



Energy for
generations

ESB Generation and Trading's Response to Ofgem's Call for input on OFTO Build: Ways Forward for an Early Competition Model

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1. INTRODUCTION

ESB Generation and Trading (ESB GT) welcomes the opportunity to respond to the Ofgem call for input on the OFTO Build: Ways Forward for an early competition OFTO build model. ESB GT believes that the developer build model and OFTO competitive auction process, to date, has shown success in delivering large-scale low carbon electricity generation in Great Britain (GB) in a timely, efficient and low-cost manner. This approach has been, and will continue to be, critical in aiding to support the delivery of the UK Government's climate targets¹. Ofgem's previous Late Competition model for OFTO build of non-radial assets² created substantial risk to developers and OFTOs, and created a framework that may have resulted in the Holistic Network Design³ (HND) being undeliverable. Given this, ESB GT again welcomes the revised approach from Ofgem, and the proposals to introduce an early competition OFTO build model, which will enable a more holistic approach to third party network delivery both onshore⁴, and offshore. We believe if implemented efficiently, this model has the potential to create clear delineations of responsibility, provide developers with confidence on OFTO delivery, and prevent unnecessary delays to the construction of the vital infrastructure required to enable Net Zero in a timely and economic manner. ESB GT has set out below its high-level positions on this call for input.

2. HIGH-LEVEL COMMENTS

In this section, ESB GT has provided comments on the key issues within the paper and areas for future consideration.

Early Competition OFTO Build Model

As previously stated in our response to Ofgem's policy update⁵, ESB GT supports the decision to introduce the early competition OFTO build model as one of the options available for the build of non-radial assets. The suggested proposals in this consultation appear to sufficiently support the introduction of this option. ESB GT believes that the early competition OFTO build model offers a usable solution to address the coordination challenges posed by non-radial infrastructure but must remain optional for developers alongside the successfully implemented developer build model.

ESB GT welcomes the potential for the early competition OFTO build model to be an option for radial assets as well as non-radial. To date the existing OFTO-build model has never been adopted by

¹ [Offshore Wind Net Zero Investment Roadmap \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/671111/Offshore-Wind-Net-Zero-Investment-Roadmap.pdf)

² [Consultation on initial proposals for an OFTO Build model to deliver non-radial offshore transmission assets | Ofgem](https://www.ofgem.gov.uk/consult/condocs/ofto/ofto-build-model-to-deliver-non-radial-offshore-transmission-assets/ofto-build-model-to-deliver-non-radial-offshore-transmission-assets.pdf)

³ [Beyond 2030 | ESO \(nationalgrideso.com\)](https://www.eso.co.uk/beyond-2030)

⁴ [Decision and updated policy position on the onshore electricity transmission Early Competition commercial framework](https://www.ofgem.gov.uk/consult/condocs/ofto/ofto-build-model-to-deliver-non-radial-offshore-transmission-assets/ofto-build-model-to-deliver-non-radial-offshore-transmission-assets.pdf)

⁵ [OFTO build model: policy update | Ofgem](https://www.ofgem.gov.uk/consult/condocs/ofto/ofto-build-model-to-deliver-non-radial-offshore-transmission-assets/ofto-build-model-to-deliver-non-radial-offshore-transmission-assets.pdf)

developers or OFTOs, and allowing further optionality for developers, is welcome. Overall, ESB GT believes that the developer build model will remain the optimal model in most cases for generators. This model has delivered a significant amount of offshore generation to the benefit of customers. The developer build model provides the commercial and operational security associated with a generator having been directly involved in delivering the network asset who ensures the export of their generation. Therefore, this must remain an option alongside early competition OFTO build model for future non-radial and radial projects.

Tender Design and Bidder Assessment

The greatest commercial and operational risk to generators is an inability to export their power. If an OFTO were to lead the build of the associated transmission assets, there must be strong, transparent and robust incentives to ensure construction, commissioning and the on-going O&M management is appropriate to the needs of the connecting generators.

