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Dear Stuart,

Statutory consultation on proposed modifications to Offshore Transmission Licences (11 September 2025)

I am writing to you on behalf of Transmission Capital Partners ("**TCP**") in response to the above Consultation, regarding proposed changes to the OFTO licences for the eleven TCP transmission assets, (including Robin Rigg, Gunfleet Sands, Barrow, Ormonde, Lincs, Westermost Rough, Dudgeon, Beatrice, Rampion, East Anglia 1 and Moray East).

TCP is also preferred bidder on one further transmission asset, Moray West, for which a licence is yet to be issued. We would expect that any licence changes which are made as a result of this consultation would also be consulted and, if appropriate, included in future licences.

Proposed modifications to the Offshore Transmission Licences

We are supportive of the proposed modification to the licence to include an exclusion which in the future will protect the OFTO from loss of availability penalties in the case where the OFTO has been obliged to enter into an agreement with the System Operator to facilitate a new connection. However, the Confidential Annex, outlines our concerns with the timing of the proposed modifications taking effect.

TCP are also supportive of Ofgem's proposals to make modifications to some OFTO licences to ensure there is consistency in the terms and drafting, and to reflect the changes made in the June and July 2023 decision.

Timing of reimbursement

We would however repeat some of requests made in our December 2022 consultation response with respect to the timing of reimbursement of costs/expenses incurred in the carrying out of "Health Reviews" and "Investment Works". Ofgem's proposals are based on the established claims mechanism. This would only allow cost/expenses incurred on Ofgem approved Health Reviews or Investment Works to be recovered ex-post. While the cost/expenses for a Health Review are likely to be relatively modest compared to the overall revenues of an OFTO, the Investment Works are unknown and could be significant enough to impact on financial health.

Enabling an upfront funding approach which allows for proposed claims, based on an Ofgem approved scope of works, to be provided with upfront funding would reduce this risk. It would see an immediate claim made upon approval of the scope of Investment Works, enabling a revenue adjustment to provide funding for the approved works based on agreed estimated costs. A subsequent true-up would be undertaken once the works are completed and final costs are known.

Taking this approach would better enable Ofgem to meet the stated objective that any revenue adjustment "…ensures that the financial position and performance of the licensee are, insofar as is reasonably practicable, the same as if the Investment Works had not been carried out". Such an approach would also allow the additional revenues to be collected over more years and reduce the volatility on transmission charges. In all cases, the revenue adjustment should allow for the financial position and performance to be maintained on a value-neutral basis, taking account, if necessary, the costs of financing these works.

Licence mechanism to adjust TRS for legitimate costs below IAE threshold

As raised in our response to Ofgem's consultation on *OFTO: Further evolution of a mature asset class*, as the OFTO regime has evolved over the years, there is an increasing challenge for OFTO owners and operators to manage greater numbers of industry and policy changes. Often such changes have an associated cost, which the OFTO, unlike other transmission licensees, has no ability to recoup through commercial means, as revenues are regulated through the TRS.

The structure of the OFTO regime has facilitated increased gearing through which customers have benefited through lower overall cost of financing the infrastructure. This has been on the basis that the regime is stable and low risk, meaning the costs and revenues are highly certain over the long-term.

Each of the changes in obligation on the OFTO that have occurred since the first projects have been tendered individually introduce fairly "minimal" cost increases on a yearly basis, e.g. not enough to breach the IAE materiality threshold. There is a now a cumulative effect, with increasingly frequent and significant changes, to the extent that they amount to a value which has a material impact on the OFTO.

This goes against the premise of an OFTO being a low-risk investment. Therefore, we believe a mechanism which allows for legitimate costs to be recovered via the TRS, should be considered to maintain the financeability and attractiveness to investors of the OFTO regime. This would be the most cost-effective way to manage such costs, rather than have to factor in contingency for a wide range of unforeseeable costs (regardless of likelihood) into OFTO bids, whilst maintaining a competitive bid process. To help provide some further context as to the types of changes and associated costs we are referring to, we have provided some examples below (with more detail being provided in the confidential annex to our response for *OFTO: Further evolution of a mature asset class)*.

i. Changes to industry codes

CM085: To clarify OFTO reactive power requirements at <20% output

This modification sought to clarify the requirement on OFTOs to provide reactive power to NESO when windfarm output is below 20%, and it is still technically feasible to do so. Ofgem's decision recognised that there would be increased costs to OFTOs from providing this reactive power, for example increased maintenance costs for Static VAR Compensators (SVCs) which were estimated to be circa £75k per SVC. Whilst this cost may seem low, over the remaining lifetime of an OFTO project (e.g. 20 years) that would total £1.5million, which is a high proportion of many OFTOs entire annual TRS income.

CM097: Electromagnetic Transient (EMT) and Root Mean Square (RMS) Model Submission for Transmission Owners (TOs)

This proposed modification to the STC seeks to require TOs, including OFTOs, to provide NESO with Root Mean Square (RMS) and Electromagnetic Transient (EMT) models for their analysis of issues such as system oscillations, inverter stability and Transient over Voltage (ToV) on the GB transmission system.

This is another example of a potential modification to the codes which will put further obligations on OFTOs, which will require sufficient funding to execute. Cost recovery is being explored as part of the working group consultation – but is another example where a suitable route for the OFTOs to obtain the necessary funding to undertake these additional requirements is being sought. The IAE is often pointed to as the route, however these costs may not meet that threshold on a yearly basis, but the cumulative effect of all new requirements continue to erode the financeability of the OFTO. The incumbent TOs are subject to periodic reviews where these changes can be built into their cost base. It would seem appropriate that there is some mechanism for OFTOs to adjust costs to be able to effectively deliver these additional requirements, given a benefit assessment assumes all networks will make these changes and therefore it will be to the consumer benefit if OFTOs are funded.

ii. Connections Reform

Under connections reform, changes were made to the OFTO licence to introduce an additional obligation on OFTOs to support NESO with the provision of information for the Connection Network

Design Methodology. This is again another example of a new obligation being put onto OFTOs, which will have an associated cost, but there is no route through which the TRS is able to be reviewed and if necessary revised to account for this new obligation.

iii. Cyber Security

Where projects, either individually or collectively as part of a portfolio, are designated as operator of an essential service (OES) pursuant to the Network and Information Systems Regulations 2018 legal duties are placed on them to ensure projects comply with the necessary security requirements. This is an example of a new requirement being placed on OFTOs, which requires funding, and adds up when considered alongside the other new obligations.

All other network licensees have mechanisms to allow for both the requirements of NIS and now to reflect a change in cyber stance. For example, the latest RIIO3 price control model shows approximately £1billion of allowances for the Onshore TO's in addition to normal OT/IT replacement spend and digitalisation allowances etc, over the 10-year period, which equates to something around £2M per substation.

iv. Decommissioning

Similar to the industry wide change in cyber security stance, decommissioning policy continues to raise questions on the incremental funding required to comply with guidelines. There is no mechanism to mitigate against a change in decommissioning requirements compared to the bid assumptions, made more than a decade ago, unless there is a change in law. Recent updates to decommissioning policy have been to guidance documents rather than law, leaving the OFTO exposed. This is causing significant concern amongst lenders, because decommissioning plans remain open to review by government, without a funding mechanism to address any additional decommissioning requirements sought.

Thank you for the opportunity to respond to this consultation. We hope the contents of this letter are helpful and we would be pleased to discuss any points raised.

Yours sincerely,

Chris Veal

Director