Decision

OFTO Build: Late Competition

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We consulted earlier in the year on both the early and late competition OFTO build models. This decision document looks to set out Ofgem's final position on the late competition model, ahead of a minded-to decision in the coming months on the early competition model.

The OFTO regime was developed to facilitate an OFTO build model. This has always been an option for generators who wish to take it up, although to date none have done so. The size, complexity and value of assets have increased significantly over the past fifteen years, and the transmission market has evolved since the inception of the OFTO regime. This has led us to review whether the OFTO build regime remains fit for purpose and we have consulted on that.

We received 20 responses from a range of developers, OFTOs and potential participants within the regime.

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1. Introduction

1.1 We consulted in May on both the early and late competition OFTO Build models[1]. This decision document looks to set out Ofgem's position on the late competition model. We will also publish a document in the coming months that will set out Ofgem's approach on the early competition model.

1.2 This decision looks to update the existing late competition model, to provide flexibility for the development of offshore transmission assets.

Context and related publications

1.3 The OFTO regime has been in operation since 2009, and OFTO build has always been an option within this model.

1.4 Ofgem published an overview of how the late competition model should operate in 2014[2], which looked to introduce greater flexibility under an extended OFTO build framework. The intention was to provide the flexibility to respond to both the current and future requirements of offshore generators and to adapt to specific project characteristics, while continuing to protect the interests of present and future consumers.

1.5 We further consulted in 2024 on OFTO build models, where late competition for non-radial assets was considered and discounted as the primary model to support coordination.

1.6 However, following market engagement, we noted that there was still an interest in the market for a late competition OFTO build model. Our consultation in June looked to further explore issues raised by market participants, including in response to the Call for Input for early competition OFTO build, published last year.

Decision-making stages

Stage 1 Consultation open: 7 May 2026

Stage 2 Consultation closes (awaiting decision). 2 July 2026

Stage 3 Consultation outcome (decision) 5 November 2026

[1] OFTO build: early and late competition models | Ofgem

[2] OFTO Build: Providing additional flexibility through an extended framework | Ofgem

2. Model Scope

This section sets out our decisions on the scope and delivery model for OFTO Build: Late Competition.

Introduction

2.1 In May, we consulted on our proposed remit for late competition, which was that the model was to be used primarily for radial assets that are at an advanced stage of design.

2.2 We noted our proposal that tenders under the late competition model would be for the construction and operation of the offshore transmission asset, and that we expected generators to have developed a detailed asset design and progressed the project sufficiently to hand over to an OFTO to begin construction.

2.3 We also set out that the original late competition OFTO build model was set up to facilitate an EPC (Engineering, Procurement and Construction) model, in which the OFTO would sub-contract the developer , to construct the asset. We asked for views on whether this should be the model available for the refreshed late competition model, or if there were other options we should consider.

Questions we asked

Q2. Do you agree with the proposed remit of the late competition model?

Q3. Do you agree that there should be approaches other than the EPC models set out in 2014 available under the late competition model?

Summary of responses

2.4 The majority of respondents agreed with the proposed remit for the late competition OFTO build model. They noted that targeting projects that were well progressed in design was proportionate and well suited to a late competition model as well as reducing the risk of a stranded asset. Many wind farm developers also said that design maturity can reduce uncertainty and interface risks before responsibility transfers to an OFTO.

2.5 However, some respondents flagged that a late competition model would mean that OFTOs are not able to make major procurement decisions (particularly for transmission equipment). They also noted that this could cause a number of practical issues around novation of major contracts between parties. Some smaller wind farm developers also suggested that this would leave a level of uncertainty around liabilities and costs (e.g. equipment reservation fees) incurred by developers before asset transfer.

2.6 Responses also noted that a late competition model would allow a broader pool of investors to participate as it would not require the higher level of development

risk associated with early competition. Some potential investors noted that it would act as a helpful 'stepping stone' for potential participants into the early competition model. All respondents agreed that the late competition model should remain voluntary, and driven by generator choice.

2.7 The majority of responses were in favour of maintaining a wider range of delivery options than set out in 2014, provided they are demonstrably workable and do not increase delivery or interface risk. Some respondents noted that the EPC model will support the alignment of capabilities, expertise, and risk ownership between both parties, as well as simplifying complex novation issues for major procurement contracts. Others said that they felt that integrated EPC models should remain the preferred approach because they provide the greatest confidence for developers, lenders and investors.

