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RWE Renewables

22 August 2022

Dear George,

**Re: RWE's response to the consultation regarding Offshore Transmission Owner End of Tender Revenue Stream – 2<sup>nd</sup> Policy Development Consultation**

About RWE

RWE is leading the way to a green energy world. With an extensive investment and growth strategy, the company will expand its powerful, green generation capacity to 50 gigawatts internationally by 2030. RWE is investing €50 billion gross for this purpose in this decade. The portfolio is based on offshore and onshore wind, solar, hydrogen, batteries, biomass and gas.

RWE Supply & Trading provides tailored energy solutions for large customers. RWE has locations in the attractive markets of Europe, North America and the Asia-Pacific region. The company is responsibly phasing out nuclear energy and coal. Government-mandated phaseout roadmaps have been defined for both of these energy sources. RWE employs around 19,000 people worldwide and has a clear target: to get to net zero by 2040. On its way there, the company has set itself ambitious targets for all activities that cause greenhouse gas emissions. The Science Based Targets initiative has confirmed that these emission reduction targets are in line with the Paris Agreement. Very much in the spirit of the company's purpose: Our energy for a sustainable life.

In the UK, RWE employs over 2,600 people and generates enough power for over 10 million homes, with a diverse portfolio of onshore and offshore wind, hydro, biomass and gas across England, Scotland and Wales. For a broad picture of the scale of our projects in the UK and Ireland, please see our infographic [here](#).

We have an ambitious commitment to expand our renewables portfolio in the UK, with around one-third of our planned global gross capex spend by end-2022 being invested into the UK. This is mostly on offshore wind, including our flagship Triton Knoll and Sofia projects.

**RWE Renewables UK Limited:** Registered in England and Wales no. 03758404  
Greenwood House, Westwood Way, Westwood Business Park, Coventry, United Kingdom CV4 8PB.  
**RWE Renewables Management UK Limited:** Registered in England and Wales no. 12087808  
**Registered Office:** Windmill Hill Business Park · Whitehill Way · Swindon · Wiltshire · SN5 6PB.  
**RWE Renewables UK Swindon Limited:** Registered in England and Wales no. 02550622  
**Registered Office:** Windmill Hill Business Park · Whitehill Way · Swindon · Wiltshire · SN5 6PB.

RWE and its project partners have also signed Agreements for Lease with The Crown Estate to extend our existing Gwynt y Môr (North Wales), Galloper and Greater Gabbard (Suffolk), and Rampion (East Sussex) offshore wind projects. Most recently, we were successful in securing Preferred Bidder status for two further offshore sites amounting to 3,000MW in the Round 4 Leasing Round by The Crown Estate. We also have a significant and growing onshore renewables presence, with over 600MW of onshore wind in operation across 33 sites. We have ambitious plans to expand this portfolio out to 2030.

Our key points of feedback in relation to this consultation are:

- RWE encourages Ofgem to ensure that the EoTRS policy focuses on maximising the combined life of offshore generation (the “wind farm”) and transmission assets. We consider that all aspects of life extension of both the generator and transmission assets should be considered jointly, to ensure that the policy adequately incentivises both parties to participate in good faith.
- Competition for competition’s sake is unlikely to demonstrate good value for the consumer and so should be avoided where it does not represent the most efficient way to extend the life of the transmission and generation assets. The process should be flexible, to take into account specific circumstances on a case-by-case basis.
- 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. 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.
- A higher EoTRS asset value will translate into higher regulated revenue streams paid for by wind farm generators and GB consumers. The only charges that should be permissible for an extended licence term are operational costs and those required for maintenance and any necessary upgrade of the assets. The charges should not include capital costs for an asset that has already been paid for or any form of premium to reward the incumbent OFTO for behaviour that is already required via its Licence.
- We think it would be reasonable to ensure that there is an appeals process in place whereby the incumbent OFTO could be penalised if the health of the transmission assets at the transfer stage does not align with the assets represented in the asset health assessment, other than fair wear and tear. In this case, we think a reduced or delayed payment to the incumbent OFTO would allow the successor owner & operator to offset any additional remedial work needed to bring the asset back up to standard and ensure the successor is kept whole.

