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Dear George,

**Re: Industry Response to the consultation regarding Offshore Transmission Owner  
End of Tender Revenue Stream – 2nd Policy Development Consultation 15 September  
2021**

*About RenewableUK*

RenewableUK's members are building our future energy system, powered by clean electricity. We bring them together to deliver that future faster; a future which is better for industry, billpayers, and the environment. We support over 400 member companies to ensure increasing amounts of renewable electricity are deployed across the UK and to access export markets all over the world. Our members are business leaders, technology innovators, and expert thinkers from right across industry.

*About OWIC*

The Offshore Wind Industry Council (OWIC), a senior Government and industry forum, was established in May 2013 to drive the development of the world-leading offshore wind sector in the UK. It is comprised of members drawn from the leading UK and global firms in the offshore wind industry, including developers and original equipment manufacturers. The Council oversees and drive the implementation of the Sector Deal

Life extension of the existing offshore wind fleet is critical to the UK's 2050 net zero target, and a life extension of 10 years would defer around 7GW of capacity from going offline by 2041<sup>1</sup>. It is therefore in the interest of all parties that a suitable framework is introduced that provides the best possible chance of extending the lifetime of this capacity. To that end we have three strategic points of feedback to the 2<sup>nd</sup> Policy Development Consultation on the End of Tender Revenue Stream (EoTRS), and a request for Ofgem to consider the merits of enabling an alternative option to put the UK in the most advantageous position to extend the life of its offshore wind fleet.

Firstly, Ofgem's objective of "maximising the operating life of transmission assets where it is economic and efficient to do so" is too narrow. This objective should instead ensure that the focus of the development of EoTRS policy is on maximising the combined life of offshore generators and transmission assets (together the "Wind Farm"). We urge Ofgem to ensure that the EoTRS policy considers all aspects of life extension of both the generator and transmission assets jointly. This will in turn ensure that the policy is best able to support the net zero targets.

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<sup>1</sup> The Crown Estate analysis, Customer Presentation 2022-07-26

Secondly, the decision to life extend an existing offshore Wind Farm is likely to be a marginal decision due to lapsing subsidy support and increased asset integrity risks. The ultimate decision will be based upon the individual business case for the Wind Farm. As such any additional risk, cost or complexity introduced at the EoTRS period will reduce the likelihood of life extension. We consider that the EoTRS policy as currently proposed may put at risk the life extension of the existing offshore wind fleet and the UK's net zero target.<sup>2</sup>

Finally, we also consider it important that Ofgem ensures the EoTRS is treated as a new mechanism and its own entity. Although the OFTO regime has been a success to date, the existing regime does not apply for the extension period. We encourage Ofgem to focus on ensuring the EoTRS policy enables optimisation of any life extension at the lowest possible cost.

Finally, as part of the Ofgem consultation process, we would expect that all potential avenues for EoTRS are explored and assessed against the relevant policy objectives. However, we note that the option for transmission assets to revert to the generator at the end of the initial regulatory period is absent. We set out our views on a possible regulatory pathway, as well as the benefits that such a solution could bring, below.

### **Generator Ownership Option – Regulatory Pathway**

We encourage Ofgem to fully consider the merits of enabling offshore transmission assets at the end of the initial regulatory period (TRS) to be owned and operated by the generator connected to that asset during the EoTRS period under a Class Exemption Order.

We recognise that electricity legislation does not currently allow a generator to be a licensed OFTO for its own radial transmission link. We have considered a range of approaches that could facilitate a potential solution, one of which is a Class Exemption Order. The Secretary of State could amend the Electricity (Class Exemptions from the Requirement for a Licence) Order 2001 ("Class Exemptions Order") to include a class exemption for offshore radial transmission links. This would be similar to the existing offshore distribution exemption under Section 4(1)(bb) already contained in the Order. The generator would then own and operate the radial transmission link under the class exemption without holding a transmission licence.

