

Email to:

ESSupport@energysecurity.gov.uk

Dear Sir/Madam,

Response to Offshore Transmission Owner (OFTO) regime call for evidence

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.

Scottish Renewables welcomes the opportunity to respond to this call for evidence on the OFTO regime. Last year the Government published its OTNR Future Frameworks response and recommendations document¹, which highlighted the need for changes in the OFTO regime to make it more effective in achieving the government's goals of 50GW of offshore wind by 2030, a decarbonised grid by 2035, and ultimately net-zero by 2050. This is a view shared by SR members, who have faced significant challenges navigating the OFTO regime.

We believe that the OFTO regime needs **reform** to facilitate the key goals of sustainability, energy security and affordability. At present, there are issues which lead to the regime being costly and inefficient, as well as creating financial and operational risks for wind farm developers and operators. Our response identifies several areas of concern such as commissioning, coordination, and asset end-of-life, which need urgent action to meet renewable energy targets.

Please find our response to the call for evidence questions below, where we have provided more detail on all these highlighted issues. Scottish Renewables and its members would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

Stephen McKellar

¹ [Offshore Transmission Network Review: Future Framework: government response and recommendations \(publishing.service.gov.uk\)](https://publishing.service.gov.uk)

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1. Have you experienced any issues or challenges with the OFTO regime and what can we learn about these for the future?

Scottish Renewables members are facing significant challenges in several key areas of the current Offshore Transmission Owner (OFTO) regime.

The balance of risk between developers and OFTOs is heavily weighted in favour of the OFTO.

Currently, the selection criteria for OFTO awards are 100% weighted on price. This incentivises OFTOs to heavily focus on cost efficiency above all other factors. OFTO auctions are commonly won by special purpose vehicles (SPVs) with limited/no experience in constructing or operating assets and sub-contracting these activities. The balance of risk means that OFTOs are often incentivised to do the 'bare minimum' in terms of activity and will rarely go beyond the contractual minimum in terms of routine maintenance to ensure the long-term health of the asset.

Examples of this include:

- OFTOs being reluctant to replace old equipment, such as Insulated Gate Bipolar Transistors (IGBTs), in good time.
- OFTOs conducting work (and causing outages) during windy days, which has a much greater financial impact on the generator.
- OFTOs not keeping spare parts in stock, which lengthens the time it takes to fix any issues. Ofgem has a very tight spares policy, and we understand that developers don't have standardised equipment, so spares can go off. Developers try to restrict the usage of spares for other OFTOs. We think this merits a wider discussion especially since OFTO owners now reach a critical mass of ownership. The likes of Renewable Risk and 360Energy (Scottish companies) are proposing spares 'clubs' or similar, to try and reduce risk, we believe this is worth considering.

The examples above can all lead to transmission assets operating less efficiently and having outages more often than necessary.

In contrast, there is a high incentive for developers to ensure that transmission assets are in good working condition and able to transfer power to the Main Integrated Transmission System (MITS). While outages may cause the OFTO to lose a percentage of its availability incentive (which it may be able to prevent by applying for an Exceptional Event), any outage will immediately cause the generator to lose its ability to sell electricity to market. As a result, generators often feel that they must support OFTOs financially, beyond the contracted amount, to ensure that assets are returned to service as quickly as possible. We believe that there should be increased rules on the responsibility of OFTOs to maintain their assets adequately.

Furthermore, developers often find themselves having to cover exclusions or gaps within OFTOs insurance. There has been a notable increase in caution from the insurance industry regarding the insurance of transmission assets which has caused OFTOs in some instances to struggle to secure full insurance coverage. In these instances, the generator is often forced to act as an 'insurer of last resort', for the same reason they feel compelled to support operation and maintenance works.

To address this, Ofgem and DESNZ should consider supporting alternative insurance schemes to cover any shortfalls in OFTO insurance, a requirement for OFTOs to have reserves to cover any known exclusions, as well as access to additional financial security for new issues arising. We also think that a greater requirement for information reporting between the OFTO and generator, particularly on Asset Health, would be beneficial.