- We do not think it would be appropriate for the incumbent OFTO to receive a windfall gain at the end of the licence period, the incumbent OFTO should receive a fair market value remuneration only. In practice we do not think the Net Alternative Value (NAV) can be based on the value associated with the re-use of transmission assets for new wind farms or consumers as we consider the likelihood of re-use occurring as very low. We think the main use of these assets could be re-purposing for spare parts, but that options will be limited and ultimately impacted by asset health.
- The NAV needs to recognise that the incumbent OFTO may have reduced its decommissioning fund based on assumptions on the scrap value of the assets. Any successor OFTO will be able to recover the scrap and use it to top up the shortfall in the decommissioning pot. However, there are two problems that we see with this approach: (1) as the decommissioning programme is agreed with BEIS, BEIS would need to review the decommissioning programme at the point of asset transfer to ensure the incoming (successor) OFTO has adequate funds to cover its decommissioning liability; and (2) the outgoing OFTO is essentially paid a price for the assets but the incoming OFTO will not receive a scrap metal price for the assets at the end of the extension period because it will have to use the funds it gets from the recovery of the scrap metal to cover its decommissioning liability. This policy unfairly advantages OFTOs that have discounted their decommissioning fund by assumptions on scrap metal over incoming OFTOs and outgoing OFTOs that have not discounted their decommissioning funds.
- Where an OFTO is appointed for an extension period, we consider both an availability mechanism and a scorecard approach should be used to create performance incentives. We encourage Ofgem to set minimum standards for operation & maintenance as the current and historical processes have not proven successful. The Offshore Wind Industry Council (OWIC) has been calling for improved performance incentives and monitoring for some time.<sup>1</sup>

## **Generator Ownership Option**

We would also like to take this opportunity to encourage Ofgem to fully consider the benefits of enabling the generator to have the option to take over ownership of the offshore transmission assets at the end of the initial regulatory period (TRS). We have set out our views on the key benefits of this below.

We recognise that current electricity legislation does not 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.

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<sup>1</sup> [Offshore Wind Sector Deal – Transmission Review short-term solutions – November 2019](#)

This option would apply to a class of generators, thus recognising the unique situation of offshore radial transmission links, in particular that a generator cannot manipulate competition because NGESO directs the flow of electricity and not the owner of the radial link. The exemption would 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. We believe there are key benefits associated with pursuing this option which 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. Where a very short life extension is envisioned, we recognise that it may be most efficient and more cost effective for the incumbent OFTO to remain in situ.

### *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 would be able to align lifetime assumptions with the transmission assets in order to make targeted investments across all assets. Under current proposals the transmission owner (OFTO) and generator are incentivised differently, meaning investment cannot not be fully optimised.

Under current proposals the generator will need to take a life extension decision in the absence of certainty regarding costs in the EoTRS period, for example future TNUoS charges. The uncertainty regarding costs (and revenues) means that risk allowances will be introduced into the business case. 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 assets. Under the 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 generation and transmission assets can also be fully aligned meaning decommissioning can take place together. Under current proposals decommissioning would occur separately which may increase costs and the impact on the local environment.

### *Cost Savings*

We believe enabling an option for the connected generator to take ownership of the transmission assets 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 wind farm 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 across both the generation and transmission assets.
- The treatment of would-be TNUoS needs to be fully considered within the scope of this option, to ensure that costs are allocated fairly.

As above, we believe the route to enabling the option of Generator ownership is achievable via a Class Exemption Order in line with existing precedents, removing the need for the generator to hold a transmission licence and without undermining the broader unbundling rules. We would welcome Ofgem's feedback on the benefits outlined above and the opportunity to discuss the need and benefits of this option further, including where in the EoTRS process this option could best fit. We believe that without this option being considered 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 an unfavourable business case.

Please find our response to Ofgem's consultation questions below.

