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Dear George,

Offshore Transmission Owner (OFTO) End of Tender Revenue Stream – 2nd Policy Development Consultation

SSE Renewables (SSER) welcomes the opportunity to respond to this consultation, please note that this represents the views of SSER only as a separate response is being submitted by SSE's transmission business. The terms developer and generator are used interchangeably throughout but are considered to mean the same thing, that being the wind farm owner having constructed the OFTO asset.

About SSE

SSER is the UK and Ireland's clean energy champion with plans to expand globally to deliver the green energy the world needs. Its strategy is to lead the transition to a net zero future through the world-class development, construction and operation of renewable power assets and it is building more offshore wind energy than any other company in the world.

SSE Renewables is part of SSE plc, the UK-listed integrated energy group which is investing £12.5bn over the next five years, or £7m a day, to deliver a Net Zero Acceleration Programme to address climate change head on. This includes plans by SSE Renewables to double its installed renewable energy capacity to 8GW by 2026 and ambitious targets to treble capacity to over 13GW by 2031, increasing output fivefold to over 50TWh annually – enough to be able to power around 20 million homes each year.

Our Interest in this consultation

Our short-term interest in this consultation emanates primarily from imminent considerations in respect of existing operational wind farms reliant on OFTOs nearing end of tender revenue stream (EoTRS) but extends more generally in light of the numerous other projects currently in operation

or in development. By way of background, SSE Renewables operate Greater Gabbard Offshore Wind Farm which is a joint venture between SSE Renewables (50%) and RWE Renewables (50%). The licence for Greater Gabbard OFTO plc was awarded on 26 November 2013 through Tender Round 1 with a revenue entitlement period of 20 years. SSE Renewables also operate Beatrice Offshore Wind Farm, a joint venture between SSE Renewables (40%), the Renewables Infrastructure Group Limited (17.5%), Equitix (17.5%) and Red Rock Power Limited (25%). The licence for Beatrice OFTO was awarded to Transmission Capital Partners (TCP) in July 2021 through Tender Round 6 with an Initial Revenue Term of 23 years. Our Seagreen Wind Energy Limited (Phase 1) offshore wind development, a joint venture between SSE Renewables (49%) and TotalEnergies (51%) is currently mid OFTO Tender Round 9 assessment with the Invitation to Tender (ITT) stage due to commence in October. No decisions have yet been made in relation to extending the operational life of any of our offshore wind assets.

Notwithstanding our ambitious development plans, in the interest of sustainability and limiting or delaying where possible use of finite natural resources, SSER fully endorse any initiative to extend the useful life of existing assets where it is economic and efficient to do so, acknowledging the societal benefit to be derived from a strategy that could represent a cost-effective contribution to the net zero by 2050 goal. In this respect, asset life extension fits with well the aims of the Energy Trilemma, however, SSER are concerned that both the additional risk borne by the developer and the broader impact on the cost to consumers associated with administering the OFTO life extension process as is currently proposed, could overshadow any potential sustainability gains.

Executive Summary

Before addressing the specific consultation questions, we will present a brief outline of the challenges we consider that Ofgem face in reaching a practical, cost effective and timely extension process in the form currently proposed and of the risks to the developer which we are concerned may jeopardise the viability of any extension proposition. We will expand upon those points later in response to the individual consultation questions where relevant – refer Appendix 1.

We note at the outset that in Ofgem's new objectives defined to facilitate development of the EoTRS policy, it appears that the desire to maximise the life of wind assets and the key role of the developer as the primary protagonist in the process, has been ostensibly overlooked. We note also, despite requesting Ofgem to provide information on the wider network implications in our response to the previous consultation, the absence of any reference to co-ordinated networks opportunities (Pathway 2030) and the impacts of that on the potential future operation of the OFTO assets.

Challenges posed by the current proposals

- Defining and making operational a credible and workable policy within the necessary timescale

Wind farms connected to OFTOs awarded in tender round 1 are already precariously close to the point at which decisions on the potential for life extension will have to be made (those with OFTOs reaching EoTRS in 2031 would have to commence the process in the next 12-18 months) without developers having any certainty over policy proposals let alone the market conditions driving any extension business case.

Ofgem's current proposals assume that the decision to extend the life of an asset can be made well in advance and without reference to the wide range of factors that would ordinarily underpin that business decision, such as market prices, ongoing fixed costs and critical information about the health of the OFTO, all of which would come much later in the process.

