

Offshore Transmission Owner (OFTO) End of Tender Revenue Stream – Consultation concerning policy development

Vattenfall Consultation Response

Dear Stephen Taylor,

Vattenfall is a leading European energy company with approximately 20,000 employees across Northern Europe and growing numbers in the UK. For more than 100 years we have electrified industries, supplied energy to people's homes and modernised our way of living. We now want to make fossil-free living possible within one generation.

Vattenfall has been investing in the UK for more than ten years, and with £3.5bn invested, we have grown our wind business from one project in 2008 to eleven today and now operate more than 1GW of wind and solar power capacity, with around 4GW in the pipeline.

Vattenfall welcomes the opportunity to respond to the Ofgem consultation 'Offshore Transmission Owner (OFTO) End of Tender Revenue Stream – Consultation concerning policy development'. We believe that extending the operational life of offshore transmission system assets and the associated windfarms could help to efficiently use operational assets, continue decarbonisation of the UK's electricity system and benefit bill payers.

As Vattenfall is a major UK offshore wind developer and operator, the end of Tender Revenue Stream (TRS) policy is of particular relevance to our Tender Round 1 Thanet and Ormonde windfarms, and our Norfolk offshore zone which is currently under development.

Executive Summary

From an offshore wind developer and operator's perspective, we believe that an option to extend the operating life of the offshore transmission system would promote the efficient use of operational offshore windfarms. We welcome Ofgem's view that, given the long project and investment lead times for offshore wind projects, key policy decisions on operating life will begin to be made over the next twelve months. We agree that this will allow efficient economic and project planning to take place and deliver best value for consumers.

There will be instances, based on project-by-project assessment, where operators will look to extend the life of their offshore wind assets. The decision to extend will be impacted by the regulatory frameworks, including the end of TRS policy, alongside an assessment of the commercial impact of additional years of generation compared to any additional investment and operating costs.

We believe that there could be a positive environmental impact from extending the TRS period. Vattenfall has undertaken analysis on Horns Rev 1, a 160MW Danish offshore wind farm commissioned in 2002. The analysis concluded that a lifetime extension of 5 years and 10 years could decrease the CO₂ emissions by approximately 18% and 30% respectively, compared to the original business case.

We believe that there are several key elements related to end of TRS that Ofgem could consider further, and note that some of these elements are being worked on, prior to Ofgem considering the next steps on end of TRS policy:

- The available incentive target for TRS extension period is important for both the windfarm and the OFTO. From a windfarm perspective we recommend high OFTO availability during any TRS extension.

The developer will need to factor OFTO availability into any life extension business case, so it is critical that OFTO availability is understood early in the process, and the developer is confident that availability will be high.

- We believe that when assessing a possible TRS extension whether or not the generator wishes to assess the option to generate beyond the initial TRS period is critical. If the generator does not believe there is merit in assessing this option further additional TRS extension work may not be necessary.
- We note Ofgem's view that assets health reviews should be completed at least five years before the end of the initial TRS for the generation assets, and at least four years before the end of initial TRS for the offshore transmission assets. We believe that these reviews could take place earlier than proposed, and the TRS process could start up to eight years before the end of the initial TRS. We note that the asset health of both the windfarm and OFTO will feed into any proposed TRS extension duration.
- The TNUoS impact of TRS extension is a key input in any life extension decision, therefore the windfarm operator needs a clear understanding of the TNUoS costs early in the process. This applies equally to a building blocks or cost plus model. In this regard, the costs of asset improvement and operation should be transparent and efficient.
- Ofgem should assess whether there is a viable investment market for OFTO ownership in the extension period to drive an economic and efficient tender process, or whether alternative mechanisms need to be explored.
- It may be economic to allow an OFTO the freedom to optimise its insurance arrangements for any additional revenue period, and to cost effectively manage the risk, without additional licence restrictions.
- Consideration may need to be given to interface agreements and licence provisions if these are aligned to the initial TRS period.
- We believe that offshore life extension proof points are fairly limited globally, therefore Ofgem could review the TRS policy after an initial period to ensure it is driving efficient outcomes.