This option would apply to a class of generators, thus recognising the unique situation of offshore radial transmission links, most particularly that a generator cannot manipulate competition because NGESO directs the flow of electricity and not the owner of the radial link. The exemption should also only apply to a restricted class of generators where the initial expected lifetime of the link has expired. The Trade and Cooperation Agreement recognises isolated markets and accordingly does not appear to prevent a barrier to such an option. Further, there are parallels with the offshore distribution exemption under the Class Exemptions Order that could be used to support an application for such an order.

As far as we are aware, this option has not been fully considered by Ofgem to date, and we believe there are key benefits worth exploring. In our view, pursuing this option would increase the likelihood of wind farms submitting extension requests.

### **Generator Ownership Option - Benefits**

Many of the benefits of the generator ownership option are best demonstrated with the counterfactual of the EoTRS as currently proposed.

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<sup>2</sup> [UK enshrines new target in law to slash emissions by 78% by 2035 - GOV.UK](https://www.gov.uk/government/news/uk-enshrines-new-target-in-law-to-slash-emissions-by-78%-by-2035)

### *Aligned decision making*

The generator ownership option would facilitate joined-up decisions to be made for the life extension of the whole Wind Farm asset (wind turbines, balance of plant and importantly transmission assets). For the EoTRS period the generator can align lifetime assumptions in order to make targeted investments across all Wind Farm assets. Under current proposals the OFTO and generator are incentivised differently, meaning investment cannot be fully optimised.

Under current proposals the generator will be taking a life extension decision in the absence of certainty regarding costs in the EoTRS period, for example future TNUoS charges. The increased uncertainty regarding costs (and revenues) naturally means that risk allowances will have to be introduced into the business case, which risks making life extension economically unviable for the generator. The generator ownership option would allow the generator to make its own assessment of transmission asset costs with no associated risk allowances, improving the business case for life extension.

Once beyond the EoTRS the generator can continue to adjust investment and operational spend to further extend the lifetime of the asset. Under an OFTO ownership model, as currently proposed, there is no foreseen route for additional investment to further extend the lifetime.

Importantly the decision on timing of decommissioning of the Wind Farm assets can also be fully aligned, meaning the entire Wind Farm can be decommissioned together. Under current proposals decommissioning would occur separately which may increase costs and the impact on the local environment. Furthermore, there is little detail available in the EoTRS consultation on how decommissioning funds are to be treated and we urge Ofgem to establish a position to better inform the EoTRS cost model.

### *Cost Savings*

We believe enabling an option for the connected generator to take ownership of the OFTO asset at the end of the initial regulatory period could offer the lowest possible cost to the industry and GB consumers.

- The costs of a new tender could be removed if the transmission assets were to transfer to the generator at the EoTRS.
- Optimisation of the operation and maintenance (O&M) of the transmission assets alongside the generator should result in decreased O&M costs relative to the costs of the O&M for the offshore generation and transmission assets being carried out separately. In addition, no margin would have to be added onto the O&M costs as per the current proposals.
- The generator ownership option would avoid the need for a separate performance incentive payment for any extension period as the generator will be incentivised to ensure optimum availability of the entire Wind Farm.
- The treatment of would-be TNUoS needs to be fully considered within the scope of this option, to ensure that costs are allocated fairly.
- We think there may be wider value for money benefits when considering the counterfactual (OFTO ownership under the proposed EoTRS policy) compared to the proposed generator ownership option for any extension period.

We would welcome Ofgem's feedback on the benefits outlined above and are open to collaboration and further discussion on the need and benefits of this option, in order to find the most efficient, and best value, solution for consumers. We believe that without this option being considered, and in the absence of a detailed cost model, there is a strong likelihood that

existing offshore wind farms will not choose to life extend as the complexity, risk and costs will result in a more unfavourable business case.

**We would be more than happy to discuss any of these issues with you further.**

**Yours sincerely**



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