



OFTO build: ways forward for an early competition model

SSER response
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Joe Underwood, Anthony Nevin, Allegra Evans-Jones
Offshore Transmission Network
10 South Colonnade
Canary Wharf
London
E14 4PU

SSE Renewables
Inveralmond House
200 Dunkeld Road
Perth
PH1 3AQ

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Angeles.SandovalRomero@sse.com
+44 1738 351591

By email to oftobuild@ofgem.gov.uk

Dear Joe Underwood, Anthony Nevin, Allegra Evans-Jones,

Introduction to SSE Renewables

SSE Renewables (SSER) is a leading developer and operator of renewable energy generation, focusing on onshore and offshore wind, hydro, solar and battery storage. Part of energy infrastructure company SSE plc, UK-listed in the FTSE100, it is delivering clean power assets to increase SSE's operational renewable generation capacity as part of a five-year clean energy delivery plan to 2027, the ~£17.5bn Net Zero Acceleration Programme (NZAP) Plus. This includes delivery of one of the world's largest offshore wind farms – Berwick Bank, which will be capable of generating up to 4,1GW of clean electricity, enough to power over six million homes.

SSE Renewables has a team of around 2,000 renewable energy professionals with a passion for championing clean energy delivery, each based across the markets in which it operates. Its core market focus is on the UK and Ireland, with a growing international presence in carefully selected markets in Continental Europe and Japan.

Summary

SSE Renewables welcomes the opportunity to respond to this consultation on 'OFTO build: Ways Forward for an Early Competition Model'.

Overall, we are broadly supportive of the early competition model for OFTO build. However, we believe further work is needed in several areas to ensure its effectiveness and appeal to market participants.

It is essential to recognise that the model must address the risks of late delivery and cost uncertainty – both of which are ultimately borne by generators. These factors are critical for Offshore Wind Farm (OWF) developers and will significantly influence the viability of the model.

From a developer's perspective, timely and on-budget delivery is the required outcome. Therefore, the framework must incorporate appropriate incentives to promote this outcome and offer robust assurances that developers will be fairly compensated in the event of delays or cost overruns.

In Appendix 1 we have responded to the individual consultation questions, and below we provide a summary of the key points of our response:

- An early competition model is a welcome addition to the OFTO build model and it could be used beyond non-radial assets. Radial assets could also benefit from using this model.

- However, the model introduces key risks – particularly the risk of late delivery and cost increases. These risks must be effectively managed to ensure the model remains attractive and viable for OWF developers.
- One way to manage cost increases during construction is by socialising those costs. As a reminder, under the CATO model, onshore generators socialise the cost of TNUoS charges, whereas offshore generators are required to cover the majority of costs of the assets via the local TNUoS charge. This means that any cost increases have a significant financial impact on OWFs.
- Generally, OWFs can only make an informed investment decision with full OPEX visibility ahead of the Contracts for Difference (CfD) application, which typically occurs two to three years before construction begins. Any cost increase after the CfD application will significantly impact the OWF's investment case.
- In the event of construction delays by the OFTO, we think that OWFs should be compensated in proportion to the damages caused by the delay, which should be translated into Liquidated Damages (LDs), covering both additional costs from original equipment manufacturers (OEMs) and loss of revenue. In order of magnitude these damages could translate into around 1 million a day.
- The introduction of a security obligation for the successful OFTO bidder, as proposed by Ofgem in this consultation, could also help mitigate the risk of delays and demonstrate the OFTO's commitment to timely and reliable asset delivery.
- An alternative approach to manage the risks of delays and cost increases is by allowing the OFTO to contract the OWF to undertake asset construction. While current regulations do not prohibit this arrangement, we highlight it to Ofgem as a practical solution to significantly reduce delivery risk. In this setup, the OFTO would not be liable to compensate the generator for delays, and cost management would remain between the generator and its contractors. Additionally, this approach would help lower the risk of construction failure by leveraging the generator's existing delivery capabilities.
- We consider that a non-price element in relation to experience of building transmission assets should be included in the bidding process. This would help ensure that Ofgem attracts capable and experienced OFTOs, thereby reducing the risk of delays and construction failures.
- We believe that the proposed OFTO build model is not sufficiently attractive to OFTOs. While we welcome the inclusion of preliminary work payments, this measure alone does not go far enough. Given the existing supply chain constraints in the market, we recommend extending the Advance Procurement Mechanism (APM) to the OFTO build model. This would help de-risk early procurement and improve the model's appeal to potential bidders.
- A centralised tender approach is an interesting long-term option, but it removes the flexibility currently available to generators. For example, generators may no longer be able to choose between a generator-build or OFTO-build model. For this approach to be viable, the regulatory framework supporting the OFTO build model must be fully developed. It must also be sufficiently attractive to both OFTOs and generators to provide the certainty required for successful delivery.

