Email to:

offshorelicensing@ofgem.gov.uk

X February 2025

Dear OFTO Policy Team,

**Response to Ofgem’s OFTO: extension and evolution of a mature asset class consultation**

*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 collaboratively respond to Ofgem’s OFTO: extension and evolution of a mature asset class consultation. We are pleased to see Ofgem’s recognition that the OFTO regime will require reform in order to be fit for purpose for the current and future class of offshore transmission development, in this consultation as well as other publications such as the recent policy update on OFTO build models[[1]](#footnote-2). Both RenewableUK and Scottish Renewables look forward to further engaging with Ofgem throughout this process of reform and are happy to help in supporting engagement with our members.

Inevitably, some of the solutions presented in the consultation are reliant on larger, legislative change in the control of external parties, e.g., the Department of Energy Security and Net Zero (DESNZ) regarding the Generator Commissioning Clause (GCC) and generator-ownership option for End of Tender Revenue Stream (EoTRS), and thus cannot be entirely formed. However, we believe the value in presenting solutions, which we consider interim in nature, is limited by the inability to be precise on detail and contingent on outstanding external decisions, such as DESNZ’s response to its call for input. The output of DESNZ’s consultation will help determine the course of action, and Ofgem’s proposed solutions risk confusing the lead authority on this and industry’s expectations.

While we recognise Ofgem’s efforts to resolve some of the issues that are significantly hindering the current regime in the context of project extension, addressing such a breadth of issues in one consultation disturbs a streamlined, focused discussion and does not afford the required level of detail. We have highlighted in our response areas where industry would benefit from greater consistency in treatment of terms and a stricter delineation of alternative options. Overall, developers favour the extension of Offshore Transmission Owners’ license periods to eliminate the issues arising from the piecemeal Tender Revenue Stream (TRS)/ Extended Revenue Stream (ERS) structure.

As more offshore wind projects integrate into the system, reviewing the fundamental structure of the current regime through more revolutionary reform, as opposed to isolated adjustments, is paramount to meaningfully addressing the issues that are currently debilitating vital projects. 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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**Question 1: How should the risk or funding level required for OFTOs to fund major unexpected repairs be considered in the evaluation of ERS bids?**

To provide an accurate answer on the funding of major repairs in this context, greater detail is required on what constitutes a ‘major unexpected repair’. At present, it is unclear as to whether a major repair translates to a certain type of failure and/or relating to financial thresholds. Regardless of if major repairs would be determined on a case-by-case basis, a broad understanding through a more explicit standardised definition will be required for the purposes of this question and also for potential future dispute resolutions.

Scottish Renewables and RenewableUK would be happy to help facilitate discussions with our membership to help progress this.

**Question 2: Should developers pay for major repairs to OFTO systems?**

While it is challenging to comment without a clearer repair structure, there is concern that the proposal for developers to recover the cost could promote bad practise by inadvertently encouraging OFTOs to delay major repairs for completion in the ERS period. If work that should be covered under the TRS is intentionally delayed until the ERS, delays would be left untreated for longer periods causing further damage and cost to the final repair, which could ultimately be recovered by the developer. This is already arising as an issue where repairs that relate to the TRS period are postponed to the ERS where they are externally funded. The cause of this is a misalignment on probability of risk, with OFTOs and developers in disagreement as to when the repair will inherently be required and the appropriate timings.

If developers are to recover the cost of major repairs, the regime starts to liken more to that of a developer-build model, which subsequently prompts questions around why developer-ownership is not offered as an option if elements are being adopted. Ultimately, there is a preference for OFTOs to recover the cost for major repairs to avoid the incentivisation of repair delay, as well as a request for greater clarity as to why the OFTOs’ insurance would not naturally cover such events.

**Question 3: Should both parties agree instead only to run the systems until the first major failure event, or to run them with lower availability in the case of a partial (e.g., single cable) failure?**

Developers welcome flexibility in agreements where it can offer the most economic sense for extension schemes. However, as aforementioned, it is difficult to comment fully on the concept of flexibility in this instance without further detail. Regardless, most developers are not supportive of the idea of OFTOs operating until major failure, which would leave developers with stranded assets. Similarly, in the case of partial failures, developers’ business cases are not strong enough to support operation at a lower capacity and thus, don’t see this as a feasible option. As mentioned in both RenewableUK’s and Scottish Renewables’ [response](https://www.scottishrenewables.com/publications/1635-sr-response-initial-proposals-for-an-ofto-build-model-to-deliver-non-radial-offshore-transmission-assets) to Ofgem’s [April consultation](https://www.ofgem.gov.uk/consultation/consultation-initial-proposals-ofto-build-model-deliver-non-radial-offshore-transmission-assets), parties should be responsible for the cost-recovery of any delays and/or repairs of the respective areas over which they have control.

