriate incentive and compensation for delays. As a new framework we view it is material to protect generators as much as possible from delays, otherwise they will not have the confidence in their connection dates and the framework, and this could impact the viability and investability of the generators.

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

In our view it is not appropriate to hold generators liable for the cost increases on non-radial offshore transmission assets. This would make these assets the only transmission assets where generators would specifically be liable. This is reinforced by the distinction between non-radial offshore transmission assets and onshore transmission (located offshore) being very narrow and significantly dependent on modelling assumptions.

Similar to the above, we would like to understand how Ofgem expects generators to be exposed or pay for any pain-gain share mechanism.

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

We do not have any firm views and would recommend Ofgem uses their experience in RIIO and OFTOs to inform what might be appropriate. We would expect the OFTO will need to bear some costs to incentivise them to limit cost over-runs, however also recognise that too much exposure may increase the costs of financing.

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?*

We have no comments on the mechanism. However, similar to our previous questions, we would like to understand how Ofgem expects the gain mechanism to feed through to consumers within TNUoS.

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

Fundamentally we view the best way is to try and avoid a failure scenario and ensure that OFTO bidders are robust and able to fulfil their bids. It is also important to compensate impacted generation projects.

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?

We are unsure who is best placed. We view that it is unlikely that generators will want to step-in and at the minimum there will need to be a process similar to the Early-Stage Assessment that provides comfort and certainty over recovering costs. In our view the onshore TOs may be in a better position to step-in, and we would suggest Ofgem considers whether this is a feasible solution to ensure these assets are delivered.

If you have any questions on our response, please feel free to contact me at Aled.Moses@shell.com.

Yours sincerely,

Aled Moses
Regulatory Affairs Advisor, UK Renewable Generation