Indeed, policy decisions have not yet been outlined let alone consulted on in relation to key components driving initiation of the life extension process, those being the process for generators to request an offshore transmission asset extension and offshore transmission asset/generator health review requirements. It is crucial that developers understand what this is going to look like and how long it will take to get something up and running given that some wind farms and OFTOs are fast approaching EoTRS. Timescales are already extremely tight and as a pre-requisite for initiating the process we cannot see Ofgem's logic for delaying such a vital component.

- Providing flexibility

Ofgem must appreciate that where early decisions are required to initiate a lengthy assessment process, there will be a level of speculation and therefore uncertainty around those factors for the generator as well as in relation to its own continued diminishing asset integrity. The circumstances and assumptions upon which developers have made decisions to continue to operate are likely to have resulted in a very marginal business case which could alter significantly. Any policy considerations must be flexible enough to accommodate that changing view and not lock developers into a fixed extension period with associated unavoidable cost – if this isn't incorporated into policy it is likely that developers will conclude that the risk associated with asset life extension is too great and instead favour the greater certainty of new development.

- Justification of the costs associated with a re-tendering process

Although Ofgem state that their approach only provides for the option to run a re-tendering process with the objective of incentivising competitive incumbent bidding, the additional resource requirements at Ofgem alone suggest that the administration costs associated with re-tendering could never equate to an economic and efficient process

particularly given the limited and potentially highly variable extension periods. As we will discuss further later in the response, we question the need for competition in this scenario and urge Ofgem to consider more cost-effective alternative solutions.

- Arriving at a fair and justifiable estimation of extension revenue streams

Several of the components Ofgem suggest should make up the calculation of an extension revenue stream risk being construed as a doubling up of OFTO asset cost reimbursement e.g. assuming a positive nominal end of life asset value for assets that have been fully depreciated, including decommissioning costs already accrued during the initial revenue stream period, remedial costs that should for the period before EoTRS have been part of the initial TRS allocation, and bid costs for a bid process that may be superfluous to requirements. Whilst Ofgem acknowledge that ERS will be lower than the original TRS, we would argue that the level offered in any re-tendering scenario would need to be enough to pitch for and attract further independent investment and yet this has a direct negative impact on the developer's ability to build a business case to continue past end of design life. As we will discuss further later in the response, there may be merit in considering the option for OFTO ownership to revert to the developer to avoid the need for extension revenue streams as defined.

- Arriving at a fair valuation of the OFTO asset where transfer of ownership is required following a re-tendering

In a continuation of the challenge surrounding evaluation of an appropriate ERS, we consider that attaching any significant value to an asset that has been fully depreciated and for which a decommissioning fund has been accrued, would be contrary to any acceptable accounting principle and risks placing additional unsubstantiated burden on the consumer as well as on the developer in the form of the resulting TNUoS charges.

- Design of an appropriate and fair OFTO operator incentive/penalty system

One that adequately takes into account the range of different factors that are implicit in an extension scenario and provide the right level of protection to the developer e.g. higher more production aligned efficiency incentives, consideration of performance and developer satisfaction during the initial licence period.

Risks to the generator/developer and our asks of Ofgem

Ofgem appears not to have given due consideration in this consultation to the fact that the potential for asset life extension is driven by the risk versus return proposition and ultimately the developer's business case, whereby every £1 added to the extension revenue stream that will essentially need to be repaid in the form of TNUoS costs, for what could be a very marginal case

at best, diminishes that further. Since as developers, we have significant inherent uncertainty from not knowing how the merchant power market will look several years hence to make reliable extension revenue projections (given the loss of subsidy), the OFTO extension policy must represent best value, be as cost effective and provide as much certainty over other controllable factors as possible in order for end-of-life extensions to be considered viable.

Developers need greater control over the EoTRS review process and assurances that there will be some flexibility of approach to extension commitments. SSER contend that the developer should have access to the results of an earlier OFTO asset health check to provide clarity over expectations of future performance as compared with that which has been experienced during the initial licensing period, this is essential in consideration of the business case and in order to minimise the additional risks to which it is exposed during any period of extended operation beyond asset design life.

It would be a perverse outcome if the uncertainty associated with entering the regulatory process for asset life extension were dissuasive enough to consistently make decommissioning the most attractive option to developers reaching end of design life extension decisions.

