

# Decision

## Extension of Tender Revenue Stream (EoTRS) and Tender Revenue Periods

Publication date:	10 July 2025
Contact:	Katy Phillips
Team:	OFTO Transmission
Email:	offshorelicencing@ofgem.gov.uk

In December 2024, we consulted on a number of issues relating to the End of Tender Revenue Stream (**EoTRS**)<sup>1</sup> in order to finalise how we expect the offshore transmission regime to work, in practice, for projects nearing the end of the original tender period. These included questions on:

- whether the availability target in the extension period should remain the same as in the original tender period;
- related requirements for the amount OFTOs should include within the performance reserve;
- our approach to partial and interim awards for investment works and Health Review costs;
- risk sharing around early withdrawal for both generators and OFTOs; and
- the resulting scope and review of Extension Revenue Stream (**ERS**) bids.

We also asked questions on the length of the Tender Revenue Stream (**TRS**) and whether it should be extended past the current term of 25 years, and on extending the Generator Commissioning Clause (**GCC**) and the consequential impacts for the tender period.

This document covers the decisions that Ofgem has taken on EoTRS issues and the extension of the TRS, after carefully considering feedback from stakeholders to our December 2024 consultation. We received 21 written responses to the consultation, setting out views from generators, OFTOs, semi-governmental bodies, finance providers, OFTO bidders, and the Crown Estate. We intend to further consult shortly on GCC issues raised by respondents.

<sup>1</sup> [OFTO: extension and evolution of a mature asset class](#)

© Crown copyright 2025

The text of this document may be reproduced (excluding logos) under and in accordance with the terms of the [Open Government Licence](#).

Without prejudice to the generality of the terms of the Open Government Licence the material that is reproduced must be acknowledged as Crown copyright and the document title of this document must be specified in that acknowledgement.

Any enquiries related to the text of this publication should be sent to Ofgem at:

10 South Colonnade, Canary Wharf, London, E14 4PU.

This publication is available at [www.ofgem.gov.uk](http://www.ofgem.gov.uk). Any enquiries regarding the use and re-use of this information resource should be sent to: [psi@nationalarchives.gsi.gov.uk](mailto:psi@nationalarchives.gsi.gov.uk)

## **Contents**

<b>Extension of Tender Revenue Stream (EoTRS) and Tender Revenue Periods.....</b>	<b>1</b>
<b>Introduction.....</b>	<b>4</b>
Context and related publications .....	4
Our decision-making process .....	5
<b>1. End of Tender Revenue Streams.....</b>	<b>6</b>
<b>2. The most appropriate Tender Revenue Stream period relative to the technical life of OFTO assets .....</b>	<b>11</b>

## Introduction

This section covers the background to the policy thinking and consultations that we have undertaken so far.

### Context and related publications

Since the first OFTO licences were granted in 2011, the OFTO regime has become an increasingly mature market. To date we have licenced 28 OFTOs across 9 tender rounds with a highly competitive cost of capital. The first round of licences will begin to reach the end of their regulated revenue streams, the TRS, from 2030 onwards.

Since 2021, Ofgem has been engaging with stakeholders about potential ways to extend the regulatory revenue period for assets that are still economically viable in order to avoid those assets being decommissioned earlier than needed, enable further carbon free generation and ensure best value for consumers.

We published our first consultation on EoTRS policy in March 2021<sup>2</sup>, followed by a decision in July 2021<sup>3</sup> on roles, responsibilities and timings.

Our second consultation in June 2022<sup>4</sup> set out questions to relevant stakeholders on four areas: overarching policy objectives, the role of competition, the approach to OFTO asset value and the performance incentive mechanism. We published our decisions following that consultation in January 2024.<sup>5</sup>

We issued a third consultation document in November 2022<sup>6</sup> setting out several proposed modifications to offshore transmission licences, to enable OFTOs to claim for investment works. We published our decisions on those modifications in June<sup>7</sup> and July 2023.<sup>8</sup>

---

<sup>2</sup> [OFTO End of Tender Revenue Stream- Consultation concerning policy development \(March 2021\)](#)

<sup>3</sup> [OFTO End of Tender Revenue Stream- 1<sup>st</sup> decision document \(July 2021\)](#)