Additionally, we have significant concerns about the balance of risk between generators and OFTOs within the Generator Commissioning Clause (GCC) process, in particular the 18-month window with a hard deadline and potential for criminal prosecution, which we discuss in greater detail in further questions.

The current OFTO regime does not reflect the technical and commercial realities of a large scale, coordinated offshore grid.

The OFTO regime as it currently exists was designed in 2009 to service a fledgling offshore wind industry with expectations as low as 10GW offshore wind by 2030, as recognised by DESNZ in this call for evidence. The sheer scale and complexity of the current generation of projects, as well as the entrance of new technologies such as floating offshore wind and technological advances in co-location and hybrid assets, is beyond what was anticipated by the current regime.

Scottish Renewables believes there is a requirement for a full review of the OFTO regime to ensure that it is fit for purpose to meet the needs of a mature offshore wind industry, as well as the planned co-ordinated offshore network.

The 'generator build' model which has delivered all offshore wind farm connections to date, will require significant reform to be fit-for-purpose to deliver co-ordinated offshore solutions. Within the plans laid out in the HND and Follow-Up Exercise, generators are being asked to deliver infrastructure beyond what is required for their project to supply power into the MITS, as well as deliver transmission infrastructure on behalf of competitors. Not only is there a limited regulatory framework, but the lack of clear guidance on how it would be implemented is severely restricting co-operation, Ofgem's 'cost assessment' process currently would lead to developers having ~10% of costs disallowed for infrastructure that is being delivered on behalf of competitors – a position that developers are unwilling to put themselves in. Whereas the current regime does allow, in theory, for an 'OFTO build' option, this has never been used and does not in its current

form merit use. Ofgem has begun tentative engagement with industry on 'fleshing out' the OFTO build option, but as of now, the current profile of OFTOs as SPVs with little to no construction, operation or maintenance experience does not make this a viable option. DESNZ and Ofgem should urgently consider reforms to the OFTO regime to facilitate co-ordinated grid delivery.

The current OFTO regime does not have clear guidance which supports the current regulatory framework for OFTO assets coming to the end of their tender period. We will see some of the earliest offshore windfarms reaching this phase in early 2030, but this will be an increasingly urgent issue and if not dealt with, this could lead to large amounts of capacity coming offline (4GW) which could have had extended operation. To stop this, Ofgem needs to establish clear guidance to support the recently published End of Tender Revenue Stream (EoTRS) decisions. We encourage Ofgem and the government to rapidly develop and consult on EoTRS options, including looking at a possible pathway under the correct circumstances reverting OFTO assets to the developer.

As a solution, we would urge Ofgem to consult on cost assessment reform.

Finally, the cost assessment process was designed for a world where offshore wind farms utilised the Renewables Obligation as a route to market. The greater focus of CfDs on sustainable Industry Reward will need to be factored into the overall cost. The recent addition of net-zero to Ofgem's mandate requires to be enacted in a revised cost assessment process that is not limited to reducing costs through disallowance but incorporating net-zero realities. For example, these include supply chain pressures that drive early partnership and alliance contracting strategies rather than a traditional competitive tender approach. The cost assessment process needs to be able to reflect the benefits of this reality considering net-zero benefits to consumers through climate change, jobs and economic investment. In a world of CfD auctions, the incentives for developer-build are already driving the most economical and efficient design, construction and build possible. In the process of competing for and winning a CfD, projects have already demonstrated that they fulfil the economic and efficient criteria. Ofgem's cost assessment process therefore duplicates existing work, costing both time and money. It is not clear what Ofgem's cost assessment process delivers beyond additional risk, that is passed directly on to consumers through higher CfD bids. This is caused by the timing of the process whereby the cost assessment process happens late in the development and build cycle, well after the CfD bid and award. Developers will inevitably include a risk premium in their bids to mitigate the potential cost assessment disallowance. Cost assessment may be appropriate for future OFTO-build, just as similar processes are used to determine the costs of TO-build assets and interconnectors.

