OFTO End of TRS

Subject: Consultation Concerning Policy Development

Response from Semco Maritime

Executive Summary

Semco Maritime is pleased to have received this consultation and to supply our responses. We encourage Ofgem's outreach at all times and would endeavour to support this regulatory review in any way our capacity affords.

We are responding in our capacity as a potential bidder for OFTO assets: we have recently been involved in consortia called Core Transmission Partners that bid for a number of OFTO assets. In this consortia, Semco Maritime covered the scope for the entire O&M Wrap, sharing risk and gains with the equity partner, BBGI SICAV. We are also very familiar with the assets in question, having executed various service tasks on them, contracted by the incumbent OFTOS. Thanks to our involvement in the construction and operation of many offshore substations across Europe, we have in depth engineering knowledge which ensures that we provide holistic and robust solutions in our service offerings. An added advantage is that Semco Maritime, from our work in the oil & gas sector, are very familiar with issues associated with elderly offshore assets. The application of this toolbox ensures that Semco Maritime are always ready to propose optimised solutions.

We hereby commit our intentions to either offer full O&M and upgrade wraps for the depreciated OFTO assets and potentially to own and operate them as well.

Our responses are based mainly on our knowledge of the assets in question and the existing OFTO regime. In our responses we have considered both newer assets, which are larger in capacity and value, and the Tender Round 1 assets, listed below, which will be the first to reach the end of their initial tender revenue stream periods.

Asset	Capacity(MW)	FTV	TR
Robin Rigg East & West	180	65,5	1
Sheringham Shoal	315	193,1	1
Barrow	90	33,6	1
Greater Gabbard	500	317	1
Gunfleet Sands 1 & 2	173	49,5	1
Ormonde	150	103,9	1
Thanet	300	164	1
Walney 1	184	105,4	1
Walney 2	184	109,8	1

Semco have been involved with the construction & services of several of the projects listed above – notably Gunfleet Sands, Walney 1 and Walney 2. We have also been involved in the construction and services of many more recent offshore substations – 26 on EPC basis and over 55 on Services, and are the pre OFTO contractor for the OFTO assets of Hornsea One, the world's largest offshore wind farm.

We are currently extending our O&M offerings worldwide to cover all wind farm balance of plant items, including Transitions pieces, array and export cables, and onshore as well as offshore substations.

Semco Maritime's responses to the Consultation questions are found below.

Q1:

Five years prior to the end of TRS is prudent if the result of the health review is required to determine the economical benefits of continuing with the asset.

However if the decision to continue with generation has already been made, then two years prior the end of TRS would give better ground for a more accurate costing and evaluation of the asset's condition. There would also be a larger spread of data from the Main equipment, specifically the export cable, to make for a better review and forecast.

Based on our experience with maintaining aging offshore assets, the health review should take no more than 4 weeks (2 weeks Offshore, 1 week Onshore + 1 week preparation), with a further 3 weeks to conclude the review.

Q2:

It will be prudent for the asset health reviews to be carried out by an independent organisation & subsequently agreed by the generator, the incumbent OFTO & Ofgem. The review work, though, should be actively supported by both the generator and the incumbent OFTO by providing access to engineering documentation, SCADA & Maintenance reports, and access to interview their onsite (operational) employees.

Q3:

The generator should be responsible for the costs associated with the health review of the generation assets and a proportion (75:25; Generator:Incumbent OFTO) of the transmission assets. The OFTO should also contribute to the transmission asset review costs as it is in their interests & responsibility to demonstrate that the plant & equipment have been maintained in accordance with good industry practice.

Q4:

The generator would need to provide a Letter of Intent and/or signed declaration that the wind farm, subject to modifications required by the asset health review, would generate for the x number of years. The declaration should have substantial ramifications should the generator not live up to the guarantees to ensure that the generator lives up to their promises.

In strictest confidence, evidence that the their PPA covers the guaranteed, x number of years and that they are bound by strong terms and conditions for a robust delivery on the PPA.

Q5:

This would depend on how the scheme is extended.

- Would a shared revenue/risk scheme be incorporated between the Generator and OFTO? Then the costs should be shared.
- If the OFTO receives a new TRS scheme, the costs should be worked into the new TRS and spread over the new TRS period so the consumer does not receive a spike on Energy cost in the start of the new TRS. It might be a novel idea to base the new TRS payment directly in proportion to the number of MWh which get transported through. This will incentivise the generator and OFTO to cooperate ever more closely.

In any case, we believe the generator should pay a portion of the costs to enable an extension as the generator will benefit from an extended revenue stream, which was not really expected at the start of the project. The ratio of the cost share, however, should be determined on a case to case basis.

Q6:

An open competiton would allow for both lower costs and innovation, though it will require tender costs to be expended on Ofgem's side.
It will be very difficult to ensure that the incumbent OFTO does not have unfair advantage – They have owned and operated the asset for 18 years. We return to this in our response to Q8 below.

(From Q.7)It could be prudent to set criteria for which the extension period must go to retender – for example if the licence extension is greater than 5 years then competitive tender process must be followed. Likewise, if the TRS value is above £XXm. Outwith any of these parameters the licence could be retained by the existing incumbent for business continuity purposes.

Pros & cons to both approaches: If the current incumbent retains the licence for operatorship during the extension period then there are likely to be less interruptions to business continuity whereas if the licence was retendered and a new OFTO awarded the licence they could bring a different perspective /approach to the ownership and reduce costs. Another advantage of retendering is that many of the incumbent OFTOs are likely to be led by staff with a narrow focus on financial structuring and reducing the cost of capital. This will be less appropriate for fully depreciated assets: instead O&M quality and efficiency are likely to be most critical factors.