<sup>4</sup> [OFTO End of Tender Revenue Stream- 2<sup>nd</sup> consultation concerning policy development \(June 2022\)](#)

<sup>5</sup> [OFTO End of Tender Revenue Stream- 2<sup>nd</sup> decision document \(January 2024\)](#)

<sup>6</sup> [Statutory consultation on proposed modifications to OFTO licences \(November 2022\)](#)

<sup>7</sup> [Decision on proposed modifications to offshore electricity transmission licences \(June 2023\)](#)

<sup>8</sup> [Decision on proposed modifications to offshore electricity transmission licences \(July 2023\)](#)

Most recently, we published guidance on our expectations for the Health Reviews of the windfarm and OFTO assets in November 2024<sup>9</sup>, and then published a further consultation in December 2024<sup>10</sup>, covering:

- outstanding policy decisions for the EoTRS,
- how the regulatory process and revenue streams map to evolutions in the technical lifespans of OFTO assets; and
- the timings of the tender process and how to promote efficiencies within it.

### **Our decision-making process**

Following the consultation, we analysed the responses received and used them to inform the decisions set out below. We expect to publish related licence modifications later this year, as well as consulting further on the tender process.

---

<sup>9</sup> [Guidance on Offshore Transmission Health Reviews \(November 2024\)](#)

<sup>10</sup> [Consultation- OFTO: extension and evolution of a mature asset class \(December 2024\)](#)

---

## 1. End of Tender Revenue Streams

This section sets out our decisions on the outstanding policy questions relating to the End of Tender Revenue Streams (EoTRS).

### **Scope and Review of OFTOs' ERS bids, and the approach to funding repairs**

- 1.1 Ofgem consulted in December 2024 on a number of issues relating to the way that the extensions may work in practice. This includes what might happen in the event of an OFTO experiencing a major failure (e.g. a cable break) in the extension period, and how repair costs should be factored into the ERS bid, and, if needed, whether developers should pay for major repairs.

#### *Responses*

- 1.1 Most respondents highlighted that the OFTO experiencing a major failure would (and should be) a remote risk, as OFTOs should first look to warranties, then to insurance, and their own funding, before looking to generators for support in repairs. It is also important to note that investment works arising from the Health Reviews should also help to mitigate the possibility of a major failure occurring.
- 1.2 However, nearly all respondents (OFTOs and generators) recognised that major failures could be a possibility, but that there should not be a specific component of the ERS to account for any repairs required should there be a major failure – with generators noting the need for the ERS to be as competitive as possible, and OFTOs recognising that setting aside a significant proportion of the ERS for a relatively remote possibility would not be cost effective.
- 1.3 All respondents asked for a definition of what would constitute a 'major failure event', with one generator suggesting that consideration could be given to requiring repair costs for such failures needing to be over a certain cost threshold, failures that are uninsurable and failures that could affect the availability of the transmission system.
- 1.4 All OFTOs who responded agreed that generators should cover the costs of a major failure, and some generators said that they could see the case in doing so if the alternative was a windfarm which would not be able to transmit electricity, but that there should be safeguards in place to ensure that such costs are economic and efficient.
- 1.2 We also asked if instead of covering the costs of major failures, generators and OFTOs should agree to run their assets to the first major failure event and then decommission, or with lower availability in case of a partial failure. Overall,

generators and OFTOs said that this would cause too much uncertainty and run the risk of stranded assets, but some OFTOs noted that in certain circumstances (e.g. where repairs would take longer than the remaining ERS period) it may be an appropriate option.

*Decision*

- 1.3 Ofgem will consult on licence modifications to the effect that an event is deemed as a major failure if it is not covered by an insurance policy and if the costs of repair equates to more than 25% of the annual ERS. In this circumstance, Ofgem will convene a discussion between the affected OFTO and generator to agree the most appropriate way forward - whether that is the generator covering the cost of repairs, a decision to end the ERS early, or another resolution. We will then, following discussions, issue a decision on the next steps that all three parties should come to together, with Ofgem then making any required licence modifications.
- 1.4 This will act as a check and balance on the decision making process by generators and OFTOs and will ensure that the next steps represent the best value for consumers.