Our decisions

2.8 Based on the feedback received, our intention remains that the primary use of the model will be for radial assets that are well progressed in design, and that it will remain a generator choice model.

2.9 We have carefully considered the possible delivery options for the model alongside the impact on delivery, interface and novation risks. On balance, our view is that we expect any pilot projects for the late competition model to follow a generator EPC model. This is because it reduces delivery and novation risks, as well as closely matching the profile of projects that we see in the market.

2.10 Following these pilot projects, we will undertake an exercise of lessons learnt and consider whether and how to expand to allow for other delivery models.

3. Tender process

This section sets out respondents' views on the proposed tender process and Ofgem's decisions on it.

Introduction

3.1 In our May consultation, we stated our intention to align the high-level tender process with that set out in existing OFTO Tender Regulations[3].

3.2 Figure 1 below sets out the key milestones in the development of generation and transmission assets and how the OFTO build tender process could map on to this.

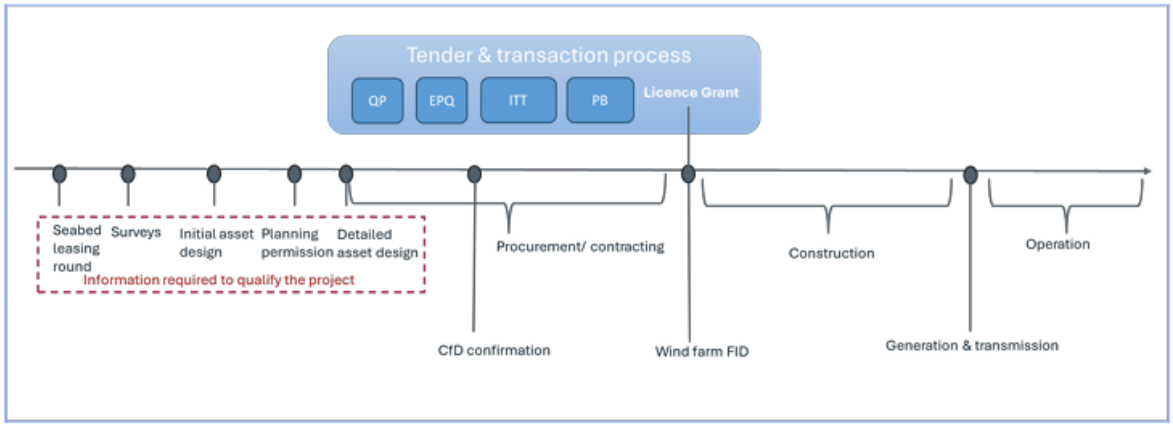


Figure 1: Key Tender Milestones

Summary of proposed tender process

3.3 We set out in the consultation our view that the late competition OFTO build model should have a different tender timetable because the established milestones used in the generator build model, such as completion notices and statutory asset divestment deadlines, do not apply. Instead, we proposed that the tender process would be aligned with key stages in the development of the generation project and the requirements of the Tender Regulations.

3.4 Our view was that the project qualification and Enhanced Pre-Qualification (**EPQ**) stage can begin once the generator has secured a seabed lease, completed surveys and detailed design work, and obtained planning consent. At this point, sufficient information should be available for a data room to be established and for bidders to assess the opportunity. We said that the EPQ stage is expected to take around six months and should conclude before the relevant Contracts for Difference (CfD) Allocation Round (the earliest round in which the generator

[3] The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015

intends to make an application for their project) to ensure bidders are qualified in advance.

3.5 Once a project secures a CfD, giving greater confidence that construction will proceed, the invitation to tender (**ITT**) stage would begin. This stage is expected to take longer than under the generator build model, potentially up to 8 months, reflecting the greater complexity and scrutiny required. Following bid evaluation, a Preferred Bidder (**PB**) would be selected and would progress through a 6-month PB stage.

3.6 Overall, the ITT and PB stages are expected to take around 18 months, allowing the OFTO licence to be granted in time to align with the generator's Final Investment Decision (FID) and the commencement of construction This reduces the risk of stranded assets and ensures coordinated delivery of generation and transmission infrastructure. The process will end without licence grant if the project is cancelled before the end of PB stage.

Tender costs

3.7 Tender costs are the fees paid by generators, bidders or the OFTO to support the administration of the OFTO tender process. We proposed that the approach for OFTO build projects should mirror the existing generator build model.

