

OFTO Build: Ways Forward for an Early Competition Model

National Grid Response 30 October 2025

This response to Ofgem's "OFTO Build: Ways Forward for an Early Competition Model" dated 4 September 2025 (the Consultation) is from National Grid plc (NG). This response incorporates the perspectives of National Grid Ventures (NGV) - our electricity interconnector business and National Grid Electricity Transmission plc (NGET) – our transmission business.

Executive Summary

We welcome the opportunity to respond to this consultation. Earlier competition models could help facilitate offshore coordination and deliver greater value for consumers, noting that no shared offshore assets have been delivered to date under the existing frameworks.

The existing arrangements are not delivering coordinated solutions and if unchanged, could result in worst outcomes for consumers. The current model for seabed leasing, Offshore Transmission Owner (OFTO) regulation and Contracts for Difference (CfD) allocation has made coordinated and shared solutions challenging to deliver ahead of need. In particular, the model of leasing the seabed for offshore wind first and then generators delivering their own transmission infrastructure has led to a situation where radial solutions are the quickest and lowest risk option.

Offshore wind connections are becoming more expensive with generators increasingly keen to take this cost off their balance sheet and focus on wind farm development. Continuing with a radial approach will require more infrastructure development than coordinated solutions, leading to increased costs and environmental impacts as well as a suboptimal use of scarce seabed and landing points. This could limit future offshore wind capacity and international electricity export/import opportunities.

Strategic planning provides the opportunity to identify coordinated solutions ahead of need. Going forwards, offshore networks will need to become more 'multipurpose' and coordinated, for example shared connection assets for multiple windfarms/ Offshore Hybrid Assets (OHAs). The development of long-term strategic planning, via the Strategic Spatial Energy Plan (SSEP), and greater visibility of future seabed leasing through The Crown Estate's (TCE) Marine Delivery Routemap, provides a major opportunity to identify 'needs' early.

Following the SSEP publication, there is a window to use competition to unlock coordinated offshore solutions ahead of the next seabed leasing round. This requires a strong commitment to the SSEP pathway to underpin the required anticipatory network investment and provide sufficient time to design and deliver coordinated solutions.

We support early competition models to enable developers to compete for design and delivery of coordinated assets. A critical success factor of the OFTO build model is to maximise participation and therefore benefits to consumers. Early competition models provide the opportunity for bidders to compete on both design and delivery whilst ensuring timely delivery of coordinated solutions. In designing the OFTO build model, Ofgem should explore both very early competition (i.e. on system needs) and early competition (i.e. based on strategic parameters solutions). These models should attract the parties with the best solutions, the strongest capabilities, and the risk appetite to deliver highly complex coordinated solutions projects.

For either approach, the Centralised Strategic Network Plan (CSNP) will have a critical role in identifying coordinated offshore solutions and ensuring that onshore and offshore solutions jointly deliver greatest value for consumers. Therefore, the timing of competition must consider the timing of CSNP activities. Furthermore, to facilitate a competitive approach, it is critical that National Energy System Operator's (NESO) updated CSNP methodology provides more detail on how offshore options will be assessed and how developers will be engaged in this process.

To identify the most credible solution and delivery organisation, a combination of price and non-price tender assessment criteria should be used. To assess credibility and capability to deliver complex and novel coordinated solutions, bidders should compete on a range of price and non-price factors. This should include delivery approach and capability including aspects such as procurement and consenting as well as operability strategy and financing. Given the

complexity of coordinated solutions, and that none have been delivered to date, the criteria should be weighted more to non-price factors.

To ensure delivery, a future model needs to incentivise delivery of coordinated solutions and balance risk/rewards appropriately between parties. Careful consideration must be given to the commercial framework to ensure it supports an appropriate risk reward balance between developers, generators and consumers. This needs to reflect developer risks associated with the complexity of offshore delivery, including supply chain, and the impact of late or non-delivery of transmission on generators, and consumers, through timely delivery incentives. A competitive process run ahead of or in parallel to seabed leasing could provide greater confidence to generators of timely delivery and help to identify the “best” solution.

Where appropriate there should be alignment between the Competitively Appointed Transmission Owner (CATO) and OFTO models to facilitate participation and competition and create a strong pipeline of projects. However, it is important to recognise the models have different drivers and objectives which should be reflected in the resulting commercial frameworks.