**Availability target in the extension period**

*Responses*

- 1.5 Condition E12-J4 of the OFTO licence states that OFTOs will receive the TRS payment due each year, adjusted in line with inflation, provided they meet or exceed the 98% availability target. If they achieve 100% availability, they receive a bonus of 5% of the TRS. If their availability falls below 98%, their revenue is reduced, with the TRS moving 2.5% for every percentage point above or below 98% availability that OFTOs achieve. This is limited to 50% availability, and 78% of the TRS. This approach is designed to encourage OFTOs to maximise their availability and efficiently make repairs to their systems following any failure events, alongside preventative maintenance.
- 1.6 In the December 2024 consultation, we asked whether the 98% availability target should be retained for the extension period, or whether it should be reduced or linked to the TRS in order to support OFTO cashflow.
- 1.7 The vast majority of respondents (generators and OFTOs) agreed that the 98% availability target should be maintained. Some OFTOs suggested the introduction of a balanced scorecard, or that in certain cases a lower target for availability

may be appropriate, depending on the technical health of the site, so that OFTOs should not be exposed to failures beyond their control.

*Decision*

- 1.5 We have decided to maintain the 98% availability target in the extension period, noting that the vast majority of assets comfortably meet the target, the benefits for participants of simplicity in the regime, and will shortly issue a consultation on licence modifications to that effect.
- 1.8 We also note that the Exceptional Events regime remains in place during the ERS period, which allows OFTOs to claim for lost availability where failures are beyond their control.

**Performance Reserve**

*Responses*

- 1.9 The performance reserve is in place in order to ensure that OFTOs can cover any liabilities that are remaining at the end of term, through providing financial securities.
- 1.10 Condition E12-J4 of the OFTO licence requires OFTOs to:
- provide financial security by year 16 of the initial 20 year TRS period of at least 50% of base revenue at that time (TRS16); and
  - to submit a notice to Ofgem three months before year 16 setting out the form of the financial security and the terms on which this can be called. Ofgem must then state within two months whether the arrangements are satisfactory or not.
- 1.11 The financial security must then be uprated in line with inflation over the last four years. However, the uprating provisions were only introduced from Tender Round Two (**TR2**) onwards.
- 1.12 We asked for views on amending the Tender Round One (**TR1**) licences to bring them into line with later ones to ensure the performance reserve always provides the security intended, and on the level of the performance reserve in the ERS period. We proposed that it should be equal to 50% of the ERS, uprated each year in line with inflation.
- 1.6 The vast majority of respondents agreed with uprating the TR1 licences to be in line with TR2 licences onwards, but some OFTOs pointed out that this would increase costs for TR1 OFTOs and that there would need to be a TRS adjustment.



- 1.7 Similarly, nearly all respondents agreed that the performance reserve in the extension period should be set at 50% of the ERS. Some respondents also asked what would happen if the extension period is less than 5 years and suggested setting the performance reserve pro rata.
- 1.8 Generators also suggested that OFTOs should settle any liabilities due at the end of the TRS, before entering the ERS, ensuring that the ERS licence is unencumbered by any residual liabilities from the TRS.

*Decisions*

- 1.9 Ofgem has decided that the TR1 licences should be uprated, as there is a need for a performance reserve that reflects the current costs, and it will bring them into line with the rest of the projects.
- 1.13 Ofgem have also decided to set the performance reserve at 50% of the annual ERS, noting that extensions of less than five years should be rare, and in the case of these that it may be helpful to have a discussion about what performance reserve should be set (e.g. on a pro rata basis). We are of the view that liabilities can be rolled over to the ERS where it makes sense to do so, especially if settling all liabilities at the end of the TRS period will mean that an OFTO cannot make a business case for extension.

