Q1: Should asset health reviews be carried out on generator assets no later than five years before the end of the revenue stream, with the health review for the offshore transmission assets following shortly after that? If no, please set out alternative timelines and reasoning?

Yes, we agree with the suggestion that asset health reviews be carried out on the generator assets at least five years before the end of the initial review period, with the same being undertaken for the offshore transmission assets shortly thereafter. Ofgem to consider timing in relation to the financial performance security requirements within the OFTO licence, which are required to be put in place in year 16 and in relation to BEIS decommissioning guidance, which requires the OFTO to start the consultation on the environmental impact assessment three years in advance of the start of decommissioning. We also believe there could be a benefit of the health reviews being carried out at the same time to give a holistic view of the extended asset life as an element of the OFTO assets may be the limiting factor and this approach should be more cost effective.

Q2: Should generation and transmission health reviews be carried out by the generators, but informed and agreed by OFTOs and Ofgem, given that generation is likely to be the main driver for any extension? If not, please provide reasons.

Both need to be undertaken, but should be carried out by experienced third party contractors on behalf of each relevant owner, with the cost to the OFTO being treated as a pass-through to either the relevant generator or the broader charging regime as no allowance has been made within the OFTO's TRS. For the Transmission assets it would be helpful that a standardised/ template or approach is developed and agreed with OFGEM to ensure a consistent level of data is gathered.

Q3: Should generators pay for their own health reviews and those of the associated transmission assets? Please provide reasons for your response.

Yes, generators should pay for their own asset health reviews, although given many generators may have assumed a life of more than the initial revenue period for the wind farm within their FID they may not consider it necessary. Offshore transmission owners should not be expected to fund asset health reviews linked to any extension of the revenue period; tenders were priced on the basis of the initial revenue period as per Ofgem's instructions. Furthermore, given there is a risk the incumbent OFTO may not be allowed to continue operating the transmission assets beyond the initial revenue period it should not be expected to fund any costs associated with the possible extension.

Q4: What sort of confirmation/guarantee/representation of the intention to extend would developers envisage giving? What would this be subject to?

OFTO owners will need to start planning for decommissioning of the OFTO assets in the final years of the initial revenue period. Developers will need to be aware of this when declaring their intentions around wind farm extension of operations. The level of confirmation/guarantee/representation required should be commensurate with the funding arrangements of the OFTO asset health reviews; less if generators funding, a greater level of confirmation if the cost is to be socialised. As per our response to Q3, we would not expect the OFTO to have to bear the cost of any review associated with life extension beyond the initial revenue period.

Q5: Should the incumbent OFTO or the generator be responsible for any further investment required to enable an extension of the regulatory revenue period?

This will depend on the timing/quantum and should be a pass through cost for the OFTO. It needs to be considered in the context of funders' decommissioning requirements. A TRS adjustment should be made if upgrade work is required during the initial revenue period and full exceptional event protection/relief granted by Ofgem. The OFTO should endeavour to coordinate the timing of any upgrade works with any planned outages; the longer the generator leaves it to declare their intention to continue operations beyond the initial revenue period the higher the likelihood of additional outages being required.

Q6: Should the tender revenue period be extended with the incumbent OFTO, or licences retendered through open competition?

The revenue period should be extended for the incumbent OFTO. If the Unbundling Requirements change in the future, Ofgem should consider an arrangement whereby the generator takes over the operations and maintenance of the offshore transmission assets and takes over responsibility for insuring the offshore transmission assets alongside the offshore wind assets as we believe this would deliver significant economies of scale. The owner of the OFTO could receive a dry lease payment and would retain responsibility for the eventual decommissioning of the OFTO assets at the end of the revenue extension period.

Most estimated savings using competition in the first OFTO rounds were due to bidders applying different finance structures. This would be difficult to replicate for an extension period given the costs will be driven by O&M rather than the initial capital investment. For TR1 projects it is difficult to see how material net savings for consumers can be generated by competing for extension periods, unless they were for longer periods of more than 15 years, even then it would be difficult.

