

Stuart Borland
Deputy Director, Offshore Network Regulation
Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

09 December 2022

Dear Stuart,

Offshore Transmission Owner (OFTO) Licence Amendment Consultation (11 November 2022)

I am writing to you on behalf of Transmission Capital Partners (“TCP”) in response to the above Consultation, regarding proposed changes to the OFTO licences for the nine TCP transmission assets, (including Robin Rigg, Gunfleet Sands, Barrow, Ormonde, Lincs, Westernmost Rough, Dudgeon, Beatrice and Rampion).

TCP is also preferred bidder on two further transmission assets; East Anglia One and Moray East, for which licences are yet to be issued. We understand that these will be the subject of a future consultation on the same matters.

TCP are supportive of the proposed changes to the licence, subject to Ofgem providing clarity around the following:

- Timing of reimbursement of costs/expenses incurred in the carrying out of “Health Reviews” and “Investment Works”
- The definition of “Investment Works”
- Process for establishing and governing relevant “guidance” for investment works
- How changes in the base decommissioning guidance could be allowed for
- Extending the principle of allowances for incremental investments as per condition E17

Timing of reimbursement

Ofgem’s proposals are based on the established claims mechanism. This would only allow cost/expenses incurred on Ofgem approved Health Reviews or Investment Works to be recovered *ex post*. While the cost/expenses for a Health Review are likely to be relatively modest compared to the overall revenues of an OFTO, the Investment Works are unknown and could be significant enough to impact on financial health. TCP would wish to clarify that the proposed claims approach, based on an Ofgem approved scope of works, would not rule out providing upfront funding. This would see an immediate claim made upon approval of the scope of Investment Works, enabling a revenue adjustment to provide funding for the approved works based on agreed estimated costs. A subsequent true-up would be undertaken once the works are completed and final costs are known.

Taking this approach would better enable Ofgem to meet the stated objective that any revenue adjustment “...ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if the Investment Works had not been carried out and if not”. Such an approach would also allow the additional revenues to be collected over more years and reduce the volatility on transmission charges. In all cases, the revenue adjustment should allow for the financial position and performance to be maintained on a value-neutral basis, taking account, if necessary, the costs of financing these works.

Clarification of “Investment Works”

The wording defining “Investment Works” (within the section that sets the “Formula for an Investment Works cost adjustment (IWt)”), is ambiguous and could be inferred as imposing additional obligations on the OFTO.

We would propose that the wording is revised to clarify the intent, i.e. that it is the purpose of the guidance to ensure the investment works that are approved are adequate so the assets can continue for the additional period (as determined by Ofgem).

Establishing and governing the guidance

We would expect Ofgem to consult on the guidance, referenced in the new clauses, before it is issued. This will allow OFTOs and interested parties the opportunity to input into how Ofgem will approve the scope of Investment Works (as necessary to achieve the required life extension for the OFTO assets). This will provide Ofgem with a range of industry views on asset health, risk etc to inform the guidance, sourced from a wide range of practitioners with experience of operating and maintaining the assets.

We would anticipate this important guidance will be governed in a similar way to other key industry governance documents, e.g. the Network Innovation Competition governance documents, whereby Ofgem consults and carefully considers the responses it receives before approving or making changes to the guidance.

Changes in decommissioning obligations

TCP is supportive of Ofgem's proposals regarding decommissioning, which seek to address some of the specific issues that are currently known and fall outside of the control of the OFTOs, i.e. those concerning the treatment of scrap value in the calculation of securities and adjustment if VAT becomes chargeable.

TCP would also propose that Ofgem introduces an overarching mechanism, which allows for revenue adjustment claims, whenever there is a change to the base decommissioning guidance or a Secretary of State decision leading to changes in decommissioning programmes. This would lower the regulatory burden by avoiding repeated industry consultations for each specific change in guidance or decision by the Secretary of State, while retaining Ofgem's scrutiny over the efficiency of the solution proposed by each OFTO.

Extending the principle for allowing incremental investments

We would also welcome the opportunity to discuss how the clarification of the Incremental Investment incentive could be further broadened, beyond meeting obligations under E17. For example, TCP has identified there is no clear route for OFTOs to secure cost recovery for investments to maintain compliance with the SQSS (an obligation in the STC) that result from changing system background conditions. Where such issues have been identified in advance, we have sought specific Contingent Event adjustment e.g. Beatrice, where investment works to address sub synchronous voltage oscillations on the NETS to recover costs or expenses incurred as a result. As the OFTOs become more integrated through initiatives like Offshore Coordination, and the drive to connect via fewer onshore substations, there is increasing likelihood of wider system issues impacting on OFTO networks.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Chris Veal', with a stylized, cursive script.

Chris Veal

Director