

Ørsted Response to Ofgem's Call for Input on OFTO Build: Way Forward for an Early Competition Model

Ørsted welcomes the opportunity to respond to Ofgem's Call for Input on the potential introduction of an early competition OFTO build model. We fully support Ofgem's objective to deliver efficient, reliable, and coordinated offshore transmission infrastructure that underpins the UK's offshore wind ambitions, energy security and net zero targets. However, we believe that the current early competition model presents several fundamental challenges that must be addressed before it can be considered a viable approach for coordinated offshore delivery.

The proposed model raises significant concerns around capability, risk allocation, governance, and technical coordination. Many OFTOs do not currently have the experience or delivery capability required to construct complex and large-scale offshore transmission assets. Without strengthened pre-qualification criteria and a more rigorous assessment of delivery competence, the model risks delays, cost overruns, and underperformance. Generators also face misaligned risks, as their ability to generate revenue depends on timely transmission delivery over which they have no control. This imbalance could undermine investment confidence unless accompanied by robust compensation mechanisms similar to those seen in other European markets.

Ørsted considers that the generation build model should remain the default for radial connections, as generators are best placed to manage delivery risk and ensure efficient project execution. However, should Ofgem wish to introduce competition in this area, Ørsted believes a hybrid model, in which the OFTO contracts the generator to deliver the transmission asset, could offer a more practical and efficient solution. This approach would retain the benefits of generator-led delivery, such as alignment with project timelines and technical expertise/specifications, while enabling Ofgem to test competitive principles in a way that avoids unnecessary complexity and risk at the project interface.

Across both radial and coordinated projects, the commercial framework should balance price and non-price factors, ensuring that technical competence, delivery capability, supply chain access, and operational experience are central to the evaluation process. Post-award securities, proportionate incentive mechanisms, and fair treatment of cost

changes will also be critical to maintain investor confidence and protect against stranded or delayed assets.

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OFTO Build Cfl

While a centralised tender process may support the development of coordinated offshore networks, it should not be applied to radial assets, where flexibility and innovation are best preserved through a generator-led approach.

Any future framework must clearly define roles, responsibilities, and risk-sharing between Ofgem, NESO, OFTOs, and developers to ensure that offshore transmission delivery remains efficient, coordinated, and investable.

Overall, Ørsted supports Ofgem's ambition to introduce greater competition and coordination in offshore transmission, but we believe substantial refinement is required to the early competition OFTO build model. The focus must be on strengthening delivery capability, rebalancing risk, and establishing the governance and technical frameworks needed to support timely, coordinated, and cost-effective offshore network delivery.

We have set out below our response to the consultation questions, they provide constructive input to support Ofgem's ambition of an OFTO build model to deliver a credible and cost-optimal coordinated offshore transmission infrastructure in the future.

Consultation Response

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?**

The proposed early competition OFTO build model presents several significant challenges that must be addressed before it can be considered a viable option for delivering coordinated offshore transmission infrastructure.

A key barrier is the limited capability of many OFTOs. Most lack the construction experience and technical skills necessary to deliver complex, large-scale, coordinated assets. Unlike developers, OFTOs do not currently undergo rigorous pre-qualification on delivery capabilities, increasing the risk of delays, cost overruns, and underperformance.

Generators face misaligned risks under this model. While their ability to generate revenue is entirely dependent on timely transmission delivery, they have no control over OFTOs' capability to deliver on time as well as performance. This imbalance could deter coordination and undermine investment certainty. In contrast, other European markets (e.g. the Netherlands, Germany, France, and Poland) have introduced compensation mechanisms to protect generators in cases of delay, which GB should consider adopting.

The Detailed Network Design (DND) process poses further complications. Coordinating between multiple developers, each with their own timelines and commercial drivers will require clear governance structure, with defined responsibilities and accountabilities. Without formal governance, progress risks being delayed or misaligned.

There are also potential technical barriers to a coordinated network, particularly around Grid Code compliance. Unlike the current generation build model, where compliance testing is done at a fixed Transmission Interface Point (TIP), a coordinated system may shift TIP locations, complicating testing. As wind farms connect at different times, repeated simulations may be required, creating uncertainty over responsibility, funding, and the risk of duplicated or inconsistent work if roles are not clearly defined.

Further to the technical barriers, design conflicts over the specification of the shared infrastructure may also emerge between developers, for example, differing preferences for redundancy or innovative/flexibility solutions, which can be challenging to resolve without some standardisation or a structured coordination framework.

