



# CELTICSEAPOW

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## Response to Ofgem Call for Input – OFTO Build: Ways Forward for an Early Competition Model

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<b>Author</b>		Nigel Jones	
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### Registered and Head Office

Chi Gallos, Hayle Marine Renewables  
Business Park, North Quay, Hayle, Cornwall.  
TR27 4DD

### Welsh Office

1 Cleddau Bridge Business Park, Pembroke  
Dock, Wales. SA27 6UP

Company Number: 10166467  
VAT Registration: 375217784



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**Q1. What are the potential considerations or barriers to using an early competition OFTO build model to build coordinated assets as outlined in the draft CSNP methodology? How could those barriers be addressed?**

CSP has championed offshore coordination, including through project outputs such as our designs for a 400MW MOS (Multiconnection Offshore Substation) for 4x T&D projects in the Celtic sea, as well as a 2GW MOS for commercial projects. Through our work on these activities (which were completed in the summer of 2023) we closely followed Ofgem's anticipatory investment model for shared assets as well as engaging with offshore windfarm developers to seek their direct feedback to our coordination outputs.

The intention expressed by Ofgem and BERR (Department for Business, Enterprise and Regulatory Reform) in the Energy Act 2004 was that OFTOs "would have responsibility for designing, building, financing and maintaining the offshore transmission network required to connect an offshore generator", and that the OFTO "would be selected by competitive tender".

Ofgem referred to the need "to ensure that the offshore electricity transmission regime was sufficiently flexible to respond to the potentially changing needs of network users and deliver a coordinated offshore grid as economically and efficiently as possible".

The vision was to have a coordinated offshore transmission grid, providing redundancy, reinforcement, and connection between offshore generating stations.

There have been no examples of OFTO built transmission assets since the introduction of the OFTO regime. It was intended that from the third tender round (TR3) onwards (the first tender round of the 'enduring regime') the regime would be OFTO build only, with no generator build option. However, this approach has not been favoured by developers and through consultation the generator build option remains. We are now at TR13.

It could be argued that the lack of an OFTO only build regime has resulted in less coordination of offshore transmission assets as developers look to minimise risk & and capital investment and proceed with radial connections.

This indicates that the primary barrier is developer perceived risk of OFTO's capability to design and build transmission assets in a timely manner, to a robust specification that allows the developer to start generating & receive payments according to schedule, with minimal unplanned outages. A secondary barrier will be the perceived risk of other coordinated windfarm developers encountering delays or ceasing



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development of the windfarm. Therefore a significant concern for developers is that this would lead to a loss of control over a critical component of their projects.

Developers argued that uncertainties about the identity and capability of the OFTO, the difficulties of dovetailing development timelines and the practical issue of having to incorporate a 12-18 month tender process early on in the project development timetable would, at best, increase the cost of capital through higher risk premiums, and at worst, preclude positive investment decisions entirely.

To alleviate the perceived risks, evidence of a successful OFTO build is likely to be required. A pilot project is the way forward (and we acknowledge the issues around pilot projects stated in this call for input document), one that has OFTO and Ofgem or UK Government backed securities to compensate the generator should the OFTO not complete the transmission infrastructure in time for windfarm operation. Ofgem's AI model clarifies the compensation method should a second / third generator not connect on schedule to a shared transmission asset (the consumer holds the risk), but it is not clear what happens should the offshore transmission assets be delayed. To minimise financial risk to the OFTO / Government it may be prudent to have a radial project as the pilot.

**Q2. Do you think the principles regarding the process and the commercial framework (discussed below) of the early competition OFTO build model targeted at non-radial assets can be directly applied to a mechanism for delivering radial assets? If the principles are not the same, what might be the differences?**

We believe the principles can and must be directly applied to a mechanism for delivering radial assets. There should be no difference in the OFTO principles for radial and non-radial projects, to do so may result in unintended consequences such as a perceived preference to bid for radial projects.

**Q3. Will some radial projects benefit from a substantively different framework, e.g. a late competition model in which generator will be responsible for design and other preliminary works? What are the possible circumstances and what are the potential benefits of using a substantively different model?**

We don't feel they will benefit. Currently the OFTO bids for an asset designed & built by the generator but with up to 18 months operational data to give confidence to the OFTO's that they are bidding on a proven asset. The late competition model introduces risk to the OFTO as they will be taking on 3<sup>rd</sup> party designs but will have responsibility for availability. This could depress the OFTO market.



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**Q4. Do you agree we should include both price and non-price elements in the bidding process and assessment criteria for prospective early competition OFTOs? What do you consider is a proper weighting of price and non-price elements?**

We agree that price and non-price elements must be included in the bid process and assessment criteria. It is difficult to judge the proper weighting to be applied. The non-price aspect is vital to ensure technically capable and timely transmission assets are constructed, however value to the consumer is also required and expected. It is prudent to have a Pre-Qualification Questionnaire (PQQ) to establish potential OFTO bidders suitability (on a pass / fail criteria), and a bid process that focusses on cost (50%) and non-price elements (50%).