Kind regards,

Lois Leslie

## **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?**

#### *Consumer underwriting of OFTO revenues*

We agree the role consumers have in underwriting OFTO revenues (via residual charges that suppliers recover from customer's bills), should be a key consideration when developing the EoTRS policy.

#### *Wind farm commercial viability*

We agree that ensuring the commercial viability of wind farms is fully understood in any extension period is also critical for development of the EoTRS policy. The extension of existing wind farms could be a cost-effective contribution towards a net zero power system by 2035 and net zero carbon emissions by 2050, however, the economic position of wind farms at the end of the initial regulatory period is likely to be marginal, as the market support mechanism period (the Contracts for Difference) will have expired.

It is crucial that the EoTRS policy and process reflects the actual costs of extending the lifetime of the transmission assets and that the policy recognises the differences in economics of the wind farm in any initial regulatory period compared to an extension period. Certainty on costs during any extension period, as early as possible, will be critical for the business case of the wind farm extension.

A flexible process may be required to enable the most economic and efficient outcome for GB consumers, OFTOs and generators.

#### *Wider impacts on the OFTO regime*

The existing OFTO regime is designed to ensure the entire investment of the OFTO asset has been repaid at the end of the initial regulatory period and the OFTO is expected to have made the return that its bid was based on. We think the process for determining any residual value of the OFTO assets should be carefully considered to ensure OFTOs do not place too much reliance on this at the tender process for the initial regulatory period, and create unintended consequences for the wider OFTO regime.

#### *Legal basis for asset transfer*

We assume the exact same assets that were transferred as part of the initial transfer process would be transferred to any successor OFTO, but welcome further clarity on this.

#### *Investability of the EoTRS asset class*

We think Ofgem should take a holistic view when developing the EoTRS policy to enable efficient and aligned decision making regarding the future of both generation and transmission assets. We think a generator can only make investment decisions if full visibility of the lifetime and health of the transmission asset is available. To this end, it is essential that the asset health reviews on the wind farm and transmission assets are coordinated so that the developer has the information it requires to make decisions at the right time.

## **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?**

*Maximise the operating life of transmission assets where it is economic and efficient to do so.*

We recognise that the duration of the transmission asset's operational lifetime will differ from project to project. This will be based on the economics and asset condition of each site – and the suitability of the connected wind farm to continue operating beyond the initial TRS period.

We therefore believe that this objective is too narrow. The transmission assets in isolation have no value unless there is a generator connected. It is highly unlikely any new project would take on the risk of connecting to a life-extended transmission asset. Therefore, as highlighted in our cover letter, we suggest that the objective should focus on ensuring synchronised decision making between the wind farm (generator) and the transmission asset to optimise the operating life of both and achieve the lowest levelized cost of energy possible over the maximum time period.

*Value for money TNUoS charges for wind farms and consumers*

At the end of the initial regulatory period the wind farm and GB consumers will have paid in full for the transmission assets via TNUoS. It is neither fair nor reasonable to expect the wind farm to pay for the same assets again, including freehold property and leases that exceed the initial regulatory period (we note that this is not the intent of the EoTRS policy). The only charges that should be permissible for an extended operational period are operational costs and those required for maintenance and any necessary upgrade of the assets.

*Good asset stewardship and conduct by transmission asset owners*

We support this objective wholly, for both the initial regulatory period and any extension period. Amended Standard Condition E12-J4 of the OFTO Licence, amongst other standard conditions, already place obligations on the OFTO to maintain the transmission assets in line with good industry practice. Thus, a contractual mechanism already exists that requires the OFTO to maintain the assets. The introduction of any additional incentives could serve to undermine that contractual mechanism. We consider the issue is one of enforcement of the existing mechanism as opposed to the introduction of a further incentive. The Offshore Wind Industry Council (OWIC) has been calling for this for some time.<sup>2</sup>

*Proportionate regulation*

As a matter of principle the process for life extensions should be flexible to take into account specific circumstances on a case-by-case basis.

