End of TRS Consultation response – Ocean Winds

Dear offshore transmission team,

Ocean Winds is pleased to respond to the consultation on end of tender revenue stream policy for OFTOs.

Responses to the questions presented in the consultation are provided below. We would specifically appreciate the opportunity to discuss the proposed cost mechanisms further with a view to providing additional feedback.

Best regards

Question	Response
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.	• Acknowledging ARUP's existing work on this, we consider that in some cases offshore transmission assets will be able to have substantive lifetime extensions, potentially as far as to even support full re-powering of wind farm sites. There is inherent conservatism in offshore structural design which has been seen in other sectors (e.g. oil and gas) to allow significant lifetime extension, while the onshore components of offshore transmission assets should typically be readily refurbished. • Considering this, rather than tie the offshore transmission asset condition review and potential for TRS extension to the condition of the existing wind farm, we consider that the framework put in place does not need to create an excessively strong link between the two. It is logical that the condition of offshore transmission assets and the potential for their lifetime extension is subject to assessment regardless.

	• As we expand on in our response to question 2, this would be consistent with good industry practice for offshore infrastructure asset management in any case.
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.	• Transmission asset health reviews should be carried out by the OFTO for various reasons. For example: (i) it is consistent with licence conditions; (ii) it is consistent with good asset management practice anyway; (iii) the OFTO will have the historic data such as maintenance and inspection records; (iv) in practical terms it is the OFTO that "holds the keys" and is best placed to access the assets for health review; and (v) the OFTO will need to undertake many of the practical activities anyway in the run up to decommissioning, such as performing subsea cable burial surveys and structural inspections. • A working group could be formed involving Ofgem, wind farm developers and existing OFTOs in order to develop detailed guidance on how this is to be done in practice.
Q3: should generators pay for their own health reviews and those of the associated transmission assets? Please provide reasons for your response.	• For the reasons above we do not consider it appropriate that generators should be paying for health reviews of OFTO assets. There is a risk of cutting across what should be clearly delineated asset management and decommissioning liabilities.
Q4: what sort of confirmation/guarantee/representation of the intention to extend would developers envisage giving? What would this be subject to?	• Any substantive commitment by an offshore wind farm developer would be subject to an investment decision being made by its sponsors, whether that be for lifetime extension or full re-powering. • Developers' commitments in respect to transmission network connection and investment are normally captured via their grid connection agreements (e.g. secured cancellation liabilities). We propose that this route is explored as a potential option to capture

	developer representation and commitment.
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 would depend on the nature of the investment. • If it is minor and within the capability of the incumbent OFTO to undertake* then it would be logical for the OFTO to undertake that. • If it is major then an ability to "re-trigger" the generator-build option could make sense, particularly considering that there may be cost synergies through work being performed across wind farm and transmission assets. *Bearing in mind that OFTOs at present are generally asset management focussed organisations (and not necessarily capital project delivery focussed organisations).
Q6 – should the tender revenue period be extended with the incumbent OFTO, or licences retendered through open competition?	• We propose that this should be based on anticipated length of lifetime extension. • For lifetime extensions of a few years the effort involved in running a transaction and transferring the asset, including transferring decommissioning liabilities, is unlikely to be justified. • For longer lifetime extensions, e.g. to support wind farm repowering, competitive tender would seem appropriate. • Importantly, if a tender revenue period is being extended with the incumbent OFTO there should be clear and robust price controls in place to ensure that the allowable revenue stream is proportionate, taking into account that the generator will have already repaid the initial capital cost of the asset during the initial revenue period.
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	• We consider that it is in the consumer's interest that flexibility is afforded to the generator. Even a short extension of 12-24 months may in some case provide the