If you have any queries on our response, please feel free to contact me.

Yours sincerely,

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Questions:**Section 3.1: Establishing whether extending offshore transmission system regulatory revenue periods is in the best interest of electricity customers.**

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.

We believe that clear and transparent asset health reviews, for both the windfarm and the OFTO, are important elements in the life extension decision process. In order to properly assess the length of a life extension, we believe that the health of all operational assets should be considered holistically.

Timing of reviews:

We broadly agree with Ofgem's proposals that reviews of the generator's assets should take place no later than five years before the end of TRS. In addition, we believe that asset health assessments may be needed prior to this in order to allow for strategic planning, and that a one-off assessment of the generator and OFTO asset health performed in series may not provide a clear picture of asset deterioration.

We recommend continued dialogue and review, between the generator and the OFTO, at the earlier of eight years before the end of TRS or at the point when any major risk of asset failure on the OFTO becomes apparent. This would enable the generator and the OFTO to take appropriate early measures and also allow the tracking of relevant or critical items over a longer period, providing a more accurate forecast of future lifetime investment. We believe that a longer assessment timeframe might be needed if:

- Ofgem's intention is to tender the OFTO asset for an anticipated extension period.
- If long lead time items are required, for example, replacement sections for the export cable.

In addition, a longer period allows for the generator and OFTO to fully plan for a longer asset life.

It may be that the generator sees no merit in life extension at the outset, therefore the generator's initial view should be established prior to asset reviews taking place.

Ofgem input:

Cooperation and information exchange between the OFTO and the generator is an important element to consider when optimising the generation system, for example coordinating outages where possible during the initial TRS period. We consider this element to be even more important during a TRS extension, where OFTOs and generators may need to consider the health of assets and there are likely to be cost savings from co-ordinating refurbishment of the generation and transmission assets.

We believe that Ofgem may need to create a defined process to ensure that information exchanges, and cooperation between the generator and OFTO are smooth and timely, especially if the TRS extension is due to be tendered. Ofgem could consider using OFTO licence conditions to drive this process.

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.

We believe there is merit in each organisation (the windfarm or the OFTO) carrying out asset health reviews of their own assets. It is likely that these reviews would be performed towards the end of the TRS period under current circumstances, so we do not believe that this obligation is particularly onerous for the OFTO.

We agree that input and agreement from the third parties (Ofgem and the OFTO/Windfarm) could be a helpful part of the asset health review, and this input could be critical in determining the length of life extension (especially if an OFTO is to be re-tendered).

We believe that the design of the end of TRS scheme could drive different outcomes when it comes to asset health monitoring and investment. For example, if the incumbent OFTO continues to own and operate the asset, with a high availability target, they have a clear incentive to assess the health and invest in any additional remedial works. However, if the OFTO is re-tendered, with a high availability target, the current OFTO may not be incentivised to assess asset the health and invest in the asset.

If Ofgem believe that the scheme design creates a health review assessment risk the regulator could consider creating a baseline scope for asset health assessment or amending the OFTO licence conditions to include asset health reviews, shared with Ofgem and the generator, at specific intervals starting eight years from the end of TRS.

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

We believe that the party undertaking the review is best placed to pay for the assessment, therefore we believe that the generator should pay for the review of their assets and the OFTO should pay for the review of the transmission assets.

In our view, alignment between the two reviews is important and without this the costs of asset reviews will increase. Therefore, we believe there could be merit in Ofgem working with industry to define a baseline asset review scope for end of TRS assessments.

If the OFTO asset is ultimately re-tendered Ofgem could consider whether a cost reimbursement, where the original OFTO is paid for asset health review by the new OFTO, as part of the tender process is appropriate.

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

The decision to extend the life of a windfarm is based on the developer's best view of asset health, costs, availability and revenues at a point in time. Over the life of operation these factors can change, and this may lead to asset lives being extended or reduced. However, developers may wish to increase the life of their assets past the TRS period, especially where it is economic to do so.

