

Ho Man Lo, Richard Johnson & Agustin Mengoni
10 South Colonnade,
Canary Wharf,
London,
E14 4PU
Email to: oftobuild@ofgem.gov.uk

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EDF's response to Consultation on initial proposals for an OFTO Build model to deliver non-radial offshore transmission assets

EDF is the UK's largest producer of low carbon electricity. EDF operates low carbon nuclear power stations and is building the first of a new generation of nuclear plants. With over five and a half million electricity and gas customer accounts, including residential and business users, EDF aims to help Britain achieve net zero by building a smarter energy future that will support delivery of net zero carbon emissions, including through digital innovations and new customer offerings that encourage the transition to low carbon electric transport and heating.

As a key part of EDF, EDF Renewables is one of the UK's leading renewable energy companies, specialising in wind power, solar and battery storage technology. Our offshore pipeline includes our Gwynt Glas floating offshore wind farm in the Celtic Sea with a planned capacity of up to 1.5GW. Gwynt Glas is a joint venture with Irish renewable energy developer ESB and global offshore wind investors Reventus Power.

EDF welcomes the opportunity to provide our views on the OFTO Build model for the delivery of non-radial offshore transmission assets.

Should you wish to discuss any of the issues raised in our response or have any queries, please contact myself or Kimbrah Hiorns on david.acres@edfenergy.com and kimbrah.hiorns@edf-re.uk.

Yours sincerely,

A handwritten signature in black ink that reads 'David Acres'.

David Acres
Head of Renewable Policy & Regulation

Consultation on OFTO Build delivery model for non-radial offshore transmission assets - Response from EDF

Questions

Q1. Which party should be responsible for procurement in the late competition OFTO Build model and why?

We agree with Ofgem's initial view that, given current supply chain conditions and the current pool of OFTOs in the market, Generators conducting procurement for the construction of the offshore transmission assets presents the most realistic option to ensure the feasibility of this model in the near term, given that Generators have considerable procurement expertise.

Further consideration and clarification are needed on how these proposals interact with the proposed Tender Revenue Stream (TRS) target cost envelope, given that sometimes detailed design and engineering may not be completed until after the Final Investment Decision (FID), which leaves a degree of uncertainty for bidding OFTOs.

In our experience, most of the guarantees in construction contracts will typically be from supplier to customer. We would therefore advise that Ofgem tests the idea of construction contracts being novated from Generators to OFTOs with the supply chain companies, given that under this option contracts are being novated from typically larger to much smaller organisations.

It is unclear what Ofgem expects to be the timeline and details of Option 2, in which an OFTO is conducting procurement activities alongside the competitive tender process. Ofgem notes that OFTOs may not be able to finalise procurement contracts ahead of the award of the OFTO licence at the culmination of the tender. It therefore seems likely that an OFTO conducting procurement would lead to delays to the commencement of construction, whilst contracts are being finalised. Further clarification needs to be given on how procurement would work alongside the tender in practice.

Q2. At what point should the OFTO tender process commence? Does option 1 or option 2 present the best approach?

Our assessment is that Option 2 (tender commences at consent submission) is the best approach.

Q3. Do you agree with the view that, providing stakeholder engagement is properly conducted ahead of consent submission, generators should have a reasonably clear view, at the time of consent submission, as to whether the consent is likely to be granted in the form requested, and that an OFTO would be comfortable to submit tender bids on this basis?

In our view, commencing the tender when consent has been submitted is a lower risk than Ofgem has indicated in their initial view. We believe the benefits of progressing the overall process more

swiftly are worth due consideration, given the relatively limited risk. In our experience, most consent conditions tend to relate to environmental concerns and compensation measures, rather than alter the design of the transmission infrastructure itself. The move toward more centralised network design, through work such as the Holistic Network Design (HND), Centralised Strategic Network Plan (CSNP) and Strategic Spatial Energy Plan (SSEP), further reduces this risk as it will already have been demonstrated that there isn't a more optimal transmission design.