We consider that the risks in respect of the following factors have the potential to jeopardise the operability of the OFTO extension process by directly impacting on our ability to make an informed decision on or arrive at a positive business case to extend asset life.

- Requirement for developers to initiate the asset extension process without the necessary data or policy to support decision making

As previously raised, and particularly with respect to our interest in the TR1 Greater Gabbard asset, we are fast approaching the point at which this decision will need to be made without clear policy or the process to do so having been established.

In light of the unnecessary additional uncertainty this poses for developers in this position, we would ask that Ofgem accelerate their timeline for finalising the processes to initiate an extension request and reconsider the ordering of the health check requirements to ensure that the health and asset integrity of the OFTO is comprehensively assessed before the point at which a developer request to extend life is required and that it is accessible to developers in their life extension decision making process.

- Discretionary policy

In the proposed policy and particularly in regards the point at which decisions will be made to determine whether a re-tendering process is to occur, developers have no capacity to factor into their life extension business case the consequential level of ERS and asset transfer value driving future TNUoS charges.

Given the unique considerations applicable to each wind asset and associated OFTO we accept the need for extension decisions to be made on a case-by-case basis however we would also like to reiterate the need for developers to have as much certainty as possible in the extension decision making process. We would therefore urge Ofgem to make it very clear, at the outset, under what circumstances it would be likely to opt for a re-tendering scenario but also, as we will discuss further later, to consider the potential for OFTO ownership to revert to the developer at the end of the initial licensing period.

- Additional uncertainty

In addition to the policy and market uncertainty mentioned previously, developers face significant uncertainty in respect of the ongoing degradation of both their own wind asset and that of the OFTO. Extension of life costs could vary considerably depending on the length of the extension and would need to be factored into any extension of life business case. Works could range from a new rock dumping campaign on the export cables to complete replacement of certain assets in an extreme case. The earlier that all parties are able to make the improvements needed to extend, the more cost effective they can be - which might necessitate works commencement well ahead of the end of the initial licence period. This could lead to significant outages which would then also need to be factored into life extension decisions.

Whilst developers are used to some level of TNUoS uncertainty in the process of setting their bid prices for CfD application, they have also been subject to this in respect of the initial tendering process, cost assessment and TRS calculations. Introducing a secondary revenue stream which will again be funded through further TNUoS charging, but this time for an asset that has already been fully paid up and which bears considerably greater associated integrity risk, has the potential to completely undermine any business case to extend. Such policy would seem to be at odds with the objectives of the extension proposition – to extend life where it is economic and efficient to do so.

At the very least, developers should be furnished with all possible available information to make an informed life extension decision, but we would also urge Ofgem to consider very seriously, the disincentive impact of retaining certain of the factors driving both the valuation of OFTO assets should transfer of ownership be required and in the estimation of future extension revenue streams to be applied. Once again, we are minded to recommend that Ofgem consider the potential for OFTO ownership to revert to the developer at the end of the initial licensing period.

- Lack of control in the process

The potential inflexibility of the regime to accommodate significant changes to the developer's business case justifying a life extension decision where post design life asset

integrity is constantly changing i.e. being locked into a fixed extension period, may mean that it is impossible to commit to the extension.

We ask that rather than providing for a range of different fixed extension periods, Ofgem consider how it might incorporate a flexible extension period into final policy proposals, to accommodate the uncertain nature of operation beyond design life.

Whilst SSER would support Ofgem proposals with some modifications to address the concerns we have raised and assurances around achievable timescales, we would also urge Ofgem to explore the concept of ownership of the OFTO asset reverting to the developer who then manages the extension period. This strategy presents an opportunity to substantially overcome not only the identified challenges in respect of Ofgem but also the most significant risks to the developer.

In this event, the developer is in full control and free to optimise the extension business case with full flexibility over the timing of any subsequent decommissioning from loss of asset integrity, whether in relation to the wind farm or the OFTO and where the decision to invest further is neither economic nor efficient. The developer is inherently incentivised to maximise the performance of both assets and without the need for an extension revenue stream that is ultimately socialised, Ofgem might be persuaded that there is no requirement for competition.

We understand that this may be achievable with the introduction of a class exemption, comparable to the onshore private wire scenario, which would not require any change to primary legislation and could be introduced in terms of a Generator's Decommissioning Clause (GDC).

We look forward to the opportunity to engage with Ofgem further on this subject.