At the initial point of asset life discussions (prior to asset health reviews) generators will be able to confirm an intention to explore life extension options, however further progress will be dependent on the outcome of reviews and the commercial modelling (where TNUoS costs have an important impact and need to be known early in the process).

Once the asset health reviews are completed for all assets, the generator should be better placed to provide a view on an intended life extension and the length of the period. We note that, as with current operations, during the life extension period the windfarm could be subject to risks, and there may be unexpected occurrences that impact on the commercial viability of the project. Where asset health is a concern for individual turbines nearing the end of their commercial life it is more likely that a specific turbines could be decommissioned early, as opposed to the whole site.

When extending the life of a site the generator will need the required permitting, decommissioning and board level approvals, therefore a developer will require a strong indication of the desired length of life extension.

Section 3.1.1: Further Investment

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

We believe that the incumbent OFTO should be required to ensure that the transmission asset is maintained and operated efficiently up to the end of the current TRS period, and believe that the availability incentive goes some way to driving this outcome.

Where further investment might be needed to operate beyond the current TRS period we believe that this should be financed by the new OFTO owner, and the costs of investments could be included as part of a tender process (if Ofgem deem a re-tender appropriate).

We note that this process would rely on early identification of any additional investment and an early re-tender, especially where long lead items are required.

We see a possible challenge if investment needs to take place prior to a transmission asset transferring to a new OFTO owner, and how interactions between OFTO owners would be managed. In particular, any impact on the availability mechanism may need to be considered if significant outages are needed to complete life extension works. We note Ofgem's view that works needed before the TRS extension could be performed by the incumbent OFTO and recovered via the remaining TRS. We broadly agree with this approach as the incumbent is the asset owner and has the best understanding of the offshore transmission system at that point in time, however the TNUoS impact over a limited TRS period should be considered. If works are not fully covered via the incumbent's TRS before the end of the original TRS period, Ofgem could consider re-imbursing the remaining cost as part of a re-tender process (if a tender is appropriate and a new OFTO is due to take ownership of the system) and recovering the cost over the TRS extension period.

We believe that delayed investments, that are shifted to the TRS extension period, may impact on the availability of the transmission asset, during the current or subsequent TRS periods. This could lead to an adverse effect on the business case of the generator. Therefore, we welcome Ofgem's view that mechanisms to promote investment during the current TRS period will be considered.

There may be ambiguity around whether the works are required for a TRS extension or whether the works are required to meet the current TRS obligations, so this needs to be clear in the asset health reviews.

We note that ordinarily the OFTO is in control of the maintenance of the transmission asset, and the OFTO owners (be that incumbent or new) may be better placed than the generator to establish and commit to any further investment needed to prolong the life of the offshore transmission system. Recognising that maintenance and refurbishment of the OFTO assets whilst controlled by the OFTO is usually done in coordination with the generator. We believe that the generator could establish and commit to further investment if the generator were to become the offshore transmission system owner post initial TRS.

We also note that TNUoS costs are an important commercial element when considering life extension options, so an early understanding of the cost impact to the generator is important.

Section 3.2: Extension options

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

We believe that there may be situations where an OFTO re-tender delivers the most efficient outcome for consumers and generators, for example if the TRS extension is longer, significant investment to refurbish the

OFTO is required and there is competitive appetite to deliver an economic auction result. We would caution against a re-tender where competitive tension is not adequate as this may not drive an efficient outcome for consumers.

If the TRS period is short, the costs of running an auction may outweigh the benefits or there may not be enough competitive tension to deliver an economic auction result. Ofgem could consider offering the TRS extension to the incumbent OFTO (or a/the single bidder) at a fair regulated rate of return.

If the incumbent OFTO does not want to extend the TRS (despite there being an overall commercial case for an extension) we believe that the OFTO asset should be passed to the generator to own and operate. We acknowledge that this may require unbundling derogations which would be justified by the benefits of efficiently extending the life of the windfarm and the OFTO.

We would caution against the use of the OFTO of last resort, or obligating the incumbent OFTO to continue to operate the offshore transmission system. An obligated OFTO would be forced to take on the responsibility and cost of the asset and this may have unintended consequences for the generator and electricity system.

