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## **OFTO End of Tender Revenue Stream (EoTRS) consultation**

We refer to the consultation issued 22<sup>th</sup> June 2022 and welcome the opportunity to provide a response. Additionally, we appreciate the extension given for providing our response.

Equinor is a global energy company, employing over 650 people in the UK. It is the UK's largest supplier of crude oil and the largest supplier of natural gas, meeting more than 25% of UK demand. It operates the Mariner oil field and three offshore wind farms including Hywind Scotland, the world's first floating wind farm. Equinor and partners are building Dogger Bank, the world's largest offshore wind farm.

Today's expectation is that operational wind farms will have longer life spans than what was originally thought only a few years back. The EoTRS policy needs to reflect this, and if the right balance can be found life extension of operational wind farms can provide significant contribution meeting GB's ambitious renewable targets.

We have in our response focused on key topics important to Equinor to be assessed further by Ofgem and industry going forward.

### General comments and proposed objectives

Ofgem's consultation document provides good insight to the range of complex problems and issues to consider when establishing the EoTRS policy.

It is important that Ofgem when assessing the EoTRS policy and the need for an OFTO extension period, not only assess this based on the merit of the transmission assets but do this holistically taking into consideration the whole wind farm including both the transmission assets and generators. The proposed objective (i) of "maximising the operating life of transmission assets where it is economic and efficient to do so" should be amended to reflect this.

Although we fully support objective (iii) “Ensure good asset stewardship and conduct by transmission assets owners” we are concerned when this objective is used as an argument to incentivise the incumbent OFTO to act as a prudent asset owner. Our belief is that the incumbent OFTO is sufficiently incentivised through the conditions and requirements in the OFTO licence and the STC and any incentives in addition to this will only result in higher cost to generators and ultimately the consumers.

In principle, we agree with Ofgem’s decision to consider each application for a life extension on a project-by-project basis. This allows for flexibility in finding the most appropriate solution. However, we are concerned that working on a project-by-project basis will raise the costs incurred and resources required from Ofgem, the incumbent OFTO and the generator, and we seek reassurances that this will not hamper work around EoTRS and incur inefficient costs which ultimately will be borne by the generator.

### OFTO extension period

The consultation document does not discuss the possibility to allow the OFTO transmission assets to be transferred to the offshore generator applying for a life extension at the end of the initial TRS period. Equinor see clear benefits from this option, the generator is best placed to assess if the needed refurbishment costs are appropriate, best placed to assess if the transmission assets availability risk is acceptable and will also normally be able to perform any required “extraordinary” O&M cost more efficiently than the incumbent OFTO. We are clear that this will ensure lowest cost and lowest risk to generators and consumers alike. We urge Ofgem to assess this option further before further EoTRS decisions are made.

If the Ofgem’s assessment concludes that this option is not viable, Equinor support the proposed competition public interest test and believe the test will make Ofgem able to do informed decisions on whether to retender the OFTO transmission assets or to negotiate terms with the incumbent OFTO. We are however concerned that there will be very little experience to draw on when assessing future cost etc. And we therefore query if benchmarking using data which is not gathered for this specific purpose, is correct.

In most cases the required investment cost to upgrade the initial transmission assets for a life extension of 5-10-15 years will be limited. Going forward insurance cost, O&M cost, and administration cost will be the largest part of the extension revenue stream (ERS). We are concerned if existing or new investors will see this limited ERS to be sufficiently attractive to bid for the assets.

It is therefore important that the regulatory framework has contingency plans if no investors / owners want to take over the owner ship or if the conditions offered is unacceptable. The OFTO regime has provisions for an OFTO of last resort. This framework may not be suitable for EoTRS though, but a similar structure needs to be put in place. We would also like to point out that if the transmission assets were transferred back to the generator EoTRS the problem will not arise.

### Asset valuation

Ofgem has since the introduction of the OFTO regime reiterated numerous times that the ERS, and hence the local TNUoS the wind farm will pay, will not include any elements reflecting the initial OFTO investment. It is important that this is still Ofgem’s policy, and this should also be reflected in the proposed principles and objectives.

If the incumbent OFTO is appointed as OFTO for the extension period and Ofgem through bilateral negotiations agree a new ERS, we expect that the asset transfer value (NAV) to be zero for the purpose of calculating the ERS.

If Ofgem decides to run a competitive tender, the asset transfer value should be based on the net realisable value of the transmission assets in an alternative use (scrap value). We do not support Ofgem's proposal that the asset valuation should include a premium above the NAV.

We do not agree that the incumbent OFTO should be further incentivised to provide good asset stewardship. The incumbent OFTO has been remunerated for this through its initial TRS. Further we do not understand why and therefore do not agree that the incumbent OFTO should benefit from an extension period being granted.

We would welcome the opportunity to present our response to the consultation in more detail.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Øyvind Bergvoll".

Øyvind Bergvoll  
Equinor ASA