Yours sincerely,

Julianne Duncan

Regulation Manager - Renewables

Appendix 1

Consultation Questions –

Policy objectives

- Question 1: Have we captured the regulatory and commercial context for EoTRS policy appropriately? Are there other key contextual issues we need to bear in mind?

Considering overarching objectives to reduce the environmental impact there is a clear and significant opportunity presented by the potential to extend the life of existing wind assets, where it is economic and efficient to do so. Current government ambitions include and therefore rely on the continuance of existing operational fleet and yet whilst there is a strong focus on new offshore wind development, there is a lesser focus on current asset life extension despite the need for policy and revenue certainty required by offshore wind developers to make critical and timely life extension decisions now. 60% or 7GW of the operational UK wind fleet is connected to an OFTO with a Tender Revenue Stream of 20 years or less, the first of those approaching EoTRS in 2030, make the need for policy certainty immediate.

Developers are primarily focused on the economics and make their business case based on the risk versus return potential. As things stand, developers have a much more certain business case for new asset development than for existing asset extension and whilst it may still be worthwhile them making the necessary investments to extend asset life for marginal returns (support mechanisms will have expired), this will not however be palatable should minimal returns become overshadowed by the level of associated risk. In an extended asset life scenario, consideration of continued asset integrity is paramount. This position can change and shift the basis of the business case very quickly and therefore a level of flexibility in the policy proposals will be key to developer buy in. Ofgem should guard against making policy decisions that don't properly consider developer risk and needs or provide certainty so late that it becomes inevitable that the choice must be to decommission offshore wind assets in favour of new development.

- Question 2: What are your views on the EoTRS policy objectives we propose? Are they appropriate in the context of the decisions we propose to take?

The defined objectives appear to miss the key driver behind the need for EoTRS regulation, that being the desire of the developers to extend the life of their offshore wind assets. The first objective should focus on maximizing both the operating life of the offshore wind farm and the associated transmission infrastructure. Without the first, we would argue there is no need for the subsequent. As outlined above, policy needs to be more considerate of developer needs in the decision-making process bearing in mind how marginal that may be and must therefore provide certainty at the earliest opportunity. We would argue that the level of discretion afforded to Ofgem

during the process as currently proposed only adds to the uncertainty and therefore risk the developer is exposed to e.g. in the asset transfer valuation or decision to run a competitive tendering process, both of which have the potential to add to developer costs and therefore diminish the business case to extend.

We are keen to understand what Ofgem would propose in the circumstances whereby the OFTO health check and assessment process conclude that it is not economic and efficient to extend the life of the asset, but the wind farm wishes to continue to generate. Should Ofgem decide to allocate an 'OFTO of last resort' we would have serious concerns that the level of incentive necessary to persuade any operator to continue would wholly undermine the developer business case and contend that in this scenario, the only option that makes sense is for the developer, with insight into the results of both health checks, to consider whether it could be economically viable to do the upgrades itself and continue to operate. Current policy proposals don't account for this eventuality at all.

Role of competition

- Question 3: What are your views on our proposed approach to use competition to improve the value-for-money of ERS offers?

We acknowledge that maintaining the option to launch a competitive tender process may encourage competitive extension offers from the incumbent OFTO at the outset of the extension process and may therefore provide a useful consumer protection tool.

We also appreciate and agree that bilateral negotiation should be the initial default approach for Ofgem setting the extension revenue stream (ERS). Our view is that rather than competition being Ofgem's default position, consideration should always be given to whether competition is the appropriate delivery model in the relevant circumstances. In the case of offshore asset life extension where the value to be derived from extension is probably limited to short periods with those at risk of premature cessation due to the increasingly unpredictable nature of asset integrity beyond its design life, it is likely that the high costs associated with administration of a competitive tendering process undertaken by Ofgem would be disproportionate to the benefits derived. The significant additional cost of regulator resource required to administer the process would ultimately need to be socialised and may not, in this case, equate to good value for money.

- Question 4: Are there any specific issues we should consider when considering the ERS drivers outlined in this section?

At the end of the initial licensing period, the 'book' value of the offshore transmission asset will have been depreciated to zero as the OFTO will have made the necessary returns implicit in their

initial tender bid, including repayment of any associated investment loan and therefore any concept of there being a significant residual asset transfer value is not acceptable as a basis for calculation of the extension revenue stream. We would argue that the estimation of extended revenue streams in a life extension period should be based purely on the actual operating and maintenance costs of extending the life of the transmission assets otherwise there is a risk that both consumers and generators are exposed to duplicate financing costs i.e. paying for the OFTO asset twice, for what could be viewed as extraordinary profit for the OFTO investors.