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<sup>2</sup> [Offshore Wind Sector Deal – Transmission Review short-term solutions – November 2019](#)



## **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?**

Competition for competition's sake is unlikely to demonstrate good value for the consumer and so should be avoided where it does not represent the most efficient way to extend the life of the transmission and generation assets.

We recognise that there may be circumstances where an incumbent OFTO does not want to own and operate its asset beyond its agreed TRS term and that in this instance, a tender exercise may be necessary.

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

The decommissioning assumptions will be a significant driver of a bid price (the quantum of decommissioning costs is much greater than any O&M/financing costs/margin). Assuming that the decommissioning reserves built up by the incumbent OFTO transfers to any successor OFTO, then the bidders' view of whether the reserves are sufficient will shape their bid price. It will therefore be critical that Ofgem and BEIS ensure there is no incentive or opportunity for a bidding OFTO to underestimate decommissioning costs which would then require the security arrangements to be activated to protect the taxpayer against the possibility of having to pay for decommissioning in the event the OFTO defaults on their obligations.

### **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?**

We agree that the revenue model for the extension period should be defined ahead of requesting the incumbent's bid. The incumbent OFTO will need to have access to all relevant information to be able to provide a certain/fixed bid and ensure its bid can remain valid for as long as is necessary. Defining the revenue model upfront could also benefit the wind farm generator as it may be able to predict/estimate likely TNUoS costs.

### **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?**

We think the incumbent OFTO would need to hold its extension period offer valid until the competitive tender process has taken place. Not doing this would mean the incumbent OFTO's bid cannot be compared to the tendered bids. If the validity period is significant in length, the pre-defined uncertainty mechanisms mentioned in paragraphs 3.15-3.16 of the Consultation (and Question 7 below) could be used to reduce the OFTOs exposure to unmanageable risks.

### **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?**



The requirement for uncertainty mechanisms will be strongly linked to the length of the time that the incumbent OFTO needs its offer to remain valid for. We consider pre-defined uncertainty mechanisms linked to macro indices, such as inflation/foreign exchange/commodities would be a reasonable method to allow the OFTO to manage exposure. The pre-defined uncertainty mechanisms would ensure the incumbent OFTO does not have to price in risk and is still able to give a competitive offer.

**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 asking the incumbent OFTO to hold extension offers throughout a competitive re-tender process would be the most effective way of encouraging competitive offers. As in our response to Question 7, we think pre-defined uncertainty mechanisms could help ensure the incumbent presents the most attractive extension offer.

**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?**

To compare the incumbent OFTO's extension offer and those from a re-tender process on a fair basis a defined scope of work, identical terms and conditions and identical security provisions would be needed. We think pre-defined uncertainty mechanisms would allow a comparison of the incumbent OFTO's offer with those from any re-tender process as the incumbent's offer could be adjusted to reflect the market conditions to the point in time when the other participants make their offer.

**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 think it would only be appropriate to request an updated BAFO if significant changes have occurred in the lapsed time (e.g. changing decommissioning requirements, asset outages etc).

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

As discussed further in our responses to Question 21 and Question 28, we think it could be appropriate to delay part of the transfer value upfront (a deferred consideration) or link part of the payment to the later performance of the OFTO (an 'earn out') as a measure to ensure that the OFTO maintains good asset stewardship to the end of the initial regulatory period and in line with the findings of the asset health review.

**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 think the wind farm (generator) would need to have visibility of the incumbent OFTOs bid or participants bids in a competitive re-tender process in order to make a full assessment of the economic viability of extending the wind farm. As referenced in our responses to

Question 1 (on wind farm commercial viability) the need for certainty on costs (such as the level of TNUoS payments) is a key aspect of the business case when considering life extension of the wind farm. The incumbent OFTOs bid would help inform the level of TNUoS charges that the wind farm may be required to pay as part of any extended revenue period.

## **Competition public interest test**

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

It is noted that Ofgem's preference is to maintain a competitive process for the allocation of future regulatory revenues. We would encourage Ofgem to be flexible and to consider specific circumstances on a case-by-case basis to ensure that competition can be avoided where it does not represent the most efficient way to extend the life of the transmission and generation assets.

