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08/09/2024

## **OFTO: further evolution of a mature asset class**

### **About RenewableUK and Scottish Renewables**

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.

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.

### **Overview**

RenewableUK and Scottish Renewables welcome the opportunity to respond to this consultation and the recognition from Ofgem that the OFTO regime is in need of reform. In this response we have shared a high-level initial view from our members on the topics raised in the consultation, but we intend to publish a detailed paper setting out our views on OFTO reform later this year. We look forward to working collaboratively with Ofgem in the development of this paper and in achieving reforms to the OFTO regime.

Please see our full responses to the consultation questions below.

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### **Consultation Questions:**

**Q1: Should we retain the 98% availability target for all assets, including HVDC, to provide more time for HVDC assets to come online and to build technical evidence on performance? Is there anything further we should do to support HVDC assets to reach 98%?**

We agree that Ofgem should retain the 98% availability target for all assets, including HVDC, to send a clear signal that high availability remains a core expectation.

The 98% availability target is important to ensure the quality of service from OFTOs is high. We also note that the use of 'Exceptional Events' means that the true availability of the assets is often lower than 98% already.

It is also true that the introduction of HVDC into OFTO assets increases complexity. However, rather than decreasing availability standards, Ofgem could address this complexity by allowing increased expenditure in the Cost Assessment process specifically to ensure that the HVDC assets are designed with a 98% availability target in mind.

As there is currently a more limited technically justified evidence basis for HVDC availability targets, we would encourage Ofgem to implement a structure review mechanism as more operational HVDC data emerges to ensure an appropriate target is maintained.

**Q2: Do you agree with Ofgem's view that, on balance, the interconnector approach is not appropriate for OFTO projects?**

No comment at this stage. RenewableUK and Scottish Renewables will be exploring the best ways to ensure availability in our upcoming paper.

**Q3: Do you agree with Ofgem's view that, on balance, a model similar to the onshore balanced scorecard for HVDC availability is not appropriate?**

No comment at this stage. RenewableUK and Scottish Renewables will be exploring the best ways to ensure availability in our upcoming paper.

**Q4: Are there any other changes to the regime that we should consider to account for the differences in HVAC and HVDC technology and potential availability?**

As stated in Q1, we believe that there should be recognition in the Cost Assessment process of the additional investment needed to ensure a 98% availability of HVDC assets. Ofgem should also consider reviewing the approach to Operations and Maintenance (O&M) within the OFTO regime.

We recommend that Ofgem consider differentiated reporting templates that allow HVDC-specific failure patterns, spares strategies, and Mean Time to Repair (MTTR) metrics to be tracked. A pilot program gathering performance benchmarks would help inform a future evidence-based for the availability regime.

RenewableUK and Scottish Renewables will be exploring the best ways to ensure availability in our upcoming paper.

**Q5: Are there any risks arising from generators offering O&M contracts as part of the tender process?**

The majority of our members do not agree with the characterisation of developer-offered O&M contracts as risky.

Windfarm developers can leverage specific knowledge of the OFTO assets gained during construction and have a strong incentive to ensure availability as the OFTO assets represent their sole route to market. The offering of below market rate O&M services reflects these factors and ultimately leads to lower overall cost.

If Ofgem were to remove the option for generators to offer O&M services for the OFTO assets, we feel it would be necessary to additionally add in non-price factors in the tender process to incentivise O&M capability.

**Q6: Should there be a requirement for a termination payment, or some other form of commercial agreement, to be made to allow OFTOs to source O&M elsewhere where generator offers are made?**

The majority of our members do not agree with the proposal as a mandated requirement. It does not seem fair to impose additional terms on generators beyond

those for other O&M providers. Ensuring flexibility in this approach allows parties to bilaterally negotiate commercial terms outlining termination reasons and potential payments in the event of termination, where agreed upon.

**Q7: Are there current or potential issues with OFTO owners having access to their assets, and how might this impact bidding dynamics?**

OFTO owners have full rights to access and inspect their assets. The issue here is that many OFTOs do not have the capacity to do so and must negotiate commercial terms to enable access from the generator/a third party. O&M providers will also have their own timelines and availability issues for vessels, so there is a need to understand early how and when these vessels will be needed for inspections.

**Q8: If so, what considerations could Ofgem, OFTOs or developers implement to improve co-ordination and access?**

If Ofgem wishes to empower the OFTOs to have the means to have greater access to inspection vessels, then this should be addressed by changing the tender process to value these capabilities, more than simply the lowest cost.

**Q9: With DESNZ confirmation on the 9-month extension of the GCC, are there any outstanding concerns with our proposal to alter the tender process?**

We encourage Ofgem to pay regard to the responses of our members who have experience of going through the GCC process on the specifics proposed in this consultation. We remain of the view that beyond the extension of the GCC, there remains a fundamental imbalance of incentives and penalties between the generator and the OFTO to complete the transaction in a timely manner. We encourage Ofgem to develop further guidance and best practice on how additional time should be utilised, including around risk allocation to help expedite negotiations.

**Q10: Do you have any suggestions to manage the transition to the new timelines for projects already in flight?**

Until the Planning and Infrastructure Bill passes into law, current practices on timelines should be maintained for projects in flight. Once enacted, any adjustments to timelines should involve dialogue between Ofgem, the developer and the bidder and be assessed on a case-by-case basis, recognising that developers and bidders will have planned and budgeted based on the original timelines. All parties should then be required to adhere to the timelines agreed upon.

**Q11: Is the provision of VDD likely to support and enable new entrants?**

No comment.

**Q12: Should Ofgem introduce an incentive for bidders as set out above, and if not, what other options should we consider?**

While we welcome recognition that there is an imbalance of risk between developers and OFTOs, we do not agree with Ofgem's suggested assessment that the only way to encourage timely completion by bidders is through introducing a new incentive. From the consultation document, this would appear to take the form of an increased transfer of value from the developer to the OFTO, to encourage the OFTO to act in the way it should already be, in accordance with the tender rules. The introduction of an incentive for OFTOs, against the significant risk to developers, would only serve to strengthen the imbalance between the two parties.

We encourage Ofgem to further review the possibility of bidder bonds, or consider the feasibility of financial penalties in the form of TRS reductions, to address the risk imbalance. We would also see value in Ofgem clarifying its expectations of acting in accordance with tender rules for clarity for all parties.

**Q13: What should the quantum of any incentives be, and how should it be delivered as part of the tender process?**

We do not agree that there should be any additional incentive.

**Q14: At which date should we aim to align a potential incentive mechanism?**

We do not agree that there should be any additional incentive.