Additional points to note in factoring in other drivers – the ERS should be formulated on the basis of the cost to extend the operation of the OFTO, many of the driving factors quoted would have been incorporated in the original TRS during the initial licensing period and the greater the ERS, the more the developer's business case for the wind farm life extension diminishes.

Acceptable profit margins should be minimal – OFTOs have made significant returns over the course of the initial licensing period and excessive extended revenue streams could be considered undeserved windfall profits.

Only remedial works necessary for extension of the transmission asset's life rather than those which might be required ahead of the end of revenue stream should be considered. Earlier works would have been part of the initial tender revenue stream calculation to include operation and maintenance.

A decommissioning pot will have already been accrued for the OFTO reaching end of life and should the asset life instead be extended, that pot will not need to be used and can therefore remain intact/be carried forward – interest on that will also be significant.

Careful consideration of the performance incentive factors will be required to ensure that there is fair consideration and the necessary flexibility for both the OFTO and the developer – availability alignment, environmental considerations (closer to the onshore criteria).

- Question 5: Do you agree that we should define the extension period revenue model before requesting the incumbent OFTO's extension period offer? What will be the most important aspects to confirm? What could be left to later?

It is essential that all criteria specific to the process for establishing the ERS are confirmed and communicated as early as possible and the values determined as early in the wider EoTRS process as possible in order to provide both certainty for the OFTO in respect of its future revenue streams and provide that **appropriate** profit margins are maintained but also so that the developer has a firm basis for assessing its potential future TNUoS charges in order to properly define the business case and facilitate a more informed life extension decision.

In addition to the factors driving the ERS being critical to both parties understanding of the basis for building its business case we would suggest that bids could vary considerably in relation to the range of durations the assets would be considering operating over. There may only be a certain level of investment required to continue to run an asset for 3 years beyond its design life as compared to a much higher level for 5 years plus. Even over a specified timeframe, with the propensity for assets to deteriorate differently and at variable rates, it is likely to be extremely difficult to accurately cost ongoing operation during a life extension period, other than continuously. For this reason, variable extension periods (with different associated bid values) and ultimately the option of OFTO ownership reverting to the developer, whereby continued operational integrity of both assets can be assessed and alignment managed as necessary may be the optimal strategy.

- Question 6: How long is it reasonable to expect the incumbent OFTO to hold its extension period offer valid? How might we adapt our approach to extend that period or ensure the incumbent OFTO is not exposed to unmanageable risk?

This may vary dependent upon the specific circumstances of each individual OFTO and on the extent of any necessary upgrades which could be impacted by supplier/material constraints and/or additional inflationary pressures which might be indexed accordingly.

- Question 7: Should we consider the use of cost-plus methods or pre-defined uncertainty mechanisms to help extension period offers remain valid? What should we consider when designing any such arrangements?

Both methods have their merits and drawbacks, but whichever method is chosen should seek to minimise the risk to the consumer and developer of uncapped cost recovery where the OFTO has had control over extension of life works before the end of the initial license period.

- Question 8: What are your views on asking incumbent OFTOs to hold their extension offers throughout a competitive re-tender process? If we did not do that, how could we ensure incumbent OFTOs present the most attractive extension offer possible?

We agree that this would appear to present the most conservative approach – and is essentially no different than developers being required to bid into subsidy schemes where there will continue to be uncertainties and a range of factors liable to change.

- Question 9: What arrangements would we need to put in place to ensure we can compare on a fair basis the incumbent OFTO's extension offer and those received from other parties in a competitive re-tender process?

The key consideration here is that bids have been generated on a 'like for like' basis. This would necessitate a strictly defined and consistent basis for both inclusion of the relevant assessment criteria and the method of application.

We would expect asset Health Checks and any subsequent extension surveys to be independently conducted and the output made available to all parties at this same point in the process. The decommissioning fund accumulated over the initial license period should be transferred along with ownership where relevant and therefore removed from the equation. There should be no residual value assigned to the OFTO assets and if necessary, a £1 transfer value assumed.

- Question 10: In what circumstances would it be appropriate to invite the incumbent OFTO to update its extension offer? When might a best-and-final-offer ('BAFO') invitation be appropriate?

