

Stephen Taylor

Sent by email to: offshorelicensing@ofgem.gov.uk

13 April 2021

Dear Stephen,

Offshore Transmission Owner (OFTO) End of Tender Revenue Stream

Thank you for the opportunity to respond to the consultation on OFTO End of Tender Revenue Stream.

As part of reviewing the consultation we have developed some key themes that are given in the responses to the individual consultation sections in the included annex.

- The OFTO End of Tender Revenue stream when concerning future investment should not be considered in isolation, this should form part of the OTNR work as it is very much dependent on future roles and responsibilities.
- Further or future investment should not be considered by each individual OFTO in isolation, given the volume of future offshore wind a strategic and co-ordinated approach should be taken
- Where possible, there should be consistency with the approach for onshore transmission operators including regulatory obligations to ensure consumer protection for example around asset health to ensure security of supply and a reliable service for consumers.
- Competition for tender could potentially slowdown work when there is a clear focus on time pressures involved and would require a further impact assessment to determine the appropriateness of this approach.

We believe the application of these principles will help to protect consumers from additional costs with fair charging principles and be considerate of environmental concerns by extending the lifespan of assets where it is viable to do so. Care needs to be taken to ensure the return on investment and balance of risk are adequately considered alongside regulatory protections otherwise any misalignment in risk and return is likely to lead to sub-optimal outcomes for renewable generators and end consumers.

With regards to the asset condition, replacement cost and duration of the revenue term, we believe it is necessary to make asset assessments on a case-by-case basis given the variability that is likely to exist between projects. Achieving this will also require undertaking impact assessments as part of making decisions on a case-by-case basis.

As per our response 16 March, we would urge Ofgem's policy team to work closely with the OTNR to avoid duplication and potential stakeholder confusion in how these concerns interact.

Please do not hesitate to contact me should you require any further information or want to discuss our response.

Yours sincerely

Lauren Logan

Strategy Officer and Offshore co-ordination lead

Asset Health Reviews

SSEN Transmission believes it is sensible that these reviews are done a timely way given the lead times for any remedial work/replacement and the significant costs too.

While it is encouraging to have a whole system approach and the relevant sharing of information, assets should be the responsibility of their owners and as outlined in their licence. It should be clear where responsibility ultimately sits for these health reviews.

It is a reasonable expectation that the asset owner pays for their own health reviews following from their responsibility for the asset up to and until that time. In this instance it would be split between the Generator being responsible for the wind farm and OFTO for the cables. We think this is reasonable and easily understood split of responsibility. We would encourage a consistency of approach for both onshore and offshore assets to ensure the system security of the network and ensure consumers maintain a reliable service.

Further investment

This should be informed by the comparable approach for onshore investment and there are equally applicable considerations. If the further investment was for sole-use then the generator would pay for the required reinforcement through connection charges while a shared asset would be the TO's responsibility. This approach should also be applied where possible. When further investment is being considered, this should go through the standard GB connection application process to ensure any onshore works are also considered i.e. if there is further investment offshore this could trigger additional reinforcement onshore.

Given the future pipeline of offshore wind looking to connect further or future investment must not be considered in isolation rather a strategic approach which considers the onshore and offshore network must be taken to minimise the impact on communities, the environment and consumers. This should be considered as part of the OTNR workstreams and not considered as a policy decision in isolation.

Extension options

We would encourage Ofgem that any decision to extend the tender through a competitive process should be subject to an impact assessment. There also appears to be proper consideration about the time required for asset health checks and making a decision on the future of the asset. Ofgem should be cautious as to how this might be compromised by a more competitive tender approach.

Extension options should also consider more than one extension period where, subject to assessment, the asset remains viable for another term. This means that any decision should also consider the technical asset life and be mindful that the duration of the required need is fundamental to this decision.

The Tender Revenue for further regulatory periods

We do not have a preferred option between the 'Building blocks' or 'Cost Plus' approach as either would need to ensure adequate rate of return for the on-going risk.

There are no individual cost elements that we would name at this point but it should be expected that over time assets become more complicated to replace, change and maintain and that each asset will have different risks as well. This would require assessments to be made on a project by project basis to ensure adequate compensation is available for the period in question.

Ofgem should also consider that the market value is going to be informed by the expected revenue stream over an extended regulatory period. As we have stated previously, any funding required to support asset health and ongoing operation of assets would need to be fully supported by way of an appropriate regulatory mechanism. Additionally, and equally important, the rate of return for these investments must be appropriately determined and set. This must

be reflective of costs and risks including any regulatory protections to ensure the investment is retained and attracted into the sector. We also believe this is a distinctly different asset class to a brand new constructed cable at the start of its life and therefore Ofgem must avoid applying historical OFTO rates which are not observable for this new asset class.

Decommissioning Fund and Financial Security

SSEN Transmission agrees that any new OFTO taking responsibility for any asset should also be expected to pick up the decommissioning fund as well through regulatory mechanisms.

Similar to other parts of this review, we expect that the decommissioning fund costs to be looked at on a case by case basis but that it should ensure that any ongoing operation and maintenance is undertaken in a safe and efficient manner.

Future liabilities and securities should be considered as part of the OTNR as this is very much dependent on the policy decision on future offshore roles and responsibilities.