As highlighted in our cover letter, we encourage Ofgem to consider the merits of enabling offshore transmission assets at the end of the original TRS to be owned and operated by the Generator connected to that asset during the EoTRS period under a Class Exemption Order. We consider there are several benefits associated with the approach that could provide value for money and protect the interests of existing and future GB consumers.

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

Where it is deemed necessary to carry out a public interest test, we agree that Ofgem needs to assess the likelihood of any competitive re-tender process being successful before starting the tender exercise. We note that there are costs involved with any retender exercise and there can also be substantial costs outlaid by the parties involved in the tender.

We also agree that Ofgem should assess the potential revenue stream reduction that running a competitive re-tender process might achieve, before carrying out any re-tender exercise. As flagged in our response to Question 13, we think flexibility may be needed, as a competitive process may not be appropriate where there is limited price to be competed.

### **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 think the duration of any extension period will be a key consideration for prospective bidders. Longer extension periods are likely to attract more interest via a tender process than short extensions.

In all cases, we think safeguards or mitigations could be implemented to ensure prospective bidders receive transparent information. Prospective bidders will need to feel comfortable that there is a level playing field between incumbent OFTOs and themselves to be able to ensure a fair and competitive re-tender exercise. This would require full disclosure of information held by the incumbent OFTO.

### **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?**

We think that the proposal to base the asset transfer value on the 'net alternative value' of the transmission asset could have an impact on the wider OFTO regime. The current Invitation to Tender guidance document highlights that qualifying bidders who assume any revenue and/or residual value beyond the revenue term, do so entirely at their own risk. Certainty on the OFTO EoTRS policy position and the asset valuation approach may mean OFTOs incorporate residual value assumptions with greater certainty into their bids, which may ultimately reduce the cost of their bid. This could lead to a lower TRS in the initial regulatory period and therefore a lower cost to wind farm generators and GB consumers.

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

Any comparison between ongoing cost components of incumbent OFTO extension offers and cost reporting information/recent tenders needs to take place on a like for like basis. Benchmarking should only be used if there are comparable projects or if the benchmarking should be adjusted accordingly for unique circumstances.

**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?**

No comments

**Question 19: How should we consider incoming licencees 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?**

As highlighted in our response to Question 1, the only charges that are permissible for an extended licence term are operational costs and those required for maintenance and any necessary upgrade of the assets. The charges should not include capital costs for an asset that has already been paid for or any form of premium to reward the incumbent OFTO for behaviour that is already required via its Licence.

If the incumbent OFTO's bid is related solely to O&M costs, we do not see that there is a clear need for an indicative transfer value to be set before the incumbent OFTO submits its extension offer. We welcome further clarity from Ofgem on why it considers this may be needed. We think any indicative transfer value provided would only be of use if it is relatively close to the final value.

**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?**

The approach could be based on a counterfactual assessment. One option in the assessment is to run the competitive tendering for the extension of the OFTO transmission asset, and then compare this option to the alternative scenario, where the transmission asset is decommissioned and somewhere in the GB electricity system there is a tender for a brand new OFTO with similar characteristics (size, technology, location etc).

## **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?"**

We do not think the incumbent OFTO should receive a windfall gain at the end of the licence period, the incumbent OFTO should receive a fair market value remuneration for the transmission assets.

We agree that securing value for money TNUoS charges for both wind farm generators and GB consumers is vital and will link directly to the business case for life extension of wind farms. We do not think TNUoS charges should be used to fund a premium in the EoTRS asset transfer value above the Net Alternative Value (NAV). The incumbent OFTO is already required to continue in operation and support good asset management practice via its licence conditions.

We agree that, in the scenario where ownership is transferred from an incumbent OFTO to a successor OFTO this needs to be a smooth transition, however we do not think the incumbent OFTO should receive a benefit/premium from this process.

We agree that any valuation approach used should be aligned with good industry practices.