Q7: Do you consider that there is a threshold to be met to determine which approach to be taken (if there is to be any further regulatory revenue period at all)? For example, the extension period is above a certain number of years or the tender revenue stream is above a certain level?

Please refer to our response to Question 6. This will need to be considered on a case by case basis and the cost will be affected by the length of the extension.

Q8: Where retendering takes place, what safeguards or mitigations need to be implemented to enable bidders to be comfortable about the level playing field between incumbent OFTOs and other bidders?

Ofgem would need to ensure that any retendering process is run on a transparent basis. This would require full disclosure by the incumbent OFTO, follow a similar model to the initial OFTO tender process, and will be expensive from both a cost and timing perspective in terms of the due diligence required.

Q9: Are the timelines proposed practical? Do any of the timings need to be extended or reduced, and if so, why?

Retendering the OFTO for a shorter revenue extension period feels overcomplicated/unnecessary and runs the risk of the competition/transaction not being completed to tie in with the end of the initial revenue period.

Q10: Should there be only one extension period granted, or do you think that if the process is established, that more than one extension could be possible for the same OFTO asset.

This will vary on a case by case basis, depending on the technology and performance of both the generation and transmission assets. We agree with the suggestion of a maximum of two extension periods of 5-8 years, but would not be averse to that being merged into one longer extension period.

Q11: We would welcome your views on which of the proposed cost mechanisms ("building blocks" or "cost plus") you consider would be more appropriate for establishing a revenue stream for the extension period, or if an alternative should be considered?

We believe that the "building block" approach is the most appropriate mechanism for establishing a revenue stream during the extension period. This approach has a number of advantages:

Operational budget: the OFTO will be able to adjust its operation and maintenance budget to account for ageing transmission infrastructure. Average annual operation and maintenance costs are likely to be higher during the extension period than during the original Revenue Period due to more regular inspections, increased planned preventative maintenance and asset condition monitoring;

Lifecycle: the revenue stream can be adjusted to reflect any asset replacement/lifecycle capex needed to ensure the OFTO can continue to operate at high availability levels during the extension period;

Insurance costs: are expected to be higher given the age of the assets and can be adjusted accordingly to reflect market conditions at the time; and

Transparency: it affords Ofgem an opportunity to assess the proposed components of the OFTO's extension period revenue stream to ensure they represent value for money for consumers. It will also allow Ofgem to build a database to benchmark future extension period revenue assessments.

Conversely, the "cost plus" method is likely to result in inappropriate costs (e.g. operations and maintenance, insurance, financial security costs etc.) being rolled forward to the extension period. These costs would not represent the true cost of operating the asset during any extension period and therefore are inappropriate to use in order to set the "measure of return".

Q12: Should there be a set cost mechanism for determining the TRS for any future regulatory revenue period across all projects? Or should the cost mechanism be determined on a project by project basis, depending on the required extension length and risk profile?

The latter.

Q13: Are there any additional cost elements that you think should be considered when Ofgem is calculating the tender revenue stream for a further regulatory revenue period?

Ofgem will need to consider the following when calculating the TRS: the funding of repairs/major failure events, liquidity, insurance coverage and the level of deductible to be borne.

Q14: What market value (if any) do you think the OFTO assets will represent at the end of the regulatory revenue period? What are the component parts of this value?

This is intrinsically linked to the value of the generation assets and continuing demand at the end of the regulatory revenue period. It will be dependent on any remaining asset life (both generation and transmission assets), the remainder of the lease of the seabed, decommissioning costs and scrap value of the assets.

To meet the Government's net zero commitment all offshore wind projects will need to be repowered. In the event the existing wind farm does not operate past the OFTO's revenue period, the generator may designed the new facility to use as much of the existing infrastructure as possible to minimise the construction costs. In an asset life extension and repowering scenario (using new or the existing export cables) they require the lease for the cable route which the OFTO owns the lease for, this cannot be assigned or underlet as per the terms of the Crown Estate.

Q15: Do you agree that decommissioning funds and liability should be transferred across in full to any new OFTO?

We agree that the decommissioning liability should be transferred across in full to the new OFTO owner.