We would consider that this is acceptable only in such circumstances as result in a material and unpredictable change in the underlying costs or asset integrity.

- Question 11: What measures should we take to ensure incumbent OFTO extension offers are aligned with the findings of their asset reviews?

Ofgem should ensure that OFTO extension offers are only made with the benefit of the asset health check results to drive the decision-making process. Given the developer's interest in the outcome of the asset health check and the proposed extension of life works we would advocate that this is independently conducted and validated.

Development of the End of Tender Revenue Stream Policy

- Question 12: What information might it be suitable (or unsuitable) to share between the wind farm, incumbent OFTO or participants in a competitive re-tender process?

We would anticipate it being necessary to share the full operations and maintenance history, design life and certification information, health check results and proposed extension life works

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programme, spares list, suppliers list, met ocean data, condition monitoring information and anything else in this vein.

Competition public interest test

- Question 13: Do you agree with the concept of the competition public interest test?

For the reasons we have noted previously, there should absolutely be a method of routinely challenging the appropriateness and cost effectiveness of launching any re-tender process.

- Question 14: Do you agree with the two proposed assessments in the competition public interest test? Are there any additional areas we should cover?

Whilst we understand and agree with the concept, we believe there are many factors that will dictate how successful any particular tender is likely to be and consider it highly unlikely that Ofgem will be able to test the market in any meaningful way before the time for retender approaches. The risk reward profile alone suggests that investment opportunities will only be desirable at levels of return that would severely impact upon the developer business case to extend asset life in the first place.

- Question 15: What steps should we take to ensure any re-tender process attracts competitive bids that can be held through to asset transfer?

We would expect that it could be difficult to attract investors into a process that relates to an untried and untested new asset class without a significant profit margin which is at odds with the aims of the life extension policy. We are doubtful that even with the level of maturity of bidders developed over the previous initial OFTO tender rounds, there would be as much interest given the additional risk associated with post design life asset integrity and other potential unknowns, unless significant revenues were guaranteed over a defined period. Guarantees of this nature may not be feasible if properly aligned to the generators continued availability given that should the wind farm reach the point of not being commercially viable, there would be no requirement for the OFTO to operate or continued extension revenue payments. Ofgem does not appear to have considered this eventuality.

- Question 16: What wider impacts on the OFTO programme should we consider as part of the competition public interest test? What would be most important to consider?

In addition to the points noted in the consultation in relation to the emergence of significant asset health issues and uncertainty about decommissioning, Ofgem should also consider the implications of a changing regulatory framework on investor perceptions. What might previously have been a sound and relatively low risk regulated income stream, might not seem as certain in future and may therefore impact on the investor market.

- Question 17: How should we best compare ongoing cost components of incumbent OFTO extension offers against cost reporting information and recent tenders?

We would not consider there to be any relevant basis for comparing the cost components of an extension of life scenario with that of recent tenders. The circumstances could not be considered equivalent in any meaningful way and therefore all of the relevant benchmarking factors are divergent. Technology developments, supplier constraints, labour costs to name but a few of the criteria, could all be significantly different.

- Question 18: How should we consider if any profit/return element of an incumbent OFTO extension offer is appropriate and in line with opportunities with a comparable risk profile?

This should be considered a completely new investment class and encapsulates a unique situation where the assets are not only 'used' but will also be operating beyond their design life and subject to the increasing risk of loss of integrity, they may not therefore be directly comparable with any other existing asset investment profile.

- Question 19: How should we consider incoming licensees would need to pay an asset transfer value? Will we need to set an indicative transfer value before the incumbent OFTO submits its extension offer?

We are of the view that this need should not arise. OFTO assets have already been depreciated to zero and the generator/consumer have paid for these in full through TNUoS charges levied throughout the initial licensing period. Should an incoming licensee be required to pay any significant asset transfer value then it will need to demand sufficient return to ensure that the investment is viable. This in turn would result in the generator/consumer overpaying for assets and disadvantages any potential new OFTOs in an initial competitive tender process. Incoming licensees may also struggle to secure investment borrowing terms based on assets operating beyond their design life with the increasing propensity for integrity problems.

- Question 20: Could it be possible to potentially estimate the regulatory revenue stream savings from competitive tendering even before receiving an offer from the incumbent OFTO? If so, how could we best approach that assessment?