2. To what extent is the OFTO regime meeting its objectives to introduce competition to the sector, deliver efficiencies and reduce costs for consumers?

We do not feel that the OFTO regime in its current form is meeting its objectives to introduce competition, deliver efficiencies and reduce costs. We welcome this call for evidence as an opportunity for DESNZ to take stock of the current OFTO regime and undertake a full review.

While the OFTO regime in its current form has facilitated competitive tender for offshore transmission assets, this is not delivering the efficiencies and cost savings anticipated. Developers are highly incentivised to deliver efficient connections of transmission assets, from construction through to operation, but this is not equally the case for OFTOs following the transfer of the asset. As described in Q1, OFTOs are not equally incentivised to maintain and operate the asset and can leverage the risk imbalance to secure additional support from the generator.

The cost-benefit analysis (CBA) of competition can also change over time, and we encourage DESNZ to undertake a CBA of the OFTO regime as we look to deliver increasing volumes of offshore wind to hit net-zero by 2050. We feel it is necessary to conduct a review urgently to avoid incorporating outdated ways of working that were developed back when offshore wind was a new sector in the 2000s, and the primary aim was to reduce costs. That aim may no longer be in the best interests of delivery and indeed appears to be creating unnecessary risks.

3. To what extent is the OFTO-build model a viable and fit for purpose option to respond to future offshore wind project requirements?

We believe that the OFTO-build model as we know it is not viable or fit for purpose. This is reflected in the fact that as of 2024, this model has not been utilised by any offshore wind farm developers. To realise the OFTO-build model, we would expect that the tender process would include a very high barrier of suitability and experience in delivering offshore assets and that the types of preferred bidder (PBs) would change in line with that. There would also need to be significant financial penalties associated with late or non-delivery to reimburse wind farm developers for lost revenues, a key element that has undermined any use of the OFTO-build model to date.

Reassurances are needed that the assets that are built meet the needs of the generator exactly and that there is a mechanism for compensation if they are late or not fit for purpose. Unless these key changes are made it is not likely that the OFTO-build model will ever be utilised.

Furthermore, where future offshore grid is to be shared by multiple users the developer-build model may also become unwieldy since the OFTO regime was designed for radial connections. This could create a real risk for the UK's ambitions for offshore wind deployment, and therefore this requires addressing urgently.

Currently, the profile of most of the Preferred Bidders who are winning OFTO tenders are thinly capitalised SPVs that do not have the experience or desire to participate in the construction of assets. There is also currently no recourse for wind farm developers to be compensated for inadequate or late delivery of transmission assets which are needed for developers to access any revenue.

Therefore, for OFTO-build to be seen as a viable option the following is required:

- Much higher requirements in the tender phase for OFTOs to have experience and ability to build transmission assets.
- Clear, strict, and significant compensation for developers upon failure to deliver the offshore transmission asset on time and to the correct specifications.

4. Can you provide any evidence on the existing incentives for generators and preferred bidders to delay or expediate the transfer of the transmission assets?

There is no incentive for generators to delay the transfer of the transmission assets. Generators have a criminal liability to transfer OFTO assets under the Generator Commission Clause within 18 months and there is a clear incentive for developers to have transmission infrastructure in place and ready to transport power to the grid.

In contrast, OFTO Preferred Bidders (PBs) are incentivised to leverage the hard 18-month deadline to win concessions from developers in negotiations. PBs do not face any penalty for failing to close on time, in comparison to the heavy criminal liability faced by the developer.

Ultimately, without reform, the GCC will continue to negatively impact the efficient delivery of offshore assets. The 18-month window with a hard deadline must be removed and there must be a clear rebalancing of liability between the developer and the PB.

5. The 18-month commissioning window for the generator build model was designed when radial (point-to-point) connections were the presumption. How could the OFTO regime evolve to support delivery of coordinated infrastructure?