**Question 4: Do you agree that the availability target should remain at 98% Performance Reserve?**

As affirmed by Ofgem in the consultation, developers maintain a preference for the Performance Reserve to be kept at 98% and don’t see either presented options as a fair substitute. Option 1 places more risk on the generator while Option 2 disproportionally rewards the OFTO by deriving bonuses from a higher TRS period and penalties from a lower ERS, resulting in an imbalanced treatment of both OFTOs and subsequently developers.

There is some debate between members over whether there is sufficient incentivisation for OFTOs to partake in an extension period with some doubting the appeal for OFTOs to operate in an arguably riskier period while others stating that assets will have been paid off by the ERS and so, benefits and penalties would be proportionate for this extended period.

However, there is agreement between members that Ofgem needs to revisit the residual value assumptions. Despite committing to clarifying residual value in previous consultations, notably around the OFTO asset health review consultation, Ofgem states that it ‘does not intend to revisit these assumptions in the extension period’. Without residual value assumptions made publicly available, final costs may be higher than estimated if OFTOs advance without bidding residual values, resulting in higher bids overall. While there is the idea that there is no cost left, there is residual value in the asset and conflating the two terms will only lead to greater cost to the consumer. Scottish Renewables and RenewableUK have previously asked for the regulator to address these values and once again urges Ofgem to reverse its decision and provide more information.

**Question 5: Do you agree that we should amend TR1 licences to introduce an uprating provision as proposed?**

**Question 6: Do you agree that a performance reserve should be required in the extension period, equal to 50% of the ERS, uprated each year in line with inflation?**

Need OFTO member input

Throughout different sections of the consultation, Ofgem is inconsistent with its treatment of TRS and ERS, which is confusing and can make responding accurately challenging. In some sections, TRS and ERS are treated as a combined period, while in others they are viewed as distinctly separate; we encourage Ofgem to strive for consistency in approach when referring to either.

**Question 7: Do you agree that Ofgem should introduce an amendment to allow partial awards to be made for investment works where costs represent a significant proportion of OFTOs’ revenue stream?**

**Question 8: Do you agree that this amendment should only cover investment works and not health reviews?**

Similarly to our response to question 6, we believe Ofgem could be clearer in its breakdown of works when considering the various routes to their repair with a clear distinction between asset health review, Income Adjusting Events (IAEs) and investment cases. As mentioned in answer to question 1, without clear identification of thresholds and/or types of repair that would qualify for certain funding, it is challenging to make a full assessment.

Therefore, we would encourage Ofgem to produce an explicit table structuring the types of repairs and/or their potential financial value and the corresponding funding mechanism through which OFTOs would be advised to seek recovery of the costs. Upon receipt of this illustration, industry could offer more informed comment on the proposed routes to repair. To avoid future conflict between parties, an explicit depiction is required. Regarding the partial awards, it would be helpful to have greater sight of the timings of these and detail around where the funds flow from; who finances these first investment works if the OFTO doesn’t have the necessary funds?

In terms of the investment works, developers have advised that the proposed range of £1-5 million might be suitable for modern windfarms but, if applied to older ones, would not be appropriate and could damage the business cases for extension. Ofgem should thus consider a revised level for earlier or smaller offshore projects. We would expect Ofgem to thoroughly review and benchmark any costs brought forward, while also assuring that investment works are in line with the decommissioning/extension process. Only at T-2 years do we know if an extension is confirmed by the developer and so investments should align with this timeframe.

**Question 9: Do you agree it is necessary to have a mechanism to cover all or part of OFTOs’ unmet, sunk costs in the event that the windfarm choose to close the windfarm before the end of the extension period?**

**Question 10: Do you agree that developers should cover these sunk extension costs in that event, and that we should set that out in the licence?**

**Question 11: Do you agree that Ofgem should restrict ERS payments to the end of the ERS period or the year after generation stops, whichever is sooner; and if so, is there anything that we should be considering when we are assessing ERS bids to take this into account?**

**Question 12: How else – whether through alternatives or with additional mechanisms - could developers, OFTOs and Ofgem adequately risk share against the costs of early withdrawal?**

**Question 13: Are there any additional factors to consider which we have not set out above?**

We do not agree with the position that guarantees should only fall on the developer and don’t see Ofgem’s inclusion of the process of OFTO-of-last-resort as a sufficient equivalent for if an OFTO ceases operation in advance of the contracted end date. Guarantees should be reciprocal, reflecting a fair division of responsibilities, and for any cover that were to be provided should be made as a credit cover, not an upfront payment. While encouraging OFTOs to commit to extensions, Ofgem must assure parity in the process to equally ensure developers are sufficiently incentivised to recommission.

