Email to:

offshorelicensing@ofgem.gov.uk

4 October 2024

Dear OFTO Policy Team,

Response to Ofgem's Offshore Transmission: Guidance for Health Reviews

Scottish Renewables is the voice of Scotland's renewable energy industry. The sectors we represent deliver investment, jobs and social benefits and reduce the carbon emissions which cause climate change. Our 360-plus 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.

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 400 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.

Scottish Renewables and RenewableUK welcome the opportunity to respond to Ofgem's consultation on its guidance for health reviews of offshore transmission and are grateful for Ofgem's close engagement with industry on this work to date. Without appropriate regulation around health reviews and Offshore Transmission Operator (OFTO) life extensions, an additional ~20GW of offshore wind will need replacing by 2050 to meet targets. Maximising the potential of existing renewable energy generation offshore would, therefore, help immensely in reaching the government's ambitions of Clean Power by 2030.

Furthermore, within a tightly constrained supply chain market, extending the operable working life of assets helps to reduce the immediate demand for new physical components while improving the circular economy of wind farms. Considering Ofgem's net-zero remit, we believe the case for life extension is vital and welcome Ofgem's efforts to realise this.

However, the guidance in its current form does not reflect the merits of life extension. It fails to sufficiently support generators in their decision-making process, leading to increased costs and the disincentivising of life extension where possible. Uncertainty fuelling the risk of early decommissioning is inconsistent with Ofgem's pursuit of asset extension, its net-zero remit, and the urgency to meet ambitious climate targets.

The Tender Revenue Stream (TRS) and the OFTO Asset Value will drive Transmission Network Use of System (TNUoS) charges, a significant cost in generator business models.

Current indications are that life extension business cases will be marginal, and the Extended Revenue Stream (ERS) cost is expected to play a significant role in determining a project's life extension viability. We are thus asking for indicative costs to be shared with generators at a minimum of T-5 to allow for sufficient planning and decision-making time, among other amendments to the guidance.

Cost information sharing

Aligning the timings of necessary health reviews of generators and OFTO assets to provide sufficient information for respective end-of-life decision-making is a challenging task. However, the current proposals do not afford generators the level of certainty required to make informed decisions around life extension at key milestones whilst also not providing generators (and OFTOs) sufficient time to prepare for decommissioning if a life extension is not viable. Ultimately, if generators observe a level of risk from uncertainty that outweighs the potential benefit of life extension, they will opt to decommission and the opportunity for an extended lifespan would be lost.

Albeit indicative and subject to change, the preliminary costs shared by the OFTO within their health review output to Ofgem at T-5 would aid the generator in shaping a better-informed business case to assess extension viability or, conversely, inform the need for the timely initiation of decommissioning planning contingency measures. TNUoS charges are primarily defined by the ERS, a key generator consideration for calculating lifetime extension business cases and representing a significant proportion of overall TNUoS/Operating Expenditure (OpEx) costs. With business cases typically having narrow operating profit margins, a high ERS would impact the business case for a life extension period, deterring extension when combined with the current levels of risk.

If the ERS proves non-economical, generators require sufficient time to plan for decommissioning, which will be approximately six years (taking into account decommissioning licensing, planning, engineering design and supply chain engagement activities – Secretary of State (SoS) approval for the decommissioning programme alone is anticipated to take up to 18 months) and thus demands a considerably earlier indication of costings than T-3, as outlined in the guidance. We would like to see indication of costings provided at T-5 as a minimum, with earlier delivery preferred to allow for sufficient decommissioning plan development time. While Ofgem affirms that these costings are uncertain, generators are ready to recognise the non-fixed nature of these estimates if provided.

The process of coordinated life extension, and subsequent coordinated decommissioning, is novel and thus generators and OFTOs would benefit from more shared information to guide them in the process while acknowledging the level of potential change. Including levels of tolerance within business models to safeguard against varied, eventual ERS levels relies upon a more in-depth understanding of ERS from extended infrastructure assets which is absent at this point. Assumptions informing the drivers of ERS as listed in Ofgem's 2022 consultation[1] need to be published for industry feedback and to help industry understanding. As the process is learned and experience gained with asset life extension,

[1] Consultation_EoTRS_DRAFT (ofgem.gov.uk)

processes can naturally be rendered more efficient and expedited and the guidance timelines can be subsequently reviewed.

Furthermore, we see the possibility and value in an accelerated review period by Ofgem from one year to six or three months within T-4 to provide certainty sooner. We also support the inclusion of a requirement on OFTOs to inform the generator and Ofgem of where the most imminent investment works would be required for generators to use in shaping their business cases. In line with OFTO health reviews, we would also like an explicit and sufficient notice period requirement on OFTOs' invitations to generators regarding the planning and delivery of their asset inspections (to allow for resources to be mobilised in time).