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

Ofgem needs to ensure the NAV recognises that the incumbent OFTO may have reduced its decommissioning fund based on assumptions on the scrap value of the assets. This approach has been taken by several OFTOs.

Any successor OFTO will, at the point of decommissioning, be able to recover the scrap and use it to top up the shortfall in the decommissioning pot. However, there are two problems that we see with this approach: (1) the decommissioning programme is agreed with BEIS and may be reviewed throughout the period of the TRS – BEIS would need to review the decommissioning programme at the point of asset transfer to ensure the incoming (successor) OFTO has adequate funds to cover its decommissioning liability (i.e. are the scrap assumptions adequate); and (2) the outgoing OFTO is essentially paid a price for the assets but the incoming OFTO will not receive a scrap metal price for the assets at the end of the extension period because it will have to use the funds it gets from the recovery of the scrap metal to cover its decommissioning liability. This policy unfairly advantages OFTOs that have discounted their decommissioning fund by assumptions on scrap metal over incoming OFTOs and outgoing OFTOs that have not discounted their decommissioning funds.

We do not think the NAV can be based on the value associated with the re-use of transmission assets such as connecting other generators or customers and thereby reducing the need to build new assets. In practice existing OFTO transmission assets will be limited by design life and the potential for reuse for new wind farms is low given the evolution in the size of wind farms to date. There may be some opportunities for alternative use, such as for technology demonstration projects, however this would be project specific. We consider the main use could be re-purposing for spare parts, but in practice options will be limited and will ultimately be impacted by the asset health.

**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 think a positive adjustment should be included in the NAV. As highlighted in response to Question 21 we do not think additional incentives/bonuses should be needed to encourage the incumbent OFTO to continue good asset stewardship. This is already a principle of the existing OFTO regime and should not need further incentivisation. Any positive adjustment would likely be funded via TNUoS, which we do not think is likely to represent value for money for GB consumers or wind farm generators.

**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 think there are any clear additional assets that could be included in the EoTRS asset transfer value as we think the asset value should be based largely on re-purposing the transmission assets for spare parts.

**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?**

As referenced in responses to Questions 21 and 23, we do not think a premium should be included in the EoTRS asset transfer value above the NAV, therefore we do not think there needs to be a mechanism for positive adjustment of the NAV.

We do think it would be reasonable to include an appeals process through which the incumbent OFTO would be penalised if the health of the transmission assets at the transfer stage do not align with the assets represented in the asset health assessment, other than fair wear and tear. A successor OFTO would have issued its bid on the information available at the asset health assessment stage, therefore if the asset condition upon transfer is not consistent with the assessment the successor OFTO should not be expected to pay full price for such asset. In this case, we think a reduced or delayed payment to the incumbent OFTO could allow the successor OFTO to offset any additional remedial work needed to bring the asset back up to standard and ensure the successor OFTO is kept whole.

**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 think this can only be carried out on a project-by-project basis, as this should allow the most efficient decision-making process and ensures value for consumers is maximised.

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

We think the asset transfer value should be set by an independent third party following the asset health review. We think the NAV could be associated with re-purposing of spare parts. The technical advisor performing the health review should be able to assist with determining this value.

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

We agree that it would be appropriate to consider delaying part of the transfer value upfront (a deferred consideration) or linking part of the payment to the later performance of the OFTO (an 'earn out') to ensure that the OFTO maintains good asset stewardship to the end of the initial regulatory period. We consider this would be a more appropriate method to encourage best practice and provides a more suitable alternative to adding a premium above the NAV/bonus payments to the incumbent OFTO. This approach avoids increasing the regulatory revenues paid for by wind farms and GB consumers. Any delayed payment structure could be linked to the smooth transition objective referenced in Question 21 and the health of the transmission assets being maintained in line with the asset health assessment carried out.

The payment structure could be used to ensure that 1) if the incumbent OFTO has maintained the asset in good condition that aligns with the asset health assessment it receives the full value at asset transfer or 2) if the asset is not maintained in good condition and does not align with the asset health review (other than fair wear and tear) the incumbent OFTO receives a reduced asset value to allow any successor to carry out the repair work required/the incumbent OFTO is required to repair the asset to the correct standard in order to receive the full payment value at asset transfer.