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 value?

We agree that Ofgem should only re-tender where it is economic to do so. If the TRS extension is short, for example less than 5 years, or where competitive tension is limited, Ofgem could consider offering the TRS extension to the incumbent OFTO (or a single bidder) at a fair regulated rate of return. There should also be transparent pricing so that there is clarity on the work and expenditure to refurbish the assets and that this delivers value for money.

If the incumbent (or equivalent) does not want to operate the asset at a fair regulated rate of return, Ofgem could consider passing the offshore transmission system asset to the generator for the remainder of the offshore transmission system asset life.

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?

In order to ensure a fair tender between OFTOs, Ofgem should carefully consider the data room and information disclosure requirements. We believe that full operational performance, maintenance regime and condition monitoring records should be disclosed, alongside asset health reviews.

The data room should clearly show any additional investment needed for the OFTO asset to operate at a high level of availability for the whole of the TRS extension period.

It is important that bidders have access to all the information required to undertake a thorough due diligence process so that they can submit a competitive bid.

Ofgem could consider whether a third party review of documentation is necessary or whether the incumbent OFTO should provide guarantees over the quality of the data room information.

Prior to a re-tender taking place Ofgem should ensure that the technical and financial competencies of all the bidders are to the required standard.

From a generator's perspective the availability of the offshore transmission asset during the extension is fundamental to commercial operations and life extension planning. We note that Ofgem are considering this element outside of the current consultation.

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

We note Ofgem's proposed timeline to confirm a minded to position four years before the end of the existing TRS, and a final decision at least two years before the end of the existing TRS. We believe that these dates are indicative of the latest possible decisions and ideally, we would propose starting these activities earlier (to align with an earlier asset health review).

We believe that an earlier process would allow the generator and the OFTO more time to access the implications of life extension and seek the required approvals and implementation to operate beyond the existing TRS period. An early decision by Ofgem will also leave more time for ordering any required long lead time equipment.

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?

We believe that allowing the generator the flexibility to propose the length of the primary extension period, taking into account asset health reviews and commercial implications, would be a sensible starting point for a primary TRS extension.

It may be that asset lives are then re-assessed and subsequent TRS extensions are deemed economic, if a clear process for TRS extension has been established we believe it could be in the interest of consumers and the electricity system to grant further TRS extensions. We do not believe that asset lives should be unduly restricted, especially where a clear extension process has been established.

Alternatively, a base TRS period could be established with an option to extend subject to mutual agreement by the generator, the OFTO and Ofgem, and if deemed appropriate. We believe that extension periods or extension options would have to be bespoke, taking account of design life limits and maintenance.

Any further extension to the TRS or exercise of an extension option would need to be established in a timely manner allowing both all parties to plan for a longer asset life. Ofgem could consider including clear milestones in the regime, for example three years before the end of the extension period.

Section 3.3: The tender revenue stream for any further regulatory revenue 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 both of Ofgem's proposed cost methodologies could suit different elements of the cost associated with TRS extension. For example, the building blocks approach could be more appropriate for establishing the operational cost base (operations and maintenance, insurance, lease costs). Whilst the cost plus method might be more appropriate for any bespoke capital investment needed to increase the operational life of the offshore transmission asset.

Ofgem could consider splitting the cost approach by additional capital and operational costs.

If the cost plus methodology is used, it is important that the generator is able to forecast any TNUoS cost impact at the life extension decision making point, as TNUoS is a significant operational cost for the windfarm and may impact materially on the economic case for life extension.

We propose that a full business plan for any cost plus options are shared with the generator and subject to review and benchmarking by independent experts to ensure they are economic.

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?

As per question 11, we believe that a building blocks model could be used for standard operational costs and that a cost plus method might be needed to determine any additional capital investment or bespoke costs associated with a specific offshore transmission asset life extension.

We believe that the vast majority of standard operational costs should be determined and forecastable at the re-tender point.