As stated previously, the commercial and technical requirements of the new generation of offshore windfarms have made the 18-month window for the GCC inadequate. This is even more the case when commissioning co-ordinated grid assets. Commissioning assets under the generator build model will require careful and complex coordination across developers as they will be operating to different timetables on key milestones such as obtaining a Development Consent Order (DCO) and equipment timelines. DESNZ, and Ofgem should consider how they can simplify this process as much as possible for generators under a 'generator build' model.

As part of considerations for the OFTO regime could evolve to support coordinated infrastructure, consideration should also be given to allowing for 3rd party build, including an enhanced OFTO build option and TO build, with clear protections in the case of failure.

Supporting the delivery of coordinated infrastructure

Scottish Renewables supports the inclusion of an OFTO or TO build model for non-radial assets (i.e. shared assets) as a delivery model *option*, alongside the existing generator build delivery model. However, there is a need to provide clarity on how the regulatory regime will develop – it is important to ensure that if a project(s) decides to utilise this option, it is a viable alternative and does not result in further delays.

Compensation for construction delay is the biggest concern from a developer perspective – this is likely to be significant and at a minimum developers may need to cover grid liabilities and lease fees – but may extend to further costs associated with CfD/broader development costs.

What happens if the asset is not delivered by the deadline date?

- Delay: Ofgem previously estimated a 1–2-year delay to allow for late competition model tender processes to be developed and implemented. This is unlikely to be available in time for HND projects but may be an option for some HND FUE projects.
- Additional risk appetite – the current structure of OFTOs (which are thinly capitalised SPVs) need to be able to take on additional risks such as construction risk and still get insurance cover.
- Guaranteed availability – clarity is needed on what type of compensation would be provided for non-availability of assets (due to poor construction, some sort of fault?) in an OFTO build scenario.

Other considerations

Given the rate of network reinforcement, there may be opportunities for developers to connect ahead of time, to begin exporting power to the network, the OFTO regime and the 18 month GCC may be viewed as an unintended blocker to this being viable. The benefit of this should be weighed against potential system benefits. At present, for a generator to achieve an earlier or phased connection, the generator may be required to build additional assets or rely upon the Anticipatory Investment (AI) principles, which may not be the intended usage of AI as it currently is intended as the generator would be undertaking risk against its own assets. We believe it would be beneficial to have greater clarity around this.

6. Do you think extending the 18-month commissioning window, introducing a financial incentive to conclude the transfer quickly, and/or removal of the hard deadline created by the commissioning window would assist in ensuring the OFTO regime remains fit for purpose longer term?

The GCC in its current format is no longer fit for purpose.

We are not minded to believe a simple extension of the 18-month deadline will be sufficient, as this does not resolve the imbalance of liabilities between the developer and PB. This option could simply cause the PB to lengthen their delaying tactics to the new deadline, to pressure the developer to give concessions.

Scottish Renewables is happy to work with DESNZ to understand how other alternatives to the GCC such as the removal of the hard deadline and/or financial incentives to complete the transfer quickly could work in practice. Any solution must focus on addressing the fundamental imbalance between the developer and PB, as well as the increased complexity in transactions.

We believe that the Generator Commissioning Clause (GCC) needs to be amended, as it currently places unfair risk on developers to the advantage of the preferred bidder (PB). The 18 month commissioning window does not reflect the time it takes for the developer and the PB to complete the transfer of transmission assets, now that offshore wind farms are larger and more complex. The GCC was introduced in 2013 when wind farms were small, and all foreseeable connections were radial, but the status quo has changed as the size and complexity of projects being delivered have increased substantially.