Q7:

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Q8:

Ideal scenario for a level playing field: Incumbent OFTO and all its affiliates are excluded from the bid. However this is difficult to implement in practice.

We have therefore tried to outline some potential modes of omitting components which can differentiate the incumbent OFTO with detailed asset knowledge and a new bidder:

1. The incumbent OFTO is only allowed to **own** the assets but there has to be an independent company who assumes the O&M wrap. The tender process & costs for this would be carried out by the OFTO. The OFTO will then be required to play open book with OFGEM, proving that they have carried out a stringent, unbiased process for achieving competitive prices for both the financing and O&M contracts. The evalution cost is then placed mainly on the OFTO and relieved from Ofgem. The additional benefit here would be that there is more market confidence that the risk is minimised since the same OFTO owns and continues management of the asset.
2. The structure and form of the TRS can be re-thought. Payment against the number of MWh being transported through rather than availability. Reward/Fine scheme towards both the Generator and OFTO. This would incentivise newcomers, such as Semco Maritime to both own and operate the asset. In order to have more skin in the game, Semco would offer the

Generator to do the services for the Transition Pieces as well, making the payment per MWh more motivating for both parties.

3. Insurance costs and contingencies. Ofgem rates the asset and arranges for insurances and contingencies which all bidders have to use – at the same prices. This will make the bid purely a competition on financing, life extension and O&M costs between the bidders. Ofgem may need to shoulder some risk here. But we believe that a cost-risk comparison will prove this worthwhile.
4. The incumbent OFTO will have to divulge all necessary and critical information to enable the new bidders to make an informed decison. These documents would be SCADA information, Service reports, Repair reports, Spare part consumption reports and the like. Independent bidders should also have the right to recieve additional information they request from the incumbent in the course of the bidding process, unless the incumbent can prove to Ofgem that this is inappropriate. The OFTO will be liable to claims if found that they have witheld information.

Q9:

Timelines seem reasonable & fair.

Q10:

This decision has to be made in conjunction with the Generator. There could be a potential need, if the generator is going to upgrade the turbines which could increase the production capacity, for the OFTO to include a capacity upgrade in the transmission asset as well.

So the question would end up being for how long will the life of the generation assets be extended, and would there be any capacity increase.

There is no reason we can see to place limiting clauses on the second revenue control period, as the required length of the life extension should surface naturally from the state of the assets and the generator's plan.

Q11:

The building block method would be the most prudent in our opinion as the cost plus has a tendency to create extra administration and can be a cause for extra claims.

The building block method would allow for more transparency and give new parties a chance to bid and create a competitive scenario. And this could help remove some elements of 'unfair' advantage if the incumbent OFTO is a bidder as well.

A potential alternative could be that the TRS is paid per MWh transmitted or to make the MWh throughput as part of the TRS. The philosophy with such a payment scheme might give confidence to both insurers and lenders/investors to further bring costs down on rates and premiums as the generator and OFTO are incentivised to cooperate.

Q12:

A set cost mechanism would serve best to reduce administration and avoid arguments and thereafter claims for differential treatment. This will also incentivise the winning bidders to continue their appetitite to bid and win more assets to achieve economies of scale – the only way to beef up margins for the bidders and to achieve long-term savings for consumers.

It must be left up to the bidders to evaluate their business cases based on a set cost mechanism.

Q13:

Since these assets are smaller, it might be a good idea to bundle more assets which are located close to each other, into one package. This would incentivise the bidders to find cost optimisation based on economies of scale.

This would be then a known element rather than bidders having to gamble on the potential of achieving economies of scale.

Q14:

Only steel scrap value, minus the cost of removal, environmental handling and transport. The OFTO asset will only be valuable if they are needed to remain in service.

Q15:

Yes subject to any plant modifications that are required to enable the extension to occur, and that they are subject to expert judgement.

Q16:

Expectation would be that decommissioning costs would be similar to that of the initial TRS period, unless environmental laws change drastically.

Q17:

Yes, it would be unfair on any new OFTO to be liable for liabilities within the initial licence period. The slate must be wiped clean at the start of the new TRS period.

Q18:

Our brief feedback from the market is that insurance companies are not very willing. They are also extending risk gravity to the turbine foundations as well now, though this does not pertain to the OFTO asset. There is a general fear towards subsea components.

Q19:

No comments.

Q20:

This response is specifically for the export cables and assuming that burial has been in order during the initial period.
Depending on the number of faults and their following mitigation actions and if it proves that the cables have not been unduely stressed(overloaded) during the initial period and the faults have been caused by external causes such as ship anchors, then it has a very low risk for the extended lifespan. So, individual policies for each OFTO be avoided and Ofgem could potentially provide a blanket policy(self funded or with an insurer) for all 'secondhand' OFTOs. The new OFTO would have to be liable, however, for faulty operations with an all risk insurance.

Q21:

As the cables are all different in construction, a centralised solution may not be effective. Additionally we run the risk of all eggs being placed in one basket.
However this topic deserves some expended resources to investigate innovative solutions.
Third party cable, cable joints & cable repair kit manufacturers are being born which would bring innovation and alternatives to the market. The development of drone technology is exponential and there is much research being poured into underwater cable and pipe works. However, we have not yet stumbled upon a tangible solution as of yet.

A joint(blanket) solution on insurances would be beneficial.

Q22:

Yes, could be an option.

Q23:

We are executing an internal project which includes specifically, such a task. However, we have only just started on the insurance aspect and need to consolidate quite a number of components before restarting the dialogue with the insurers. We are looking at a timeline of 8 to 12 months before we restart the engagement.

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