The cost plus method could be bespoke depending to the risk profile of each project and the length of extension, as each project will have its own technical and operational challenges. These challenges will be well understood and should be made transparent by the incumbent early in the process to allow them to be factored into commercial modelling and any OFTO re-tender.

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?

We expect that any additional investment required to repair corrosion could be both costly and very project specific, therefore these costs may need to be carefully considered by the regulator and bidders.

We also believe that the provision of spare parts might need to be considered by Ofgem, especially if additional spares are needed for any TRS extension period. For example, any cables, joints, T-connectors, switches, cooling system and converter elements.

If the refurbishment of the offshore transmission assets requires changes to generator assets, for example, a new offshore transformer requiring new or refurbishment work to generator inter-array cables those non-regulated costs should be considered when assessing the solution which is most economic and efficient overall.

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?

We believe the initial OFTO asset should be fully depreciated at the end of the TRS period, therefore the market value could be deemed as the residual value (scrap value plus any re-use of componentry).

There may be occasions where life extension works are competed within the initial TRS period, to allow for a TRS extension, in these circumstances the OFTO asset value may be higher than the residual value.

We believe that OFTO owners should have an understanding of the residual value of their assets in order to calculate an internal view of decommissioning liabilities.

Ofgem may want to re-consider their approach to end of regulatory revenue period market value as the Offshore Transmission Network Review (OTNR) progresses, and if the review identifies any further use of the reliant offshore transmission assets.

Section 3.3.1: Decommissioning fund

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

We agree with Ofgem's view that the decommissioning funds should be transferred from the incumbent to new OFTO owner (if a re-tender leads to a change in OFTO ownership). We believe that the OFTO who owns the asset at the end of life should take full responsibility for the decommissioning. In this regard, if OFTO ownership remains with the incumbent then the incumbent should be responsible for decommissioning.

We note that the decommissioning fund and liability is taken considered when bidding for the original TRS, therefore by the end of the initial regulated revenue period the incumbent OFTO would have already received the revenue relating to their decommissioning liability. Therefore, we do not see this as a barrier to transferring the liability to a new OFTO owner.

If a competitive tender is appropriate, we believe that the decommissioning reports, funds, liability and independent evidence of the adequacy of funding should be fully disclosed in the OFTO data room. This approach would allow potential bidders to perform adequate due diligence and assess any decommissioning risk.

We note that for OFTO assets mid-life accruals should be put in place by year 10 and completed by year 20, we believe that the incumbent OFTO should put full securities in place before any OFTO transfer process takes place.

If additional TRS extension works take place that increase the decommissioning liability, then the decommissioning liability should be considered alongside any additional capital costs.

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?

This is difficult to judge and would be dependent on a number of moving market and regulatory factors, it may also depend on whether any additional investment is needed to allow the OFTO to operate beyond the original TRS period.

We do believe decommissioning liabilities could be more accurate when assessed closer to the end life of the asset.

Section 3.3.2: Financial Security

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?

We agree with Ofgem's view that outstanding availability liabilities should be settled by the incumbent OFTO at the end the initial TRS. We agree that the owner of the OFTO during any TRS extension period should put securities in place to cover any availability liabilities outstanding at the end of the further regulatory revenue period.

We note, and agree with, Ofgem's view that the anticipated value of the security would be lower because of a likely lower TRS value; and consider it appropriate that the level of cover would remain at 50% of the indexed linked TRS value.

Section 3.3.3: Insurance

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?

As LEG3/06 is an exclusion, just removing it from an All Risk policy increases the level of cover as it affirms that there is full All Risk cover, including damages caused by defects. However, if LEG3 is replaced by LEG2 or LEG1 there is a reduction in cover. Typically, you would expect such a reduction to happen when there is a known issue with the transmission assets.

It is impossible for insurers to revert to full defects cover on a cable where an inherent defect is known to exist. This would go against the principle of fortuity (unexpected, unintended) damage for example, an insurer cannot write cover against a “known” loss potential. Effectively the only way to get full cover back is to replace the cable with defects with a new, sound cable.

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) for the period of any further revenue period?