The bidding OFTOs would also be interested in the consent conditions applied to the export infrastructure Deemed Marine Licence (DML) attached to the Development Consent Order (DCO). These should be known at the point of submission, as the draft DCO is drafted by the Generator legal teams in consultation with stakeholders. Unless there are any material changes during the consent process, then the OFTO will have all the information it needs.

In addition, we would note that the Marine Management Organisation (MMO) has to agree the change in licence ownership. There will need to be some behind the scenes administration to set up separate projects on their portal for the generation DCO and the export infrastructure DCO – if the process starts before consent is granted, then this back-end administration should in theory be relatively simple.

For a Section 36 project, draft consent conditions are not known until after the consultation period has taken place. However, assumptions on conditions can be drawn from the results of the EIA and conditions placed on similar marine licences, which should give an indication of what can be expected.

Q4. As compared with commercial liquidated damages, how effective are options 1 and 2 in incentivising timely delivery and managing the risk of delay? Could these options make OFTO build a meaningful option for the generators?

We agree that a regulatory framework for handling delays to completion of the offshore transmission assets is most suitable. Leaving these instances to commercial liquidated damages would likely involve lengthy negotiations, with no guarantees for Generators in terms of the degree of compensation and high legal fees for all parties involved.

Our view is that option 1 presents the best option on balance. From a Net Present Value (NPV) perspective, an immediate form of compensation would be preferable to a TRS reduction as Generators would receive payment faster. Furthermore, we expect it would be easier for OFTO insurers to cover this, as it is a one-off payment, as opposed to an ongoing reduction to project revenue. In the near term, given the current pool of OFTOs is formed of typically lean organisations, we expect a measured degree of consumer underwriting as outlined in scenario B may be beneficial to limit the risk of OFTO failure.

Q5. How can the OFTO delay charge and consumer underwriting in option 1, as well as the TRS reduction in option 2, be appropriately set and executed?

We have no comment on this question.

Q6. Which of the four proposals offers the most suitable option for the treatment of cost increases during construction?

We believe that Option 1 presents the best option for the treatment of cost increases during construction. Ofgem's cost assessment process is a familiar, established and effective tool that is well understood by parties participating in the OFTO regime. It ensures that OFTOs are able to recover cost overruns that were reasonably incurred, whilst ensuring that any costs that are not deemed economic and efficient by Ofgem are borne by the responsible party. The variation of this option under option 2, in our view, will almost certainly add a risk premium to TRS bids in relation to the materiality threshold that is set - we do not believe the expected value in this option will be achieved.

We do not agree with the rationale for the pain-gain share mechanism proposed. Given Generators have no control over construction of the transmission assets, it is not reasonable to be sharing the risk of cost increases during construction under such a mechanism.

Q7. What, in your view, is an appropriate calibration for the pain-gain share mechanism outlined in options 3 and 4?

As outlined above, we do not agree with the principle of the pain-gain share mechanism. However, should this option be taken forward, we would advise that the weighting of the mechanism should be to place the majority with the OFTO as the party responsible for construction.

Q8. Should we expand the refinancing gain share mechanism to cover the conversion of equity to debt or the sale of equity? How could the mechanism work in principle?

We believe OFTOs and OFTO investors are best placed to provide input on this question.

Q9. What do you think is the best way to deal with a failure scenario during construction?

We agree that, until such a time as the OFTO build market has matured and the model has been well established, another OFTO may not be able to take the build to completion in a failure scenario. In such an event, it will be important to ensure the delay to completion of the offshore transmission assets is minimised as far as possible. Generators will have the greatest familiarity with the project and may be best placed to step in, provided that appropriate support and cost mitigation is provided. However, we believe optionality should be maintained in dealing with failure scenarios.

Q10. In the event that the appointed OFTO cannot continue with the project, which party is best placed to take the build to completion? How should the transfer value for a partially completed project be set?

See our response above to Question 9.

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