number of years, or the tender revenue stream is above a certain value?	opportunity to extract best value from the combined wind farm and transmission assets, delivering low cost power to the market and deferring decommissioning spend. • While the decommissioning of offshore transmission assets will represent a major capital project in its own right and therefore require planning, that planning could be substantially done in advance and then the actual performance of the works could then be procured at relatively short notice (< 2 years). • It is also worth considering that: (i) an established market in decommissioning will be established by the time that most offshore transmission assets are reaching the end of their initial licence period; and (ii) for most offshore transmission assets the number of specialised offshore heavy lifting operations will be relatively limited. Hence excessive regulatory constraint that prevents a flexible approach being taken by the generator and OFTO should be avoided.
Q8 – where retendering takes place, what safeguards or mitigations would need to be implemented to enable bidders to be comfortable about the level playing field between incumbent OFTOs and other bidders?	No response.
Q9 – are the timelines proposed practical? Do any of the timings need to be extended or reduced, and if so, why?	• Noting our response to question 7, the timelines seem reasonable but we consider that Ofgem should explore whether more flexibility can be provided in order to get best value out of assets that are approaching end-of-lifetime. • There should be a presumption in favour of lifetime extension in order to provide confidence to project developers considering substantial lifetime extension or re-powering investments.
Q10 - should there be only one extension period granted, or do you think that if the process is	• If the process is established then more than one extension should be catered for, as it may be that wind

established, that more than one extension could be possible for the same OFTO asset?	farm lifetime extensions are done incrementally. It is in the interests of the consumer to allow for this as eking value out of renewable assets will support delivery of low cost renewable energy. • Looking at it another way, it would be unfortunate for offshore wind farm assets to need to be decommissioned prematurely due to the OFTO licence arrangements being too rigid.
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 are unclear as to why the "cost plus" method would allow for greater flexibility and therefore would welcome further discussion on the intended distinction between the models presented. • As an immediate reaction, we consider that the "building blocks" approach would provide for transparency and represent a significant opportunity for the consumer to realise benefit as noted in the consultation document. • Further to this, implementing a clear framework for this in the near term will provide offshore wind farm developers with greater certainty of long-term cost base, potentially reducing cost of energy at the outset. • More specifically, it is unclear why maintaining decommissioning reserves should involve additional expenditure for the OFTO. On the contrary the incumbent OFTO may be presented with an economic opportunity through deferral of its decommissioning liabilities and there should be a mechanism to account for that in the tender revenue stream such that the generator (and therefore consumer) benefits, particularly considering the generator has paid TNUoS on the basis of full asset capital cost repayment and decommissioning by the end of the initial licence period.
Q12 – should there be a set cost mechanism for determining the TRS for any future regulatory revenue	• A defined mechanism would provide foreseeability and potentially allow

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?	projects to account for this more accurately when making initial investment decisions, providing greater certainty and potentially delivering consumer benefit earlier.
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?	No response.
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?	• Due to the nature of the way offshore local circuit and substation TNUoS tariffs are calculated, the current framework effectively provides that the generator will have (through the TNUoS charges it pays) fully paid for the initial market value of the assets by the end of the initial licence period. • If the potential for substantive lifetime extension is identified then a market value may be established for the OFTO assets. It is reasonable that the generator should benefit from that, given the generator has paid for the assets as noted above. This could be achieved through a retrospective rebate on offshore local circuit TNUoS paid.
Q15 – do you agree that decommissioning funds and liability should be transferred across in full to any new OFTO?	Yes.
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?	We expect decommissioning costs should be no higher.
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?	Yes.
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 response.
Q19 – noting the difficulty of forecasting the insurance market, what are your views on the likely availability	No response.

and cost of LEG3/06 exclusion clauses (or equivalent) for the period of any further revenue period?	
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?	No response.
Q21 – do you consider that a more centralised solution for cable insurance risk might be required? Why? Would this bring confidence back to the insurance market and attract new investors to the OFTO extension asset class?	No response.
Q22 - would operating the OFTO assets with minimal insurance to first failure be a viable option for higher risk assets with uncertain futures?	No response.
Q23 - are you currently exploring or investigating any other potential models or approaches to insurance that maybe appropriate for an OFTO asset during any further revenue period?	No response.