To address the challenges highlighted above, Ofgem should implement more robust pre-qualification criteria for OFTO bidders, ensuring they can deliver complex infrastructure at scale. While this approach may narrow the pool of eligible participants and reduce competitive tension on price, it would ultimately enhance the quality and reliability of competition by focusing on bidders with proven delivery capability and financial resilience. In practice, this would help reduce the likelihood of project delays, cost overruns, or performance issues that could outweigh short-term price advantages gained from a broader but less capable bidder pool. By strengthening pre-qualification standards, Ofgem can balance competition with delivery assurance, ensuring that any future competitive model delivers value not only through price but also through timely, efficient, and reliable project execution. The risk profile for generators should also be rebalanced through compensation mechanisms for delays, aligned with practices in other European countries. NESO should be given formal responsibility for leading the DND process, with clear governance structures, rules for data sharing, and dispute resolution mechanisms. Ofgem and NESO should work with developers to establish a shared approach for Grid Code compliance that suits shared transmission infrastructure. Coordinated testing after the full network is built can minimise duplication and ensure fairness, with clear responsibilities for compliance testing and reporting defined upfront. Finally, core elements of transmission design should be standardised to reduce conflict and ensure compatibility across projects.

Importantly, Ofgem should ensure it is adequately resourced to manage the significant demands of developing a new model alongside its existing programme of work. Ofgem has indicated that it may need to establish a new licence framework, cost assessment process, and tender procedures to enable the OFTO build model. This represents a substantial undertaking, and the development of this new model must not detract from the timely delivery of upcoming tenders and transactions. The UK's growing offshore wind pipeline remains dependent on a well-functioning OFTO regime to ensure that renewable generation can connect to the grid and export power efficiently.

While early competition OFTO-build may offer long-term value, the model as it stands is not yet ready for coordinated offshore delivery. Capability, risk, governance, and technical clarity all need to be strengthened to support successful implementation.

- 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?**

We believe the generation build option should remain the default for radial connections. Generators are uniquely positioned to manage risk, coordinate project timelines, and ensure that radial assets are delivered efficiently and on schedule. These assets are usually bespoke to a single generator's project, and handing over control of delivery to a third party introduces unnecessary complexity and risk.

However, if Ofgem seeks to explore early competition for radial projects, a hybrid model could offer a more practical solution. In this alternative structure, the OFTO would contract the generator to build the asset. This would retain the generator's control during the most time-sensitive and risk-heavy phases of delivery. This approach would also give generators the ability to manage delivery risks and cost increases directly, without requiring compensation mechanisms or complex dispute resolution structures.

We acknowledge that this approach is untested, and it may therefore be argued that this approach could lead to higher upfront costs for the OFTO, as contracted generators might include risk premiums in their pricing to account for uncertainties beyond their control, and the OFTO may also be concerned about potential blurred accountability for project delivery. However, these issues can be managed through contracts that clearly define responsibilities, set performance milestones, and include appropriate risk-sharing arrangements.

- 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?**

See response to question 2

- 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?**

We support the inclusion of both price and non-price elements in the OFTO bidding process. A purely price-based approach risks encouraging a "race to the bottom," with bidders seeking to win contracts by undercutting on cost, potentially at the expense of quality, deliverability, and long-term reliability.

To address this, Ofgem should consider adopting a two-stage evaluation process similar to the CfD regime. In the first stage, bidders would be assessed against a set of robust qualitative criteria without price being considered. This would enable Ofgem to shortlist only those bidders that demonstrate a strong technical and delivery capability. These shortlisted candidates would then move to a second evaluation stage, where price becomes the primary determinant.

This approach ensures full consideration is made to whole-system outcomes; ensuring that only competent, experienced bidders with sound delivery plans can compete on price. This combination ensures a continued reduction of Tender Revenue Stream (TRS); ultimately providing value to consumers and supporting the delivery of safe and reliable transmission infrastructure.

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?

A meaningful assessment of non-price factors is vital to ensuring that only capable and credible OFTOs are selected to deliver the offshore transmission infrastructure. However, Ofgem would need to take care when setting the criteria and ensure that there is an appropriate balance between the necessary competences and ability for new entrants to participate. Given that an OFTO build model is likely to require new parties to enter in order to be functional, it's important that the framework avoids narrowing the market.

Key non-price criteria should include the bidder's ability to access and coordinate with the offshore transmission supply chain. Given the current constraints in manufacturing and logistics for items like cables, substations, and HVDC components, bidders must demonstrate realistic plans for procurement, delivery scheduling, and long-lead item availability.

Technical competence is also essential. OFTOs must show a proven ability to deliver large, complex infrastructure projects on time, within budget, and to the correct technical specifications. It is worth bearing in mind that OFTOs currently have to meet a certain technical threshold in order to be eligible to bid within the existing framework. This ensures that bidders have the necessary competence and expertise; and should be retained.