We are supportive of developing an OFTO build model to maximise the opportunity to deliver coordinated solutions from the next offshore wind leasing round(s). We look forward to working with Ofgem on the development of the early OFTO build model and are happy to discuss our feedback in more detail.

Responses to specific questions

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?

In developing the OFTO build model, Ofgem must consider the following:

1. **Alignment is needed between the SSEP, seabed leasing and CfD activities to maximise the opportunity for competition.** Currently, Generators engage with several organisations (TCE/Crown Estate Scotland (CES), NESO and LCCC) to secure a seabed lease, grid connection and CfD. The SSEP provides an opportunity for greater alignment between organisations to identify system needs earlier and enable delivery of coordinated solutions. Collaboration between these organisations is essential to ensure that leasing, grid connection and CfD activities are aligned with the SSEP and provide sufficient time for a competitive process that delivers coordinated solutions.
2. **The model should focus on delivering coordination and providing the appropriate incentives and allocation of risks between parties.** To date no coordinated OFTO solutions have been delivered and generators are increasingly reluctant to deliver connections to shore. The current risk/reward incentives balance between OFTO developers, generators and consumers does not provide sufficient confidence that third parties can deliver coordinated connections. The proposed OFTO build model should focus on incentivising coordination and appropriately allocate risks between parties. Specifically, the model should balance generators' need for timely delivery and the transmission developers' need for an investable framework that enables delivery of coordinated solutions. Further, the model needs to take an anticipatory investment approach, giving generators and developers confidence that there is sufficient time to deliver coordinated solutions, accounting for supply chain and delivery risks.
3. **Ofgem should consider both competition approaches, i.e. 'very early' approach based on system need or an 'early' approach based on strategic parameters.** A critical success factor for the OFTO build model is to maximise benefits for consumers. Earlier competition is likely to deliver greater benefits by providing more opportunity for developers to innovate. The CSNP will have a key role in determining which onshore and offshore options deliver most value for consumers; therefore, Ofgem should work closely with NESO to consider how these approaches would interact with the CSNP methodology. Irrespective of the approach adopted, it is critical that NESO's updated CSNP methodology provides more detail on how offshore options will be identified and assessed, how developers will be engaged in this process including their ability to propose options and the level of detail that will be provided by the CSNP outputs.
4. **Ofgem should consider regulatory alternatives to Tender Revenue Stream (TRS).** Non-radial OFTOs will have higher capex than traditional radial projects, require more complex solutions and connect higher generation volume. Given the different nature of these assets, we encourage Ofgem to consider alternative approaches to a TRS. The OFTO build model must be investable, provide high confidence of cost recovery and fair returns alongside sufficient incentives for delivery and reliable operation.

Q2. Do you think the principles regarding the process and the commercial framework 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 think the OFTO build framework should apply to both radial and non-radial assets, where the competitive process ultimately decides the optimal combination of radial and/or non-radial assets. Recognising that there are different drivers and delivery risks between non-radial and radial assets, we believe that, where appropriate, there should be alignment between the process and the commercial framework principles for the different asset types. This should however recognise the complexity of non-radial delivery compared to radial and therefore consider the risk allocation between OFTO developers and generators as well the timely delivery incentives for radial and non-radial assets. Overall, assuming the complexity and different drivers are recognised, this alignment should enable developers to see a clear pipeline of projects, and the potential for a tender to accept different solutions/ multiple asset types to connect a group of wind farms.

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 do not think that radial projects would benefit from a substantially different framework. A late competition model would not provide an OFTO developer sufficient incentivisation to take over the project as it moves into construction given the

risks it would be required to accept, including late delivery risk. Feedback to previous consultations¹ covering late competition models emphasised the importance of the party undertaking the detailed design also delivering the infrastructure and that handovers between parties should be avoided.

We think aligning the approach taken for radial and non-radial projects supports a clear pipeline of projects. This can support increased developer interest in all offshore development and deliver on the critical success factor of maximising participation. Using a substantially different framework for radial projects could reduce developer interest and limit the pool of competent and willing developers to deliver coordinated solutions.

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 both price and non-price elements should be included in the bidding process and assessment criteria. A competition must serve to identify the best solution by the most willing and competent developer(s). The overall tender weighting should be geared towards these non-price factors; this is true irrespective of whether a very early or early approach is adopted.