ESB GT is supportive of the alignment with the CATO model on the inclusion of non-price criteria for OFTO bidders. However, for the purposes of applying this to the early competition OFTO build of offshore transmission assets, there must be a significant emphasis placed on the bidder's delivery experience, technical expertise, and O&M capabilities. Particularly in the case of non-radial transmission assets (where there is a single network asset to landfall, and multiple offshore sites reliant on this asset), weighting these factors alongside price can ensure that high-quality bidders are attracted to participate in the tender process, and developers can be confident that the expected high standards will be met by the winning bidder. This can help to improve developer confidence in participating in the early competition OFTO build model.

Furthermore, although centralised tendering offers coordination benefits for generators, it must be carefully designed to avoid suboptimal outcomes and maintain developer optionality. While, acknowledging that future interaction between future plan-led offshore coordination (via CSNP, and SSEP), and future Contracts for Difference (CfD) allocation rounds may help better identify and monitor such risks, in the short-term the risk of substantial design changes may impact the confidence of developers.

Incentivising reliability and delivery of OFTO build transmission assets

Delays to the delivery of transmission assets are a significant risk to generators especially when that delivery is outside their control. It is essential that OFTOs are adequately incentivised to deliver their assets in a timely manner, and that these assets remain reliable during their lifetime while also ensuring that adequate compensation is provided to generators when these assets are unable to export power.

ESB GT believes that a phased progressive reduction of the Tender Revenue Stream (TRS), which is payable to the OFTO by the developer, would balance the concerns that Ofgem has around financial incentives for OFTO's and the need to ensure that generators are not negatively affected by something outside their control. This reduction would be taken off the total offshore Transmission Network Use of System (TNUoS) costs once the offshore transmission network is delivered and the generator is exporting power. Within this, the reduction in offshore TNUoS could be set at, for example, £X/MWh for the first six months, increasing by £Y for each six-month period of additional delays, until all transmission infrastructure has been delivered. The £/MWh reduction values would need to be reflective of the potential costs that may be incurred due to the OFTO delay.

This option has the potential to bring a range of benefits including 1) reducing risk as the developer retains its 20 year contract, while also accessing compensation for any delays faced, 2) consumers benefits from lower CfD bid prices as risk is reduced, whilst also retaining access to twenty years of CfD protected energy prices and 3) it creates a longer-term incentive on the OFTO for efficient and timely delivery due to the increasing penalties faced over time. An example of how this may work in practice is set out below, using illustrative figures.

1. Developer wins a CfD auction with a bid of £90/MWh;
2. The OFTO Tender Revenue Stream to recoup offshore TNUoS costs is set at £5/MWh;
3. The OFTO is late by 6 months, equating to £0.5/MWh reduction to offshore TNUoS. Developer is paid £90/MWh via the CfD subsidy mechanism but pays the OFTO £4.5/MWh;
4. The OFTO is late by 12 months, resulting in an additional £0.5/MWh reduction to offshore TNUoS. Developer is paid £90/MWh but pays the OFTO £4.0/MWh.

This potential solution provides both the developer and OFTO an incentive for timely delivery, whilst reducing the potential impacts to consumers. Thus, supporting a more sustainable low-cost transition to Net Zero for GB. However, it is crucial that Ofgem work with DESNZ in order to ensure that the CfD contract is not eroded due to OFTO delays, with milestones moved in alignment to the period of delays incurred (i.e. Milestone Delivery Date and Longstop Date), ensuring developers are not unfairly penalised due to third party actions.

Further factors affecting availability of non-radial transmission assets

One area regarding availability of future OFTO build assets for non-radial configurations, is the specific risk and management of non-radial assets representing a single point of network failure. We appreciate the cost and network efficiencies of such a configuration. However, this specific factor on single point

of failure is not clearly discussed in this paper. We consider it is pertinent to the discussion around incentives for bidders and ongoing availability of non-radial transmission assets.

The non-radial configuration involves a single connection asset making landfall, with several offshore generation projects radiating from this single access point for export. Ofgem needs to be cognisant and protect against the potential loss of such infrastructure (e.g. through accident, trip, or malicious actions), that can have a cumulative impact on several different generation assets “behind” this transmission asset. Plans for how this risk should be managed by the appointed OFTO, incentives to support mitigating action and solutions, should be considered by Ofgem in the design of future tenders for non-radial transmission infrastructure.