Planning and consenting expertise should also be a core part of the assessment. Offshore transmission infrastructure often involves extensive environmental and stakeholder issues. Bidders should have a clear understanding of the permitting process and a track record of successfully managing it.

Finally, operational capability should be evaluated. OFTOs are not only builders of infrastructure but also long-term asset operators. Bidders should be able to demonstrate that they have the systems, personnel, and operational experience to manage the asset throughout its lifecycle, maintaining high availability and low operational risk for connected generators.

Collectively, these non-price criteria will help identify bidders capable of meeting both technical and programme requirements, not just offering low-cost bids.

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?

Our ref.: Orsted/Ofgem
OFTO Build CfI

The PPWCA mechanism from the CATO model can, in principle, be applied to the early competition OFTO build model. However, rather than triggering the PPWCA adjustment when substantive cost changes occur between bid submission and the commencement of construction, it would be more appropriate to apply it to the period between bid submission and the signing of construction contracts. This timing better reflects the point at which key cost commitments are made and aligns more closely with the intent of the PPWCA mechanism.

To adapt the PPWCA mechanism for use in the OFTO build model, Ofgem would need to tailor it to reflect the characteristics of offshore transmission projects, such as their specific risk profiles, longer development timelines, and dependencies with generator delivery schedules.

Additionally, the design should ensure that any cost adjustments are transparent and equitable, considering how changes affect all relevant parties, particularly generators. Significant and unexpected cost increases in transmission infrastructure risk undermining the commercial viability of associated generation projects. If costs rise beyond what generators can absorb, especially after critical development milestones, the generation project may become uneconomic. This, in turn, risks leaving transmission assets unused, resulting in stranded infrastructure and wasted investment.

To mitigate this risk, Ofgem should develop a clear framework for managing cost changes that align with offshore wind development timelines. There are key points in the generation development lifecycle, most notably around CfD bid submission, beyond which generators cannot accommodate further cost increases without compromising revenue.

A potential solution is to socialise cost increases occurring after a defined point in the development cycle, such as a set number of years before construction starts. This approach would protect generators from bearing excessive risk and support stable investment signals.

Alternatively, an arrangement where the OFTO contracts the generator to build the transmission asset could be considered, allowing the generator to manage cost risks directly. This model may be especially suitable for radial connections where the generator has more control over delivery.

Overall, Ofgem should leverage the considerable offshore wind developers' experience in delivering transmission infrastructure while refining the OFTO build model to balance risk, incentivise timely delivery, and protect all parties involved.

- 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 may be necessary for some early competition OFTO projects, particularly where there is a significant time gap between tender award and the commencement of TRS payments. In such cases, these payments could provide important cash flow support during the early mobilisation phase, helping maintain delivery momentum and reducing financing pressures on bidders.

However, while some form of preliminary works payment or cost adjustment mechanism may be justified, this should be accompanied by a clear and transparent cost assessment process to ensure that only reasonable and efficient costs are covered. Consistency with the existing OFTO framework should be retained, particularly the expectation that developers will actively mitigate certain cost risks, such as hedging against commodity price fluctuations, and are required to justify any cost increases through appropriate scrutiny.

We consider the proposed 50% cap on preliminary works payments to be higher than may be reasonable and potentially counterproductive. Such a level could create perverse incentives, encouraging bidders to tender at artificially low prices with the expectation of subsequently recovering a substantial proportion of costs through the preliminary works mechanism. Strong governance and oversight will therefore be essential to prevent this and to maintain competitive discipline.

Ultimately, any approach must ensure value for money and an appropriate allocation of risk between developers, OFTOs, and consumers. We reiterate the importance of carefully considering the impact of cost changes on generators. If transmission-related costs increase beyond what generators can absorb, particularly after key milestones such as CfD submission, generation projects could become uneconomic, risking underutilised or stranded transmission assets. Therefore, it is paramount that Ofgem develops a robust and well-aligned commercial framework to managing cost changes effectively and protecting all parties involved.

- 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?**

Introducing a post-award securities obligation for successful OFTO bidders is a sensible and necessary measure to protect generators and reduce the risk of stranded assets. It increases confidence that the OFTO will be delivered and to the agreed specification.

However, Ofgem should ensure that the requirement for securities does not simply result in higher TRS bids, as the costs would be ultimately passed on to consumers. Securities should be proportionate and should also include late delivery or failure to deliver, with a robust assessment process. This is essential as generators' business cases depend on timely connection to the grid.