**Q5. What non-price elements of an OFTO bid should form evidence of a potential OFTO's capability to deliver transmission infrastructure as part of an early competition OFTO build tender?**

Below we list a number of suggested non-price elements that could be utilised to evidence capability. They are listed in order of weighting:-

Technical & Engineering Capability, e.g. Detailed engineering solutions, supply chain contracts, design compliance with NESO/Grid Code/SQSS.

Programme & Project Management, e.g. Full delivery plan, milestones, risk registers, governance structures.

HSEQ Performance, e.g. Safety culture case studies, detailed environmental management plan, incident-free performance evidence.

Risk & Resilience Management, e.g. Contingency plans for weather downtime, supply chain delays, cybersecurity resilience.

Stakeholder & Community Engagement, e.g. Social value commitments, local employment strategy, fisheries/community consultation plan.

Operational Readiness & Asset Management, e.g. Long-term O&M strategy, lifecycle asset management systems, emergency response arrangements.

Innovation & Efficiency, e.g. Cost reduction techniques, digital monitoring, predictive maintenance, carbon impact reductions.



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**Q6. Can the PPWCA mechanism from the CATO model be appropriately applied to the early competition OFTO build model when substantive cost changes occur between bid submission and construction commencing? What changes are needed to adapt the PPWCA mechanism for use in OFTO build?**

We believe the principles of the PPWCA mechanism can be applied to early competition OFTO build models, but there may need to be an upward flex on the cap compared to onshore projects. We understand major cost increases can be induced where undergrounding is added to a project onshore, and that is not a factor in offshore assets as the cables are always planned to be undergrounded, however the supply chain related costs are highly variable, especially for HVDC equipment.

Weather plays a much bigger role construction offshore causing potential delays above what could be factored in at bid stage.

Vessel availability is a concern, and forecasting vessel costs accurately is not possible.

Through the consenting process major cable route changes may be required, where longer routes are required there are significant additional costs for materials and vessels.

We fully agree with the need to protect consumers from unlimited cost increases.

**Q7. Within the onshore early competition commercial framework, preliminary works payments are proposed to be capped at up to 50% of the NESO's estimated preliminary works costs. NESO as the Delivery Body will communicate with potential bidders on whether or not a preliminary works payment mechanism is proposed in respect of a project for tender. Will preliminary works payments be necessary to allow for early competition OFTOs to build transmission assets before their TRS begins? If so, should the preliminary works payments be determined in the same way as the CATO model?**

As under the current regime the OFTO bids for a built and operating asset, there is an immediate TRS in place. Due to the change to an early competition and the gap before the TRS is in place, we feel it may be necessary to offer preliminary works payments. It is likely to be prudent to determine the payments in the same way as the CATO model.



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**Q8. Do you agree with imposing a post-award securities obligation on a successful OFTO bidder to reduce the risk of stranded generation assets and increase the confidence and appetite for early competition OFTO build assets?**

We agree with imposing a post-award securities obligation on the successful OFTO bidder. It is likely that projects will be more than £1bn, so it is not clear what the security will be set at (as the CATO model states case by case for projects over £1bn). It may be prudent to set a %age as per the CATO model for projects less than £1bn.

**Q9. What forms and levels of compensation are appropriate to mitigate the risks faced by generators in the event that an OFTO delay impacts a generator's route to market under an early competition framework?**

We feel that a holding of the TRS until the assets are commissioned is appropriate, however this may not be enough to convince the generator who may expect payments to cover loss of generation revenue, should the OFTO assets be delayed.

**Q10. Do you agree that OFTOs would be sufficiently incentivised under a similar payment mechanism to CATO and generator build regimes to deliver transmission assets on time and to sufficient quality?**

Yes. The CATO payment mechanism, where TRS payments are made once the asset has been made available for operational service and energised, should provide sufficient incentive to the OFTO. Without the TRS, the OFTO would incur debt costs without receiving income (revenue).

**Q11. What challenges would a centralised tender approach pose to generators, OFTOs and other stakeholders? How can these challenges be mitigated?**

We believe a centralised tender approach is the correct way to proceed. The biggest challenge is with a perceived lack of control on the generator side, and the perceived increase in risk. To overcome or mitigate this, evidence of a successful central tender and build is required (a rather chicken or egg situation) and that will likely require a pilot project to run.

**Q12. Do you consider that centralised tenders can offer benefits by enabling the tendering of projects at their initial development, potentially at the point of seabed leasing?**



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Yes, we believe benefits can be derived from tendering at the point of seabed lease. The generators only have to consent their windfarm lease area, and a route to the OFTO asset (where it is outside the generator seabed lease) and can bid on the seabed lease without factoring in HVAC or HVDC technologies, export cable corridor consenting & connection point onshore. It should de-risk their projects.

For the current OFTO investors however, there is more risk compared to the current situation where they bid on a known, consented, working asset. This will need to be considered.



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