However, we do not think that it is appropriate to transfer the decommissioning fund, especially where this takes the form of a cash funded reserve. Historically, OFTOs which have opted to utilise a cash funded decommissioning reserve as a financial security (particularly bond financed OFTOs) have assumed that surplus funds (i.e. funds not utilised in decommissioning the asset) are released to investors at the end of the revenue period. As such, transferring the decommissioning fund to a new OFTO owner would (without compensation) result in a reduction to the original OFTO to the original Licensee's IRR.

The financial models submitted by bidders prior to the original Licence award should highlight the release of funds in the final period and how this flows to investor returns.

Q16: Do you expect decommissioning costs to be higher after the period of an extension or similar to those expected after the initial regulatory revenue period?

Decommissioning costs will be higher in nominal terms and will be subject to any changes in BEIS requirements / changes in law during the extension periods. Each OFTO will have formulated their own decommissioning strategy / coordination arrangements with the generator, the costs of each strategy will vary from owner to owner.

Q17: Do you agree that, in the event of an extension, the incumbent OFTO should pay any availability liabilities due at the end of the original regulatory revenue period?

This needs to be considered on a case by case basis, taking into account the relevant availability credits mechanism for each OFTO. If the incumbent OFTO continues then the mechanism should endure. If however the incumbent OFTO does not continue during the revenue extension period then the exiting OFTO should settle any availability debits and be able to cash out any availability credits banked.

Q18: Are there any indications that insurers are willing to reinstate LEG3/06 exclusion clauses or equivalent (where this has been removed) after a period without further failure events? If so, how long might that period be?

No, none whatsoever on the offshore transmission assets where we have had LEG/03 cover withdrawn. Our understanding from discussions with brokers/underwriters is that where failure events have occurred and particularly when relating to the offshore cable there is an expectation that there will be further failures and hence insurers are unwilling to cover such fortuity.

Q19: Noting the difficulty of forecasting the insurance market, what are your views on the likely availability and cost of LEG3/06 exclusion clauses (or equivalent) of the period of any further revenue period?

This will depend on the wider offshore wind/oil & gas market and the number of claims. Our experience is that there has been a contraction in the number of underwriters in this space, a hardening of terms, and reducing coverage at higher cost and deductibles. On assets where they have maintained LEG3/06 cover over their revenue period, we do not think this would be removed as the asset are operated past their initial design life, but will be a reflection of the market at that point in time.

Q20: Is there a need to move away from LEG3/06 (or equivalent) insurance clauses in any further revenue period due to the age, suitability, and specific nature of this type of cover for ageing assets?

This will depend on the nature and scope of the licence during the revenue extension period, in terms of IAE and EE coverage etc. LEG3/06 may not be available, depending on the historic operational performance. The OFTO licence and insurance requirements must work hand in hand. It may be necessary for additional asset monitoring/surveys to be undertaken in order to be able to insure the offshore transmission assets. To move away from LEG3/06 alternative coverage would need to be provided.

Q21: Do you consider that a more centralised solution for cable insurance risk might be required? Would this bring confidence back to the insurance market and attract new investors to the OFTO extension asset class?

Yes, absolutely and please refer to our response to Q6. Spares clubs should also be considered to facilitate unnecessary holding of spares at asset level and to facilitate efficient reinstatement of assets. We are not convinced there will be an influx of new investors interested in competing for OFTO revenue extension periods; there are less than a handful of bidders for the OFTO initial revenue period.

Q22: Would operating the OFTO assets with minimal insurance to first failure be a viable option for higher risk assets with uncertain futures?

OFTOs are already having to consider significant deductibles when insuring assets and have experienced removal of LEG3/06 cover. Where minimal insurance is available to first failure for higher risk assets/where there is uncertainty it is unlikely that there will be an increase in insurance coverage made available to the OFTO following a first failure event. OFTOs are effectively slave to the insurance market, not just for offshore transmission assets but also for the wider offshore wind market and beyond.

Q23: Are you currently exploring or investigating any other potential models or approaches to insurance that may be appropriate for an OFTO asset during any further revenue period?

This is too far out to consider and will depend on the performance of the asset and the status of the insurance market covering this sector.