The non-price factors should focus on delivery strategy and capability, including quality, safety, innovation, approach to procurement and consenting workstreams and financing and operations strategy. This will help to guarantee the credibility of the delivery organisation, its proposed option development and delivery plan. This should result in better overall outcomes for consumers. In contrast, a significant focus on price is likely to encourage a “race to the bottom” bidding strategy and risk successful delivery. Where competition happens at the same times across the OFTO build and CATO regimes, we see value in aligning the CATO tender criteria and processes where appropriate to maximise bidder participation.

The earlier competition is conducted, the higher the focus should be on non-price elements. This higher focus on non-price elements will serve to reflect the inherent price uncertainty that exists when projects are tendered at an early stage of maturity. Ofgem should look to apply a collaborative approach to cost management and incentivisation in the OFTO build model. The tender criteria and model should facilitate delivery of optimal overall outcomes, with costs robustly controlled through well designed incentive mechanisms. Successful bidders should be incentivised to make well considered and transparent price versus non-price trade-offs based on the needs of different stakeholders and control costs through project delivery stages.

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?

We believe that the upfront tender should focus on:

- The bidder’s experience in the development, construction and operation of complex offshore infrastructure. This should include technical, commercial and regulatory experience, including its ability to navigate and manage requirements from different stakeholders, authorities etc.
- Evidence of the robustness of the proposed solution, including quality, design and project plan.
- The bidder’s ability to develop, construct and operate the asset. This includes financial viability, project management, operations plan.

This approach, alongside a model which incentivises collaborative behaviours from bidders throughout the project’s lifecycle, should enable the ‘best’ solution from the ‘best’ bidder to ultimately be successful. The successful bidder’s credibility and the solution deliverability should be assessed upfront. Following tender award, the successful bidder must be appropriately incentivised throughout the project lifecycle to make appropriate delivery choices which reflect the needs of impacted stakeholders.

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?

Further to our response to question four, the current CATO Post Preliminary Works Cost Assessment (PPWCA) mechanism becomes less appropriate the earlier the competition model for OFTO build is. A very early OFTO build tender process requires greater scope for price changes to reflect the increased uncertainty in costs due to the lower maturity of the design. A collaborative delivery approach, where a successful bidder is incentivised to make project

¹ Paragraph 3.4: [Minded-to Decision and further consultation on Pathway to 2030](#)

choices considering both price and non-price factors, would enable transparency of costs and trade-offs between the successful bidder and Ofgem. This should deliver the best outcomes for consumers.

A similar approach is the taken for the interconnector and OHA Cap and Floor assessment process. Developers propose projects during application windows and their projects are assessed on deliverability, a GB/UK cost-benefit analysis and preliminary forecast costs. Projects with positive needs case receive Initial Project Assessment approval. At late development/ early construction stages (Final Project Assessment) and at the start of operations (Post Construction Review), ex post and ex ante cost assessments are undertaken. Through these stages developers are incentivised to ensure economic and efficient delivery during project delivery and Ofgem's cost assessment enables flexibility to adjust the project design as the project matures, where doing so presents the optimal solution.

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?

A form of preliminary works payments is necessary to support the successful bidder's cashflow and incentivise competition. Offshore transmission infrastructure delivery costs have increased significantly in recent years and this trend should be reflected in the model design. The CATO mechanism for determining preliminary works payments is still being finalised; in principle, a similar mechanism is likely to be appropriate with payments linked to pre-construction milestones as defined between the successful bidder and Ofgem. The higher the allowable preliminary works payments, the more attractive the OFTO build regime is likely to be for prospective bidders as it helps to de-risk delivery thereby supporting increased participation.

Previous precedent in marine HVDC development demonstrates the benefits of such an approach. In the EU, interconnector developers have access to development funding through the Connecting Europe Facility (CEF). Pre-Brexit, CEF funding was also available to GB interconnectors, allowing developers to de-risk their development expenditure through grants of up to 50% of costs; these grants were primarily used for seabed surveys. Before the more recent requirement for capacity reservations, seabed surveys were the highest cost development activity, and they remain vital to completing detailed design. A form of preliminary works payments for OFTO build will provide the same development incentive, driving participation from prospective bidders.