3.8 To manage bidding costs while encouraging competition, we also proposed maintaining the current approach whereby bidders can recover certain ITT-stage costs if a generation project is cancelled by the developer. If a project is cancelled during the ITT stage, the generator must reimburse bidder costs up to a cap set by Ofgem. If cancellation occurs within 3 months of a PB being selected, the generator must cover the costs of all bidders and the PB. If cancellation occurs later, **reimbursement is limited to the PB's ITT and PB-stage costs.**

3.9 This will need to align with the Ofgem Tender Regulations, which allow for reimbursement where Ofgem has issued a Regulation 14 notice, and up to the maximum cap specified in that

Bidding costs

3.10 Stakeholders have identified EPQ-stage bidding costs as a potential barrier to new entrants, particularly where project uncertainty is higher. To address this, Ofgem has consulted on allowing bidders to recover certain EPQ costs, such as consultancy support, up to a specified cap for 1 successful EPQ attempt. We will consider the approach for early and late competition alongside the decision making in that consultation and as we develop our policy framework.

Events of re-run and cancellation of tender or no appointment of OFTO

3.11 The OFTO Tender Regulations set out the events and processes available for reruns and cancellations of a tender.

3.12 For the late competition model, the existing framework allows sufficient flexibility to move to a generator build OFTO model later on in the project timeline or re-run the tender, should an OFTO build tender be unsuccessful, or if the project has to be withdrawn from tender.

Questions we asked

Q11. Do you agree with the timing estimations for each stage of the tender process? Please explain your reasoning.

Q12. Do you agree with the trigger proposed for commencing the tender process, with CfD award being the trigger for starting the ITT stage? Would this allow enough time to run the transaction process? Please explain your reasoning.

Q13. Do you agree that OFTO build licence grant should be aligned with the wind farm asset FID that indicates the start of asset construction?

Q4. Do you agree that the generator should cover the costs of an ITT stage bid where the project is cancelled after this stage, as set out in the Tender Regulations?

Q5. Do you agree that replicating the generator build proposal to allow bidders to claim reimbursement of certain costs incurred for their first successful EPQ application is appropriate?

Q6. Do you think the EPQ passporting proposal would work in an OFTO build context? Please explain your reasoning.

Summary of Responses

Tender timing

3.13 Responses on the proposed tender timetable were mixed. Some respondents broadly supported Ofgem's proposed sequencing and timings/ However, many raised concerns that the timetable may be overly ambitious, particularly given the complexity of OFTO Build projects, supply chain constraints and the need to align with wider project development milestones. Several stakeholders highlighted uncertainties around procurement, design maturity and the interaction between the OFTO process and CfD timelines.

3.14 Stakeholders noted the importance of ensuring sufficient project maturity before competition is launched and maintaining flexibility within the process. Many respondents emphasised that project-specific factors, procurement requirements and external dependencies could significantly affect delivery timescales. They also noted that inadequate timing assumptions could increase project risk and reduce bidder confidence.

3.15 Responses on the proposed use of CfD award as the trigger for commencing the ITT stage were mixed. Several respondents supported this approach, noting that

CfD award provides a clear and objective milestone demonstrating a reasonable likelihood that a project will proceed.

3.16 However, others raised concerns that it occurs too late in the project lifecycle and could create challenges for procurement, financing and project delivery. A common theme was concern over the limited time available between CfD award and key project milestones, particularly given the complexity of OFTO Build projects and long lead times for transmission equipment. Smaller wind farm developers also noted that taking the cost of ordering transmission equipment may act as a barrier for them.

3.17 Several stakeholders noted that developers require greater cost and delivery certainty before CfD bidding, and that the model would need to support this objective.

3.18 Responses on aligning OFTO licence grant with wind farm FID were mixed. Several respondents supported alignment, arguing that it would improve coordination between generation and transmission delivery, reduce stranded asset risks and provide greater certainty for financing and investment decisions.

3.19 However, many stakeholders expressed concerns that transmission development and procurement activities often need to begin before FID due to long supply-chain lead times. Several respondents argued that delaying licence grant until FID could increase delivery risks and project uncertainty, while others favoured a more flexible approach to licence timing that provides sufficient certainty on transmission delivery without constraining project development.

Tender Costs and Bid Costs

3.20 The majority of responses on ITT cancellation were of the view that the reimbursement of ITT-stage bid costs may be appropriate where a generator is directly responsible for cancelling a project, provided costs are reasonable and subject to a cap. Most respondents opposed generators bearing costs arising from events outside their control, while many also noted that bidders should not be expected to bear cancellation risk.