Currently full defect cover, cover not subject to any exclusion, is available in the market for operational defect free assets (where the technology is proven, fully tested and commissioned).

However, we expect the availability of full defect cover to reduce in the future, particularly for construction phase insurance, and the maintenance/discovery cover therein. Construction cover may be relevant for any major transmission refurbishment carried out at the start of any further revenue period to extend the life of the OFTO.

As some of the OFTO assets will be twenty years or more in age at the time of any extension and may exceeded their original design life during the extension period, the likely availability of LEG3/06 exclusion clauses (or equivalent) is expected to reduce and the cost increase. This is particularly the case as the insurance market is cautious and is not keen on providing LEG3/06 exclusion clauses or equivalent. Aspects such as offshore platforms with very specific design lives may cause issues.

However, we expect that unavailability of cover is much less of an issue for end-of-life Operational All Risk insurance policies.

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?

If one is talking about pure project timeline extensions then defects arising from design or installation should have manifested by the time of any extension, and full defects cover is available for operational assets. If however, there is need for investment/projects/Construction All Risk (CAR) insurance to achieve a lifetime extension, we agree achieving LEG3-cover may be difficult for those new installations.

Importantly, our experience strongly suggests that the decision on the extent of insurance purchased should be left to the OFTO implementing the investment who should have the freedom to manage their own risks and so to deliver value for money. This approach will deliver the most cost-effective package of insurance and other risk management measures, keeping the TRS down and resulting in a lower TNUoS charge which in turn delivers value for money for consumers and the generator.

It is not likely to be economic and efficient to obligate LEG3/06 (or equivalent) insurance clauses in any further revenue period. If OFTOs are able to procure economic and efficient LEG3/06 (or equivalent) insurance they will reduce commercial risk and maximise their chances of winning a re-tender. If economic and efficient LEG3/06 (or equivalent) insurance is not available, OFTOs should not be required to buy it.

In particular, it makes sense to give bidders this freedom regarding insurance against the background of a cautious insurance market which is not keen on providing LEG3 insurance.

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?

Based on our experience, an industry or government pool type solution may not work at this stage in the development of the OFTO insurance market – we believe this market may be too small, with an insufficient spread of risk.

There is adequate insurance capacity available for operational OFTO assets, although some will have – fully reasonable – exclusions for known defects. In our view, there is no need for additional capacity in that market.

However, the fact that LEG3 cover is disappearing from the Construction All Risk market is an OFTO industry wide problem, if you look at it from a new-build/lifetime-extension-investment point of view. For new-build/lifetime-extension-investment we could imagine Ofgem or a mutual insurance pool acting as a Difference in Conditions (DIC) insurer for OFTOs that cannot achieve the cover required. DIC insurance is a type of policy that provides expanded coverage for some perils not covered by standard insurance policies and is designed to fill in gaps in insurance coverage.

The more important OFTO insurance problem is the availability of LEG3 on CAR insurances, and for this a pooled scheme could potentially provide further insurance capacity, which would push premiums down. It would also support the development of the insurance market and encourage investors.

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

In our view best value for the consumer and the generator is provided by giving a prudent OFTO the commercial freedom to optimise its overall approach to risk management. This approach would normally include appropriate, cost effective insurance and other tools such as manufacturer's warranties incorporating performance guarantees.

Thus, we would not rule out OFTOs operating assets with reduced insurance to first failure as a viable option where the OFTO has carefully selected this as value for money and has put in place an appropriate package of risk management measures. Such a decision should be made in consultation with the generator.

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?

Yes, we are investigating other potential approaches to risk management that may be appropriate for an OFTO asset during any further revenue period, including self-insurance, optimised deductibles and optimised cover. All these tools should be available to an OFTO to decide what risk mitigation strategy it employs. When an operator has the risk on its own balance sheet this acts as an incentive against having losses.



We are keen to work with Ofgem and OFTOs to find the approach to risk management which delivers the best value for money for consumers and wind farms who jointly pay TNUoS charges which cover the costs of the OFTO, and are most at risk if OFTO availability falls.