

9th December 2022

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

Dear Stuart

Consultation on proposed modifications to Offshore Transmission Licences

We set out below our response to the Authority's consultation on proposed modifications to offshore transmission licences dated 11th November 2022 (the **Consultation**).

End of Tender Revenue Stream

We agree with the Authority's proposal that allows all Offshore Transmission Owners to claim for pass through items for the cost of carrying out health reviews and investment works, as this will keep the OFTO's risk profile constant. We consider that the Authority is adopting a pragmatic approach regarding asset health reviews and investment works by allowing OFTOs to claim for lost availability for outages of up to and including 7 days. We believe that the best solution would be for the OFTO to agree in advance with Ofgem the forecast duration of each outage and to classify the outages as 'Generator requested outages', meaning that there would be no need for the OFTO to submit an EE claim, providing certainty for the OFTO and avoiding both parties incurring time and cost of drafting, reviewing and agreeing an EE claim.

We agree with the Authority that costs incurred for asset health reviews should be reimbursed. However, we are unsure why these would be subject to an economic and efficient test. These reports are likely to be factual in nature and project specific. The scope of these reviews and the methodology proposed will be conducted in line with the Authority's proposed guidance and; will be shared with and agreed with the Authority in advance, so it seems superfluous to carry out an economic and efficient test. We are concerned that this creates regulatory uncertainty that the OFTO will be at risk that the Authority may seek to disallow costs incurred for asset health reviews. However, if the Authority wishes to maintain this position then it should set out detail on how it will apply economic and efficient tests in this respect.

We can see that the economic and efficient test may be more relevant and pertinent for investment works, especially for works that are not straightforward and which may require much longer outage periods, construction, testing and commissioning works. We have concerns that there is a chance that the cost recovery arrangements could have negative implications for OFTOs, that is, there can be long lead times between investment decisions, raising associated claims and receiving the funds. One way to get round this is to allow OFTO's to classify any lost availability through a generator requested outage as per Amended Standard Condition E12 J4, which then negates the need for OFTO claims and will minimise the administration required by OFTO and the Authority to progress and conclude claims. In respect of the reimbursement of investment works, the Authority should consider (depending on the size of the claim and complexity of work involved) the investment works to be approved by the Authority in advance. On this basis, we believe that it should be possible for the OFTO to be paid for these works in advance, with any underspend or justified overspend taken into account at the next regulatory reporting period. This approach is required to minimise the financial impact on the OFTO by avoiding the need for the OFTO to fund the investment works and incur interest costs.

Changes to Decommissioning Costs

We agree with the Authority's proposal to allow OFTO's licensed in tender rounds 1 (**TR1**) to 3 (**TR3**) to recover additional costs or expenses incurred for value added tax (VAT) and as a result of the disallowance of scrap value from TR4 onwards.

Although it is not mentioned in this consultation, we would like to take this opportunity to reinforce a view made to Ofgem by all OFTOs collectively through the ENA OFTO Forum: Any changes required by BEIS and/or The Crown Estate, to previously accepted OFTO decommissioning plans, for example the requirement to remove assets from the seabed, should result in the OFTO being reimbursed for any additional costs that would be incurred in meeting these requirements.

Incremental Capacity Arrangements

We are supportive of the proposed modifications to ASC E12-J4 Part C of all OFTO licences to make it clear that an OFTO can seek to recover costs where the OFTO has entered into an agreement with the system operator under SLC E17 and the OFTO incurs costs as a result of that construction.

Regarding the subject as to how the cost recovery process in ASC E12-J4 Part C would work in practice and also how/whether an OFTO can be protected for any outages necessary to facilitate increased capacity on the offshore transmission system, we would suggest: As with the response to point 2 above, the forecast costs of any planning and investment works should be agreed in advance between the Authority and the OFTO. This will allow for the OFTO to be paid in advance for these works, with any underspend or justified overspend taken into account at the next regulatory reporting period. As with the response to point 2 above, any outages required shall be classified as 'Generator required outages' and so negate the need for the OFTO to submit an EE claim.

We are supportive of the Authority's proposals in this respect.

Please do not hesitate to contact me if you wish to discuss any aspect of this response.

Yours sincerely



Jemma Sherman
Director of Greater Gabbard OFTO plc.