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 that a post-award security obligation is essential to ensure that successful bidders are sufficiently incentivised to deliver assets they have committed to in the tender process. The size of the security needs to balance the risk reward of incentivising a bidder to deliver on its commitments without overly inflating bids, where this cost is priced in.

As there is no 'incumbent' offshore developer to step in should the project encounter difficulties, a suitable level of security is essential. Further, coordinated solutions are likely to be complex and expensive, which significantly limits the pool of potential parties that could deliver the project should the successful bidder decide to walk away. This contrasts with the CATO framework where projects are likely to be less complex and could be included in an incumbent TO's wider portfolio.

We would welcome further details on how Ofgem is considering any potential OFTO of last resort process. We would expect the model to detail the principles for this, noting that coordinated solution delivery will be more complex than the current radial OFTO approach.

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?

Central to the success of the OFTO build model is ensuring that the risks of the OFTO build model are appropriately allocated between the OFTO developer, generator(s) and consumers. Specifically, it must balance the need for timely delivery, while also ensuring the model is investable with manageable risk. As balancing the risks between the parties will be complex, the model framework will need to set out clear principles on risk allocation ahead of any tendering activities. A compensation mechanism must be calibrated with some project-by-project flexibility considering the

complexity, novelty and scope of the project. As the SSEP provides the opportunity to identify system needs earlier, there is the ability to reduce the risk that projects are delivered late and therefore reduce the risk exposure for all parties.

Q10. Do you agree that OFTOs would be sufficiently incentivised under a similar payment mechanism to CATO and generation?

We agree that triggering the TRS payment on completion of the asset provides a timely delivery incentive. The model will need to define how the agreed delivery date is determined and the potential delay events that are considered out of the OFTO developer's control.

Whilst we agree that this payment approach incentivises timely delivery, we think Ofgem should consider other models for returns (see our response to question 1) and appropriate mechanisms to ensure timely delivery. Compared to traditional projects, non-radial OFTOs will have higher capex, more complex engineering solutions and connect higher generation volumes. Given the different nature of these assets, we encourage Ofgem to consider alternative regulatory models that focus on investability, providing high confidence of cost recovery and fair returns, this could include preliminary works payments linked to project milestones. This needs to be balanced with providing sufficient delivery and operational incentives.

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

As only radial solutions have been developed by generators to date, we recognise that the centralised tender approach may be the only mechanism to support offshore coordinated solutions development. The tendering body would be able to coordinate the multiple organisations and pre-tendering inputs and assess how the proposed solutions interact with onshore solutions; ultimately determining that the solution which delivers most whole system value for consumers.

It is critical that the framework clarifies:

- How and when the tender would be triggered without generator request.
- The roles and responsibilities of different parties during the tendering process, including information provision requirements.
- How long after the SSEP/CSNP identifying system needs/potential options, a centralised tender would be triggered.
- The risk allocation in the event that a centralised tender delays an individual generator's delivery programme.

We think a tender should be triggered as early as possible to avoid either 1) a lengthy time delay whilst multiple generators agree on the proposed tendering approach and/or 2) any aborted development work. Given the long lead times for offshore transmission, a lengthy programme delay before a tender is triggered risks leaving insufficient time to run a tender.

We also think it is critical that the body responsible for the tender process has sufficient experience of offshore network development to be able to assess the credibility of bidders. This includes their proposed delivery strategy and technical solution and the interactions with onshore network development. This organisation would need to have sufficient levers to mandate the wind developers to input and support the tender process.

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?

We think that there is a clear case for change to explore the resequencing of activities to deliver coordinated solutions. The current ordering of seabed, grid connection and CfD has meant that to date it has been faster for generators to secure their seabed lease first and then deliver their own transmission infrastructure. In future, generators will have even lower risk appetite where the current regulatory frameworks do not provide an appropriate risk allocation for coordinated solutions.

We agree that running the centralised tender for offshore transmission solutions either before or in parallel to seabed leasing would likely resolve these challenges. It would ensure that there is a delivery organisation in place that is willing, competent, and sufficiently incentivised to deliver coordinated solutions. The sequencing of the centralised tender would need to consider the dependencies and interactions between seabed leasing, CSNP and CfD auctions to give the potential OFTO developer sufficient time to deliver and the generator delivery confidence. This would require strong commitment to the SSEP pathway, therefore providing sufficient time to develop and deliver coordinated solutions.