A well-designed securities framework will align incentives and ensure that delivery is taken seriously by all parties involved.

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?

Generators facing delays in OFTO delivery require effective compensation mechanisms to protect their commercial viability and maintain overall investor confidence in GB offshore wind sector. We encourage Ofgem to adopt a combination of approaches to mitigate the financial risks that generators may incur due to OFTO delays.

One potential approach is to withhold a portion or all of the OFTO's revenue stream during delay periods and use these funds to compensate affected generators for lost revenue or additional costs. This would reflect a similar precedent to what is seen in the CfD regime and creates a strong financial incentive for OFTOs to meet delivery deadlines.

Alternatively, a liquidated damages mechanism could be developed establishing clear, predetermined penalties for each day or week that the OFTO delivery is late. This approach would provide certainty to both generators and OFTOs about the financial consequences of late delivery and could allow developers to better price in delay risks in their business cases.

In some cases, it may be appropriate to socialise compensation costs across all system users, especially where delays arise from external factors beyond the OFTO's control. This approach, similar to the Anticipatory Investment framework considerations, can act as a safety net to ensure generators are not left fully and solely exposed to delay risks.

Without robust compensation mechanisms and correct incentives to ensure timely OFTO delivery, the risk of delayed delivery by an OFTO party would significantly reduce appetite for investment in GB offshore wind.

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?

We believe that simply adopting a payment mechanism similar to the CATO and generator build regimes will not, on its own, provide sufficient incentives for OFTOs to deliver transmission assets on time and to the required quality. The generator build option has consistently been utilised to date because generators have an inherent motivation – given that their revenue is intrinsically linked to transmission

delivery – to deliver the transmission infrastructure on time, to high standards, and within budget. OFTOs are unlikely to be sufficiently motivated to prioritise timely delivery or exceed quality standards.

Our ref.: Orsted/Ofgem
OFTO Build Cfl

Therefore, it is essential to implement a robust incentive framework that goes beyond current models. This framework should include clear penalties for delays and underperformance, as well as rewards for early or high-quality delivery. Without these measures, there is a risk that OFTOs may not sufficiently prioritise timely delivery, which could negatively impact generators, the wider energy system, and investor confidence in the offshore wind sector.

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

As the offshore transmission system shifts towards a more coordinated and centrally planned network, a centralised tender process could help streamline system development. However, this approach may also create challenges for generators. In particular, it risks stifling innovation and restricting the flexibility generators have to design solutions that could enhance system efficiency and benefit consumers.

It is important that centralised tendering is limited to non-radial assets. Ofgem should avoid imposing a centralised approach on radial connections, which are more appropriately delivered under the generator-build model.

Centralised tenders are best aligned with early development milestones, such as seabed leasing, to provide clear direction to all parties involved.

Finally, for centralised tendering to succeed, a clear supportive regulatory framework must be in place to enable effective coordination. For instance, questions remain about how projects within a coordinated offshore transmission system would compete fairly in CfD auctions. These issues around coordination and competition need to be addressed to make the approach viable.

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?

Carrying out a centralised tender exercise at the point of, or in parallel with, seabed leasing would be a sensible way to tender electrically coordinated projects and to align development timings for the array and transmission. We note that as part of the Celtic Sea seabed leasing process (Leasing Round 5), the Holistic Network Design concluded prior to the point that developers tendered for the seabed development rights.

Aligning the network design with the seabed lease gives developers additional certainty at the point of bidding and can reduce the likelihood of disagreement among developers, where coordination is required, on the approach to transmission development.

However, if the tender took place at an early stage (at or prior to seabed leasing), there are some considerations that the responsible body, as well as all relevant parties, would need to account for.

Firstly, projects coming through in leasing rounds could have substantially different timelines, most notably when it comes to achieving planning and may also decide to phase capacity. This could create complications when it comes to delivery of the transmission infrastructure.

In addition, a large gap between the point of tender and the successful delivery of the transmission system may be undesirable for the party responsible for delivering the infrastructure. Ultimately, the developer of the transmission system will need to commit a large amount of capital to the build and will want to see a return as soon as possible. Holding the tender exercise at the earliest possible stage may therefore limit the pool of bidders who are both capable and willing to deliver. Bidders will also want to understand the likely timeframes for connecting assets to minimise the gap and ensure efficient delivery of the transmission system.

In terms of the appropriate body to administer a centralised tender, Ørsted's view is that NESO would be best positioned to take on the role as they are leading on the network design. However, Ofgem will need to play a key role in overseeing the process, particularly in the event of disagreement or dispute between parties.

Yours sincerely

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