This creates an imbalance of risk and an asymmetrical negotiating position which is frequently exploited by OFTOs. For instance, developers can be forced to accept uncommercial indemnities to close the transaction in time (see Q1). In addition, the process for extending the commissioning window is currently too inflexible and cumbersome – developers must obtain a Section 5 exemption, which requires secondary legislation to pass through Parliament, as well as sign-off from the Secretary of State. In the case that an exemption is required, but there is not sufficient time to grant it, developers have been forced to rely on Letters of Comfort. This is not a satisfactory solution; extensive work is required for financed projects to obtain waivers, and there are potential unintended consequences. Contractors can use the breach of law as a method for getting out of unprofitable contracts, and there are significant personal implications for Directors to commit offences when they are acting in breach.

If the GCC does remain as a concept, extensions should be considered in line with the Principal Objective and General Duties of the Secretary of State in section 3A of the Electricity Act 1989, and not restricted to exceptional circumstances.

Increasingly complex transactions

As offshore wind farm projects become larger and move further offshore, or are integrated into a wider coordinated system, divestment transactions have become more complex. Since the GCC provisions came into effect in 2013, it is our understanding that over 60% of projects have breached the 18 month window and required an extension, which must be obtained through parliament. This is a time-consuming and resource-heavy process that creates substantial uncertainty for developers and PBs, and the fact that it has become the rule, rather than the exception, shows that the GCC provision in its current format is not suitable.

We believe that Ofgem should place incentives on the PB to encourage timely closure; in its current format, the full burden (and pressure to make unreasonable concessions) falls on the developer. We also call for regular tri-partite meetings with Ofgem and the parties to ensure greater transparency and clarity of issues; and assist with relationship management.

Extending the 18-month commissioning window

We believe that it's necessary that the current imbalance of risk is removed and **Preferred Bidders are subject to an equal and opposite incentive to close the transaction as the Developers are.**

We agree that there needs to be a hard deadline at the end of the GCC. Ofgem, in consultation with the developer and bidder, could specify the length on a project-by-project basis based on the transaction at the EPQ stage.

PBs require incentives or consequences to ensure the timely completion of the transaction. Extending the length of the GCC (to 24 months or longer) is unlikely to resolve the underlying issue of the GCC as the asymmetrical negotiating position will remain. The imbalance of risk would still be present, and the OFTO could still use the deadline to put pressure on a developer, knowing that they are at risk of breaking the law once the time window expires. A longer GCC may simply lead to OFTOs stalling for longer to reach a more favourable negotiating position.

Introducing a financial incentive to conclude the transfer quickly

This could help improve the GCC provision; Ofgem should be granted the power to penalise OFTOs or developers if they are unfairly delaying the transfer process. For example, the developer and PB could be required to post a bond/security upon appointment, which they would lose if they do not close in the same period determined.

Ofgem could also introduce milestone accountability (like that imposed on developers under the CfD) or a penalty system and take a more active role in the ITT process too.

Removal of a hard deadline

Removal of a hard deadline could be a solution, but we are wary that its introduction could raise new issues; as the divestment of assets is a regulated transaction, it logically must have a deadline. However, this needs careful consideration, and in particular careful consideration of the financial implications of such an extension or open-ended process as this may lead to unintended costs to the consumer.

DESNZ could alter legislation, such that GCC does not apply if the developer and PB are actively taking part in the asset transfer process.

This assumes that when PB and developer have passed a certain point in the process that shows commitment to completion, the threat of breaking the law should be removed. However, the complete removal of a deadline could make it more difficult to plan out the timeline for the process, and there is a risk of things remaining in limbo – it is clear that deadlines and penalties do motivate parties.

More proactive tender management

More proactive management of the transaction and stricter enforcement of tender rules would provide comfort to developers. This includes enforcement of the timeline, greater transparency, and clarity of communications between Ofgem and the parties. At present, the Tender Regulations do not actively support the enforcement of the tender rules (which in themselves are limited). Regulation 27 requires Ofgem to disqualify the PB if there is a material breach of the rules, but Ofgem does not have a positive duty to police compliance.