**Question 14: Is the existing 25 year period for transmission licences appropriate, and if not, why not?**

**Question 15: Does the current regime disincentivise longer asset life, and if so, should there be changes made to the existing regime (e.g. through construction, design and the tender process) to incentivise assets to be built for a longer asset life?**

**Question 16: Does extending the term limit the debt pool and/or increase the likely price of finance?**

**Question 17: For the cost assessment process, the amount of evidence required for determining the OFTO asset’s transfer value (i.e. the purchase price paid by the OFTO to the windfarm developer) may need to be substantiated to allow for any additional costs required to achieve a longer revenue term. Please comment on the evidence that developers could potentially provide to demonstrate that their costs are economic and efficient for a project expected to have a useful life of up to 40 years.**

In light of the complexities arising from the breakpoint of extension, e.g., health review guidance, our members overwhelmingly support the move to a longer TRS period. While there was debate between members about an appropriate TRS length, we support in principle raising the TRS cap to between 35-40 years asset life with the flexibility for optionality if a shorter TRS if preferred and both parties agree. Our members also feel that the 18-month GCC period should be accounted for as separate to the period undertaken by the OFTO thereafter, e.g., a 35-year term would equate to the sum of the license and the GCC period so, ~36.5 years, as we believe this is currently unjustly eroding a full license term.

In many cases, realising this extended lease option will rely on greater coordination with The Crown Estate (TCE) and Crown Estate Scotland (CES) to increase the length of licenses that better align OFTOs with developer asset life. Leasing arrangements are already constraining the TRS period at present due to consents being granted that do not align with asset life spans and thus, adjustments will need to be made in this space.

We believe setting the cap at this level alleviates the issues that are arising from a piecemeal approach such as the inadvertent incentivisation of bad practise.

**Question 18: In the event of an extension to the GCC by DESNZ, would there be benefits (e.g improved data quality, better considered bids and quicker transactions) to Ofgem delaying the start of the ITT stage until later in the GCC window when more operational data from the developer is available?**

**Question 19: Does VDD in practice reduce the total cost of a tender process? Are there any benefits in a VDD and would it assist the bidding process?**

**Question 20: Do you have any other suggestions that would help ensure efficiency in this process based on the three scenarios?**

As RenewableUK has previously attested to in a letter to DESNZ, the GCC is not fit for purpose in its current design and is fuelling an imbalanced negotiation structure. In some cases, developers are facing incredibly challenging circumstances whereby transactions run to the deadline and developers are forced to forfeit any negotiation power over losing production for an additional period to avoid the criminality of the current design. However, the proposed solutions from Ofgem based on a hypothetical decision from DESNZ will not resolve these issues.

The proposal to extend the GCC period fails to address the heart of the issue and will only result in existing issues being extended over a longer period as parties simply extend negotiations. While commencing the ITT stage at a later date would offer some benefit to ensure the process of due diligence does not erode the PB stage and is not hurried, as is currently the case, this will not be a sufficient solution to the overall structure. Furthermore, as projects grow in complexity, more work will be undertake in the PB stage than previously in transactions, and there is the risk of creating a perpetual loop on the need to extend processes. Finally, extending out negotiations further means asking developers that are pursuing project-financed offshore wind farms to carry the cost for a longer period of time, thus burdening them with months of increased cost.

While we appreciate Ofgem’s attempt to offer alternatives, we believe the options here represent temporary, inadequate solutions that will not lead to better outcomes. In the interim, an improved alternative would be to build upon the DESNZ guidance note for offshore transmission licence exemptions[[2]](#footnote-3) . This could include committing to have a designated representative within Ofgem who is able to engage early and deal efficiently with requests for extension under the categories of the DESNZ guidance note, a joint statement with DESNZ in support of allowing exemptions, as well as commitment from Ofgem to support DESNZ in more fundamental reform of the GCC.

Ultimately, an entirely different structure as opposed to a longer process is the solution to issues that are being faced with the GCC, which Scottish Renewables and RenewableUK have repeatedly brought to the attention of DESNZ and Ofgem. While we acknowledge that some reform may require action beyond the control of only the regulator, we would be happy to support Ofgem in consulting with our membership on potential long-term solutions to generator commissioning beyond what is currently offered.

1. <https://www.ofgem.gov.uk/sites/default/files/2024-12/OFTO_Build_Model_Policy_Update.pdf> [↑](#footnote-ref-2)
2. <https://assets.publishing.service.gov.uk/media/64ca699a6ae44e001311b40e/offshore-transmission-licence-exemptions-august-2023-guidance.pdf> [↑](#footnote-ref-3)