Regarding generators' cost sharing, Ofgem is requesting exceptionally commercially sensitive information that generators do not share with any other external body. While Ofgem requires sufficient information to make informed decisions, generators cannot share internal forecasts; however, they may be prepared to submit a basic revenue and/or OpEx outline to Ofgem instead. It is understood by generators that this shared business case will not form the basis for determining the OFTO ERS cost, which will instead be set by Ofgem via a detailed review of the OFTO's cost submission.

Finally, we believe it is inappropriate to request developers to provide a financial guarantee for the life extension period if a project comes offline earlier than anticipated. Developers are already exposed to high levels of risk, and funding guarantees would further weaken the incentive to extend assets, thereby increasing the likelihood of decommissioning. We suggest removing this requirement from the model and any ERS consultations henceforth.

Scope and governance

Within the consultation, Ofgem has listed defined extension periods given in five-year iterations; however, we would like to challenge the specification of these periods and the minimum time period that has been set. While Ofgem has indicated that beyond the five-year extension mark, there would be more flexibility in accepted duration periods, we would like to see more explicit consideration for developments that require extensions on either end of the minimum/maximum spectrums outlined.

For projects that would require an extension falling under the five-year minimum, there should be recognition of the value in maintaining the operability of assets for those additional years. We suggest Ofgem removes the five-year minimum extension period in a way that considers the value of such assets while reducing the potential burden of a case-by-case review style. On the other end of the scale, greater consideration must be included in the final guidance on assets seeking lifetime extensions within the 10-15 year range, i.e., assets with a 35 year lifespan.

In addition, for harmonising OFTO and generator extension lengths, there is currently no mechanism for scenarios where a generator requests a longer ERS than the OFTO. 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. Including a conflict resolution mechanism for such instances would help assuage developers' concerns over coordinated extension risks.

Furthermore, we do not see the necessity for Ofgem to review the generator's business case when no Contract for Difference (CfD) currently exists for ERS and thus, the majority of the risk is borne by the generator. However, we do see the need for Ofgem to intervene on OFTO outages earlier, specifically after four days, as opposed to seven as outlined in the document. The regulatory burden on Ofgem would be minimal due to outages being isolated events, as opposed to a recurring review, but the financial impact on developers would be considerable if this change was not implemented. In instances where an extreme event justifies a later review, this could be permitted on a case-by-case basis but not as the foundational methodology.

Finally, we believe there needs to be more consideration and detail included within the guidance on Ofgem's process for re-tendering if an incumbent OFTO's bid is deemed too high by Ofgem. A clear methodology, including duration and timelines, must be present before the guidance is published for alternative bidders to understand the process and the entry point and allow generators early visibility of costs. Without such detail, Ofgem risks reverting to the incumbent OFTO's bid, which could incur higher costs to developers and consumers and would not allow generators or OFTOs sufficient time for decommissioning delivery in the event of a decision not to life extend.

Future consultation

In terms of future consultations, we would like to see a decision made to clarify the OFTO Asset Value at the point of end-of-revenue tender streams prior to any Invitation to Tender (ITT) process. Doing so affords both OFTOs and generators greater certainty for the next tender round and influences potential bidders' offers if embedded, resulting in greater savings to developers and consumers, as per Ofgem's consumer remit. Without clarity, bidders for the upcoming tender rounds will likely omit this commonly included value, resulting in a knock-on increase in current TRS and ERS costs. The OFTO Asset Value will also be fundamental to calculating TNUoS in the extension period.

To aid industry's expectation and understanding of future consultation, we would encourage Ofgem to also outline the following within their next consultation document:

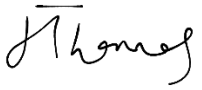
- List of all upcoming related consultations within a provisional timeline and graphic, including confirmation on whether the current financial performance mechanism will be consulted on.
- Produce a more refined definition of the following terms within the forthcoming consultations: 'business case', 'reasonable' and other loose terms including discrepancies in language instructing the separate parties (i.e., 'should' versus 'will').
- 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.

- Explicit expectation of Ofgem's subsequent review of the guidance, e.g., set dates for review/revised iterations.

Ultimately, Scottish Renewables and RenewableUK believe the OFTO regime in its current form is flawed due to new levels of risk being assigned to generators to the extent that changes need to be made to optimise generator assets better. We advocate for an investigation into the benefits of permitting generators ownership of the transmission asset beyond the TRS to deliver overall value to consumers from investments in renewables and the supporting infrastructure.

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

Yours sincerely,



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