The positions ultimately lead to no action being taken as there is no obligation on Ofgem to act on complaints of breaches of tender rules and Developers do not make out a case for a material breach because disqualification of a PB is not in developers' interests.

We believe that parties would benefit from clearer guidance on the rules for both the developer and the PB if a breach occurs so that the consequences are known. We understand that this is covered in the Tender process guidance and the Tender regulations, but clearer signposting to this is desirable.

7. How could we ensure the benefits of the OFTO regime are maintained following the end of the Tender Revenue Stream period?

Currently, developers and OFTOs face a scenario where there is a technical ability to extend the life of their assets and continue to produce and sell power, but no clear framework to make this commercially viable post TRS period. It should be clear that the life extension of viable assets is preferable, but currently, there is no suitable asset health and route to market framework to facilitate that.

Ofgem needs clear guidance on the asset health reviews, insurance, life extension process and transmission charging changes for the end of TRS regulatory regime as a matter of urgency.

Scottish Renewables members have indicated that they may struggle to have a commercially viable route to project extension should the OFTO be extended or retendered. Should the OFTO be extended, there is significant concern that the initial OFTO will have increased leverage on the already significantly imbalanced risk profile with the generator, reducing the business case for life extension, while a retender would be an expensive process and may struggle to find suitable bidders due to the older assets with more likelihood for need of repair and maintenance, as well as a shorter overall lifespan. We encourage DESNZ to consider the potential benefits of the transfer of transmission assets to the generator during the EoTRS period. This transfers the asset to the party with the most interest in keeping it operating at full capacity for as long as possible and removes the need for a costly and potentially challenging tender process. It is our view that a transfer of the OFTO assets to the generator at the EoTRS period would provide the lowest cost to consumers of all the available options and DESNZ should carefully consider this option.

From a technical perspective, the life of generation assets can be extended, but the business case is marginal. When subsidies end, the economics become challenging - revenue falls sharply post-ROs, which puts huge pressure on margins. A lack of clarity from Ofgem means that generators continue to face considerable uncertainty about transmission route-to-market in the post-20-year TRS period. This makes it unlikely that Generators will extend the life of the assets; instead, Generators are likely to be decommissioned when the subsidy runs out.

At present the policy regime detailing the processes for the end of TRS has not been fully developed. This lack of detail makes it challenging to decisively plan out timelines and next steps. It is in the interest of consumers, government, and developers to keep operational windfarms on the grid for as long as possible, but Ofgem's lack of progress in developing a policy for life extension of transmission assets connecting offshore wind farms puts this at risk for wind farms and OFTOs reaching the end of agreed TRS in the 2030s.

We would urge Ofgem to provide more details on the following regulatory issues as soon as possible, either via a consultation response or new guidelines:

- Health review process for generation and transmission assets
- Insurance requirements
- Process of securing a life extension
- Changes required for transmission charging in the post-TRS process.

Another area of concern is the position of power that the incumbent OFTO holds at the end of the TRS period. Notably, an incumbent OFTO could force a developer to choose between paying very high rates of TRS (via TNUoS) or having to shut down the wind farm (if there is no longer a favourable business case). While the threat of competition (via re-tendering) could help to lower

the new TRS value, this only works if other eligible parties are prepared to bid in, and an older transmission system with a relatively short life and a higher risk of equipment failure and an uncertain life extension period may not be an appealing investment. We would like further clarity on how such a competitive re-tender would be performed and how property transfer can apply in the event of a competitive re-tender (i.e. what mechanisms do Ofgem have to ensure the incumbent OFTO will agree to a transfer of assets).

Generator ownership option

The business case for many older wind farms becomes marginal after the end of TRS. Allowing the developer, the option to jointly own and operate both the generation and transmission assets (for OFTO legacy assets only) would provide several benefits including aligned decision making, reduced costs and reduced risk and uncertainty for life extension. Cost savings from generator ownership are achieved due to lower overheads/company costs; no need to pay OFTOs an availability incentive; cost savings in managing transmission and generation assets together; likewise, reduced insurance costs; Ofgem save money due to lack of a re-tendering process.