### **Performance incentives**

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

Where an incumbent or a successor OFTO is appointed for the extension period, we would encourage Ofgem to consider the use of both performance incentives options in tandem. We think this would provide assurance that the transmission assets are being maintained in line with good industry practice and remain consistent with an OFTO's bid submission to minimise service reductions and maximise the potential of any extension period.

The availability mechanism currently in place (option 1) in the existing OFTO regime should remain in place, we do not think it would be in the interests of either wind farm generators or GB consumers to reduce the target to a level below 98%. We are also supportive of option (2) to introduce a balance scorecard approach, similar to that seen in onshore transmission. We would welcome increased focus on technical robustness and effective maintenance through the suggested performance metrics. Currently, in the initial regulatory period the appointed OFTO does then not have to provide evidence that maintenance is carried out in accordance with good industry practice.<sup>3</sup> We would encourage Ofgem to set minimum standards for O&M as the current and historical processes have not proven successful.<sup>4</sup>

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<sup>3</sup> Ofgem, March 2018

<sup>4</sup> See response to section 2.35 of RWE response to the Ofgem 2020 consultation: "We are not in agreement with Ofgem's proposal for a pure qualitative approach to bid evaluation set out in section 2.19 of the consultation paper. This will not provide maximum value to consumers. A qualitative assessment is not the most cost effective approach for all elements of a bid. From RWE's perspective the weighting between price and quality is directly dependent upon how clearly the scope of what is required is outlined. RWE's concerns with the current approach is that the tender evaluation is 100% weighted on price without stipulating in the threshold requirements clear



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

We are concerned about the impact of Revenue Services Reductions during an extended licence term given that it is likely the assets could be less reliable due to age and/or if the transmission asset is unable to continue operation beyond the original expected life for some other reason (e.g. maintenance during TRS was not undertaken with ERS in mind).

Under the current OFTO Licence, the OFTO is protected for outages that are beyond the reasonable control of the OFTO. In an extended licence term the responsibility for the availability of the transmission assets sits squarely with the OFTO and where outages arise, particularly where is as a direct result of the OFTO's failure to take steps consistent with good industry practice, generators should be compensated for their lost revenue. This is also consistent with other European regimes for offshore generation and with the treatment of GB generators connected to a GB Onshore TO with a Transmission Licence.

**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?**

As highlighted in our response to Question 29, we would be supportive of both options; option 1 maintaining an availability target at 98% and option 2 to introduce a balance scorecard approach, similar to that seen in onshore transmission.

We think there could also be a mechanism to ensure OFTOs have an obligation to seek adequate insurance and warranties should any of the OFTO equipment fail (similar to the mechanism in the existing regime). For example, in the scenario where the wind farm has carried out investments to ensure a ten-year extension, if the OFTO equipment fails shortly after the extension begins, there should be a mechanism that obligates the OFTO to seek repairs through its insurance and/or warranties. This should be in addition to the OFTO having enough capital to pay for the repairs should the warranties fail, perhaps through a bond payment to ensure the life extension can be operational for the agreed term of the extension.

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

As highlighted in our response to Question 29, we think a mechanism is required to provide assurance that the transmission assets are being maintained in line with good industry practice. This could be done via the tender process prescribing minimum maintenance standards that can be reviewed via an independent technical audit of the OFTO's operation and maintenance records.

We think procedures are required to enforce existing OFTO Licence obligations and where appropriate statutory enforcement capabilities. We recognise this consultation is focusing on the development of the EoTRS policy, but we would like to flag that we think there should also be a renewed focus on seeking to enforce what currently exists.

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maintenance and operational standards that ensure the longevity of the assets. If it is clearly outlined what is required of bidders with respect to certain elements of the bid it is appropriate to assess such elements on a pass/fail basis and leave the dominant portion of the bid score weighted on price. [...]"