We would be keen to engage further with this agenda and would be happy to discuss our response in more detail.

Yours sincerely,

Angeles Sandoval
Regulation Manager

Appendix 1 – Detailed responses to consultation questions

1. 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?

For this model to work, the CSNP should be published alongside the asset classification, and seabed leasing must happen after those publications are available.

If Ofgem initiates a tender too early – such as during the leasing stage – the successful OFTO bidder may face substantial changes to the electrical design. A key lesson from the HND and HNDFUE processes is that electrical design is highly dependent on factors like market conditions, supply chain dynamics, and the maturity of technologies. During the HND process, these variables led to frequent and significant revisions to asset designs.

2. 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?

Yes, the same principles can apply to OFTO radial assets. If the OFTO build model is well developed it could become an attractive alternative for the existing generator build model. The existing OFTO build model available for OWFs has never been used because it is not attractive enough and it is seen as too risky by OWFs.

A well-developed OFTO build model could be a compelling alternative for both radial and non-radial assets. The main difference in applying the model to these two types of connections lies in the calculation of the TNUoS local charge. In a radial connection the OWF will pay the majority of the costs of the assets to the OFTO, whereas in a non-radial connection, the costs of the assets should be socialised across the multiple OWFs using the assets.

3. 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?

No. As we have emphasised in previous consultation responses, the late competition model presents a higher risk of delays compared to the early competition model. This is primarily because, given constrained supply chains and long lead times, procurement must commence very early in the development process – a requirement that is particularly difficult to meet under the late competition approach.

4. 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?

Yes, we believe that non-price criteria – particularly experience in building transmission assets – should carry weight in the tender process, similar to the current approach under the CATO model. It is essential that Ofgem attracts competent OFTOs to deliver these projects. Without this, the risk of delays and construction failures increases significantly.

5. 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?

The primary selection criteria should prioritise capability and a demonstrable track record in delivering transmission assets. In evaluating delivery capability, Ofgem should review the programme plan, team structure (including the organogram), contracting arrangements for OFTO assets, financing strategy, the OFTO risk register, and any other relevant supporting documentation.

The technical and commercial solution should include supplier selection criteria that prioritise quality, safety, and capability, and should align with ISO-equivalent procurement standards.

Additionally, there should be clear criteria addressing delay damages, warranties, and liabilities to ensure accountability and risk mitigation.

6. 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?

According to Ofgem the policy intention behind the PPWCA mechanism is that it is transparent, does not distort the competitive tender process, and ensures bidders cannot submit artificially low bids with a view to increasing costs after a successful bidder is determined. This is welcome; however, it is unclear how this policy could completely mitigate artificial bids.

In our view, the same mechanism could be extended to an OFTO build model, but cost increases must be communicated to the OWF in a timely manner. From an offshore wind farm perspective, managing cost increases is a key challenge within this model. As a reminder, onshore generators socialise the cost of TNUoS, whereas offshore generators are required to cover the majority of costs of the assets via the local TNUoS charge. This means that any cost increases have a significant financial impact on offshore wind developers.

While the PPWCA could be applied within an OFTO build model, it is crucial that any potential cost increases are communicated to the offshore wind farm (OWF) developer before the CfD application. In general, OWFs can accommodate cost increases that are disclosed prior to submitting a CfD bid – typically two to three years before construction begins. While developers can factor in potential cost increases through a CAPEX contingency in their CfD bids, there remains a risk of cost overruns. Developers have limited ability to accurately assess this risk and allocate a fair contingency to cover it. Therefore, passing on additional costs after the CfD application would increase costs for developers potentially undermining the investment case. This makes the OFTO build model particularly unattractive for offshore wind developers.

We think that is unlikely that cost increases are locked before the developer applies for a CfD. This is because the tender process will take place before construction, which means that the OFTO will need to submit proposed revenues based on cost estimates that could be subject to change. Additionally, this risk of cost increases is heightened for the design complexities associated with offshore non-radial assets.

We think there are 2 ways of addressing this issue:

1. Cost increases could be socialised between OWFs and consumers.
2. The OFTO could contract the OWF to build the transmission assets with a commercial contract where cost increases are managed between the generator and their subcontractors. This

option addresses the risk for the OWF who deliver first. Other interconnected OWFs with later connections may still underwrite the risk of uncertainty as they will not be in control of delivering the assets.

7. 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?

Preliminary works payments are a good way to attract bidders and incentivise the participation of new entrants, so it is a welcome addition to the model.

We believe the preliminary works payment should be determined in line with the approach used in the CATO model. We envision this working in the following way; NESO would provide early-stage funding to the OFTO, with the costs initially covered by consumers. These costs would then be deducted from the TRS at the commissioning stage, ensuring that consumers are reimbursed. Importantly, this mechanism should not affect the TNUoS payment made by the generator.