**Partial/interim awards**

*Responses*

- 1.14 In the December 2024 consultation, we proposed amending the OFTO licence to allow Ofgem to make partial awards for investment works in cases where the impact on cash flows would be a particularly significant proportion of OFTOs revenue stream. Our expectation is that OFTOs will not be prepared to carry out investment works until at least late in the TRS period (after Ofgem has agreed to extend their revenue stream to cover the extension period) or, more likely, early in the extension period in order to only commit funds when the project has definitely been extended.
- 1.10 We also proposed that this would only be for investment works, as OFTOs have indicated in the past that the cost of health reviews is likely to be relatively small, around £250-£400k for each OFTO.
- 1.11 The majority of respondents agreed that the partial awards should only be for investment works, not health reviews. Generators noted that the threshold for this should be carefully defined, but one OFTO said that this proposal did not go far enough and investment costs should be paid to the OFTOs up front.

*Decision*

- 1.15 Ofgem have decided to allow partial awards for investment works only and not health review costs. We note generators' views on needing the threshold for this to be carefully defined – we will look to agree this on a case-by-case basis, depending on the scale of work required.
- 1.12 In order to deliver good value for the consumer, repayments should be required if the final award comes to less than the interim award.

**Managing costs of any early windfarm closures within the extension period**

*Response*

- 1.16 In the December 2024 consultation, we discussed a range of measures to ensure that neither OFTOs nor generators are left at a significant disadvantage if either party decides to exit the extension period early, including through generator guarantees and capping the ERS at a year after generation ceases.
- 1.13 Responses to this were mixed, with OFTOs arguing that they should be able to claim for all their predicted income if generation ceases, and some generators saying that ERS payments should cease immediately if a generator exits early. Some developers were in support of covering an OFTOs sunk costs in the case of an early termination of generation and some noted that the National Energy System Operator should be responsible for recovering these costs, not the generator directly. They also noted that arrangements should be reciprocal, which means that if an OFTO chooses to exit early, they should be liable for the generators' sunk costs.

*Decision*

- 1.14 We have decided that in the case of an early exit by a generator, ERS payments will continue for twelve months after generation ceases, or to the end of the extension period, whichever is sooner. This is in order to allow OFTOs to wind down operations and to regain some sunk costs. This will also protect consumers from paying for ERS costs.
- 1.15 In the case of an early exit by an OFTO, ERS payments will stop, so that generators are not asked to pay for assets they are unable to use. We are of the view that this scenario would likely only come about after a major failure event, where the decisions on next steps would be made jointly.

## **2. The most appropriate Tender Revenue Stream period relative to the technical life of OFTO assets**

This section sets out our decisions on the potential advantages and disadvantages of extending the duration of the original TRS term from 25 years to a longer period.

- 1.17 Since Tender Round 6 (**TR6**), the OFTO TRS period has been set at a maximum term of 25 years for OFTO licence holders. This term had previously been increased from a maximum of 20 years for OFTO projects in tender rounds prior to TR6, as the technical life of most offshore wind farms was then anticipated to be around 25 years.
- 2.1 We want to support windfarms in generating power for as long as possible to support the Government's targets for renewable energy in the most cost-efficient way. With this in mind, we consulted on whether there are ways in which the OFTO regime could better support or incentivise longer-life assets, in addition to the extensions framework that we have articulated above (which will apply to any projects which reach the end of their original TRS).

### *Responses*

- 1.18 The majority of developers noted that the technical capacity of their projects are over 25 years already, but OFTOs highlighted the risk of being tied into a longer licence period, where it is unproven that the assets can last that length of time. Many respondents said that there should be optionality in the length of the licence, set by the developer, on the basis of asset health, assessed at a midway point.
- 2.2 Developers as a whole said that the current regulatory regime (and particularly the cost assessment process) disincentivises assets from being built to last longer than 25 years – particularly in respect to spares and whether a longer life asset is deemed 'economic and efficient'.

### *Decision*

- 2.3 We have considered the responses received, and we remain of the view that this is a question on which we should attempt to gather further evidence over the years to come before making any changes. We note that an advantage of the existing framework of an initial period plus option for extension is that it acts as a natural 'break point' to assess the health and viability of the asset, reducing the

consumer risk that may need to be taken on in a longer asset life. The first group of extension cases coming up in the near future will improve our evidence base on the condition of assets and help to inform our assessment of whether / when we might usefully support longer initial licences. It will also help us to assess whether assets are being built for longer lives than the TRS.

- 2.4 Ofgem's objectives include maximising green energy at the best value to the consumer, so we will continue to monitor this as technology develops.