We do not accept that this would be possible with any level of confidence. Even in a competitive position, the incumbent has more available information and should therefore always be in the position to make the most informed bid. Should another bidder win, it is most likely that through lack of information they haven't accurately priced in the relevant risk. Assuming the incumbent can make the most informed bid, going through the tender process is likely to result in the same outcome but will have incurred a substantial administrative cost in the process.

OFTO asset value

- Question 21: Do you agree with the principles/objectives for the EoTRS asset valuation that we have proposed? What alternative or additional principles and issues do you consider we should take into consideration?"

No, for the reasons previously stated.

- Question 22: Do you agree that at minimum, the EoTRS asset transfer value should seek to cover the NAV of decommissioned tangible assets?

No, what does this equate to for a fully depreciated asset. Even a scrap value would need to be considered net of decommissioning costs.

- Question 23: What is your view on setting the EoTRS asset transfer value higher than the NAV? If so, do you think this increase should cover "additional assets", a positive adjustment, or both?

We do not agree that there is any significant end of life OFTO asset transfer value for the reasons already outlined - every extra £1 increasing the ETS diminishes the developer business case for extension.

Question 24: If "additional assets" were to be included in the EoTRS asset transfer value,

what types of assets do you believe should be included, if any?

We do not agree that there is any significant end of life OFTO asset transfer value for the reasons already outlined - every extra £1 increasing the ETS diminishes the developer business case for extension.

- Question 25: If an adjustment was to be added to the NAV, do you have any feedback regarding approaches to set the positive or negative adjustment size?

There should not need to be any additional benefit to the OFTO built into the asset valuation as an incentive to maintain operating standards as this has already been factored into calculation of the TRS right up until the end of the initial licensing period.

Development of the End of Tender Revenue Stream Policy

- Question 26: What standard assumptions might be appropriate to apply when determining NAV for assets in early tender rounds? What project-specific adjustments might need to be made?

We do not agree that there is any significant end of life OFTO asset transfer value for the reasons already outlined - every extra £1 increasing the ETS diminishes the developer business case for extension.

- Question 27: Do you have any suggestions for alternative approaches to determine the EoTRS asset transfer value?

We do not agree that there is any significant end of life OFTO asset transfer value for the reasons already outlined - every extra £1 increasing the ETS diminishes the developer business case for extension.

Should Ofgem move forward with the option to allow the OFTO asset to revert to the developer at the end of design life, and factors this into the initial OFTO tendering policy, this need not be a consideration in future.

- Question 28: Do you have any suggestions regarding payment structures for the EoTRS asset transfer value?

We do not agree that there is any significant end of life OFTO asset transfer value for the reason already outlined - every extra £1 increasing the ETS diminishes the developer business case for extension.

Performance incentives

- Question 29: Do you consider it appropriate to have more than one option for creating a performance incentive?

Yes. Developers should have some input into this on the basis of the performance experienced in the initial license period i.e. operator satisfaction levels. Suggestions as outlined in the consultation would also align better with the onshore process where multiple criteria including environmental components feed in.

- Question 30: Are there any additional performance incentive approaches you believe we should consider for the extension period?

Rather than an overall availability-based approach, one that is more aligned to developers needs and risks so that developers can have assurances that the OFTO will be available 100% of the time that it is needed i.e. aligned scheduling of maintenance etc.

Should Ofgem move forward with the option to allow the OFTO asset to revert to the developer at the end of design life, this would not be a consideration as the generator is inherently incentivised to optimise performance.

- Question 31: Do you think that the alternative return / penalty mechanisms discussed here should be applied in the extension period? Are there any further return / penalty mechanisms you think we should consider, and why?

Linking bonuses to a fixed value, provided there is due consideration in that value of the developers needs and a strong and demonstrable link to the source of value generation may be acceptable however, straight application of a % of the initial TRS would not necessarily be representative of good value. As a developer, SSE would advocate the suggested alternatives in facilitating a payment 'in arrears' type process that concludes only once the level of performance over the whole extension period has been fully assessed. This would additionally incentivise the OFTO to maintain levels of performance throughout the applicable period.

- Question 32: Are there any specific incentives that you would like to see introduced into the OFTO regime? Please explain

We have no specific requests for additional OFTO incentive criteria other than to ensure all incentives and penalties are aligned with the generation asset and associated value generation, as has been the general theme of the response. An incentive linked to the profit achieved through operation of the wind farm during the extension period may be worth exploring, for example.