It is important to ensure that these work payments do not affect the generator's offshore TNUoS charge, as this could introduce further uncertainty for OWFs.

In our view, an additional incentive is needed to address early payments related to supply chain constraints. OFTOs should receive funding to procure equipment that may not be available later due to long lead times. We recommend extending the Advance Procurement Mechanism (APM) policy to OFTOs to support this. Without such support, there is a high risk of delays, as OFTOs may be unwilling to commit to early-stage expenditure. Further details on the risks associated with supply chain constraints are provided in our response to Question 10.

8. 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?

Yes, as previously noted, one of the key risks associated with this model is the potential for delays or failure during the construction phase. Given that multiple offshore wind farms (OWFs) will depend on these assets to ensure timely access to market, it is essential to provide generators with confidence that the infrastructure will be delivered as planned. Introducing a form of security would reinforce the OFTO's commitment and accountability, demonstrating that it is serious about meeting delivery timelines.

Since security obligations are also typically required by lenders providing debt financing for such projects, we recommend that Ofgem engage with leading financial institutions to better understand their expectations in this area.

9. 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?

In the case that the OFTO experiences delay during construction, we think that OWFs should be compensated in proportion to the damages caused by the delay, which should be translated into Liquidated Damages (LDs). This should include both original equipment manufacturer (OEM) added

costs and loss of revenue. In order of magnitude these damages could translate into around 1 million a day.

It is important to note that in the worst scenario, a delay from the OFTO could translate in the loss of a CfD.

We suggest the development of a multi-party agreement, which can consider the interests of the generators, OFTO, and contractors. In this way, compensation mechanisms should be set from the start on a negotiation basis.

Generator contracted by the OFTO

An option to mitigate the risk of delays is that the OFTO contracts the generator to deliver the assets. Currently, there is nothing in the regulation that would stop OFTOs contracting the generator. We bring this to Ofgem's attention as it is a way to significantly reduce the risk of delays. In this scenario, the OFTO would not be required to compensate the generator for delays, and cost increases could be managed between the generator and their contractors. Additionally, this setup would reduce the risk of failure during construction.

10. 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?

Considering existing market conditions and the complexity of the offshore network, other incentives are needed to encourage OFTOs to build transmission assets.

Supply chain risk

Currently there is a heightened risk of supply chain constraints in the HVAC and HVDC market, particularly the latter. This situation is forcing developers to place contracts earlier, taking on high costs and liabilities, which are approaching a point of becoming untenable. The period of time from entering into a capacity reservation agreement with an HVDC original equipment manufacturer (OEM) to having a commissioned HVDC system onshore and offshore is circa 6-8 years presently (2024/25 figures). This risk is magnified in the case of coordinated, non-radial connections, where a developer may be responsible for constructing the network infrastructure for several other offshore wind farms.

This problem does not disappear when using the OFTO build model. In this scenario, it is the OFTO who must assume the commercial costs and liabilities. This becomes challenging as it is unlikely that an OFTO will be willing to accept this risk.

We recommend that Ofgem explore options to reduce supply chain risk for OFTOs. We recently, supported Ofgem's proposal to de-risk supply chain capacity for TOs through early funding mechanisms. We think a similar mechanism could apply to an OFTO build model, for example, Ofgem could extend the APM to OFTOs.

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

This is an interesting approach that may prove effective in the long term. However, it removes the flexibility currently available to generators. For instance, under this centralised model, generators would no longer have the option to choose between a generator-build and an OFTO-build model. The OFTO-build model would be mandated, limiting the generator's ability to select the delivery approach that best suits their project.

For this model to be viable, the regulatory framework underpinning the OFTO build model must be fully developed. It needs to be sufficiently attractive to both OFTOs and generators to provide certainty and encourage participation. At present, the OFTO build model is perceived as high-risk, primarily due to the potential for delays and cost overruns, which could undermine the generator's investment case. Moreover, in its current form, it does not appear compelling enough to attract competitive bidders. Only once these risks are adequately addressed, could the OFTO build model be considered a credible and workable option within a centralised tender approach.

12. 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?

While this approach may appear attractive – particularly because it allows construction to begin early, potentially reducing the risk of delays – it also introduces several significant risks:

- **Project Uncertainty:** there is a potential risk that not all OWFs awarded a seabed lease will proceed to development, which could result in stranded transmission assets.
- **Design Rigidity:** Offshore transmission infrastructure is more complex to redesign than onshore systems, as it is closely tied to the specific delivery plans of the OWF.
- **Cost Volatility:** The design of the transmission assets is likely to evolve substantially over time, increasing the risk of cost escalation.