Ofgem acknowledged this option for the first time in July 2023 but appears to be extremely reluctant to alter any aspect of the existing OFTO regime. It is our understanding that unbundling rules would need to be amended to facilitate generator ownership.

The period for unbundling has become unclear due to valuation and equipment issues, for example, [Triton Knoll owners request OFTO handover exemption - reNews - Renewable Energy News](#)) This will need to be addressed or re-defined to enable greater flexibility. To our knowledge, there has never been an exemption refused, but the Offshore Wind FW space has become more crowded.

8. To what extent is the OFTO regime impacting on offshore wind transmission supply chains?

It is widely accepted that the global supply chain for the components necessary to build offshore wind is highly constrained. British offshore wind developers are competing globally to ensure that they are getting their place in supplier order books.

Two key things that suppliers value when deciding which orders to fulfil are:

- Certainty of pipeline, and;
- Simplicity of the order.

The OFTO in its current form brings potential negative impacts in both of these areas.

Certainty of pipeline

The UK has been undergoing a process of consolidation of its offshore network planning, which has ultimately resulted in the Holistic Network Design (HND), the HND Follow Up Exercise, and

work towards a Centralised Strategic Network Plan (CSNP). These plans will give a clear line of sight for the supply chain as to the quantity of work available for manufacturers and may help them make decisions on accepting UK orders as well as making decisions on expansion or siting factories in the UK due to the clear pipeline of work. However, as of now the issues arising from the OFTO regime add a significant layer of uncertainty about the ability of the UK to deliver on its ambitions. If the UK wants to gain the confidence of both developers and the supply chain to invest, it needs to address the issues raised in this consultation.

Simplicity of the order

Suppliers value large, simple and standardised orders as they significantly reduce costs and reduce the need for complex and time-consuming bespoke design processes. The best recent example of this can be seen from the Dutch-German TSO, TenneT, who last year secured a multi-billion Euro deal with supply chain manufacturers to secure their orders to build their offshore network.

The OFTO regime in its current form necessitates UK developers to undergo smaller tendering processes for each of their individual projects. This means that the UK does not benefit from the same economies of scale and reduced costs from larger orders, increases the design complexity of building a meshed offshore network and makes UK orders less desirable to manufacturers.

DESNZ should consider ways to standardise and enable larger orders to deliver the offshore transmission network.

If the UK gains a reputation for inflexibility around offshore wind transmission, and wind farms are taken out of commission early due to the end of TRS rules, it will discourage investment from OEMs. Regulatory regimes in Europe may allow developers to run similar wind farms for longer at the same cost. If the OFTO build model is put into place, then OFTOs would have to engage with the transmission supply chain to procure parts and equipment. As most OFTOs do not have any construction experience, they would not have the clout.

9. Is there any other evidence you would like to share on the OFTO regime?

The current OFTO regime places significant risk and uncertainty on developers. The advent of the offshore integrated design will exacerbate this. Evidence is growing that consumers do not benefit from this approach as risk premiums are passed through into CfD strike prices and therefore onto consumers. Investment costs are inflated due to uncertainty and similarly passed through to consumers (e.g. Quantifying the Risk of TNUoS Charge Volatility for Wind Developers, NERA Economic Consulting, March 2021). Fundamental changes in the industry enable a different approach. The advent of the Governments net-zero targets including 50MW of offshore wind by 2030, the development of the Centralised Strategic Network Plan and the recent

legislative change introducing competition in onshore transmission ownership create a robust foundation for integrating the OFTO and offshore regimes. Extending the onshore network offshore is already a reality with HVDC bootstraps and the next phase of this could be the delivery of an integrated offshore network under an appropriate regulatory regime. Examples of this exist across Europe (TenneT) and could deliver massive savings in efficiency and cost for consumers. Ofgem must think strategically if they are to introduce an optimal regulatory regime that supports a net-zero future.