3.21 Responses on EPQ cost reimbursement were mixed, although the balance of views opposed introducing reimbursement. Many respondents argued that EPQ costs should be treated as a normal cost of market participation and were unlikely to represent a significant barrier to entry compared with the wider costs and risks of bidding. Several stakeholders considered that reimbursement would do little to address the factors most likely to influence competition, such as qualification complexity, capability requirements and market uncertainty.

3.22 However, a number of respondents supported the proposal, arguing that it could help lower barriers for new entrants and encourage broader participation in the market. There was broad agreement that any reimbursement should be targeted, proportionate and subject to appropriate controls.

3.23 Responses on EPQ passporting were generally supportive, with many respondents viewing it as a means of reducing duplication, lowering administrative burdens and improving tender efficiency, particularly as the OFTO build pipeline grows.

3.24 However, most respondents emphasised that passporting should not replace project-specific assessment. Many noted that OFTO build projects require different technical, financial and construction capabilities, and therefore supported continued assessment of project-specific requirements. Several stakeholders also opposed passporting between Generator Build and OFTO Build regimes, while a minority opposed passporting altogether, citing the importance of assessing bidder suitability on a project-by-project basis.

Our decisions

3.25 Based on feedback received, and our decision to follow a generator EPC model for pilot projects under late competition OFTO build, we have decided to retain the proposed tender timing as set out in the consultation.

3.26 Our view is that the generator EPC model (wherein the OFTO sub-contracts the generator to deliver the transmission assets) will help address many of the risks respondents raised with the timeline. In particular, it will help manage risks associated with the long lead times for procurement required pre-FID, while also allowing generators to bid at CfD with full visibility of possible transmission delivery costs.

3.27 If other models are subsequently adopted for late competition OFTO build, Ofgem will review the tender timelines accordingly.

3.28 We have also decided to retain the current approach whereby bidders can recover certain ITT-stage costs if a project is cancelled by the developer. If a project is cancelled during the ITT stage, the generator must reimburse bidder costs up to a cap set by Ofgem.

3.29 Ofgem does not consider that bidders would be able to passport between regimes and expects bidders to qualify separately at the EPQ stage for generator build and OFTO build projects.

4. Evaluation Criteria

This section sets out our decisions on the evaluation approach for OFTO Build: Late Competition.

Introduction

4.1 In May, we set out that the proposed evaluation approach for OFTO Build: Late Competition would broadly follow the existing generator build tender process. We said that at the EPQ stage, bidders would be assessed against a set of minimum qualification criteria to ensure that only suitably qualified applicants progress to become Qualified Bidders (QBs) and be invited to the ITT stage.

4.2 At the ITT stage, we proposed that bids would be assessed using a combination of price and non-price criteria. We said that it was likely that it would include questions on the following areas, aligning with the competitively-appointed transmission owner (CATO) approach and the proposals for generator build:

- Capability in management and operations (including operations and maintenance approach, operational availability strategy, physical and cyber security);
- Construction (construction phase plan, procurement (where applicable), health and safety, environment and sustainability);
- Technical and professional ability, including financing strategy (financial advisory, model audit, funding of preliminary works and equity funding, debt term sheet compliance, debt financing strategy);
- Risk management and pricing (risk assessment and mitigation, pricing methodology and long-term cost assumptions); and
- Approach to decommissioning

4.3 We said that responses to each ITT assessment area would be scored and weighted, with the non-price scores considered alongside bid price when determining the preferred bidder.

Questions we asked

Q16. Do you agree with the 2-stage evaluation approach through EPQ and ITT for Late Competition? If yes, which criteria should be assessed as minimum entry standards at EPQ? If not, why not, and what would be better?

Q17. Do you agree with the proposed areas for assessment for Late Competition? Do you have views on any specific metrics that should be looked at?

Summary of Responses

4.4 Responses were strongly supportive of a 2-stage EPQ and ITT process. Most respondents agreed that the EPQ stage should act as a pass/fail assessment of bidders' financial strength, technical capability, construction expertise and delivery experience, ensuring that only credible bidders progress to the ITT stage. Many also supported offshore construction experience being assessed as a minimum qualification requirement.

4.5 There was broad agreement that the ITT stage should focus on the comparative assessment of detailed proposals, including delivery approaches, risk management, financing arrangements and price. Several stakeholders emphasised the importance of maintaining a clear distinction between the EPQ and ITT stages and ensuring that evaluation criteria reflect the specific challenges of offshore transmission delivery.

4.6 For ITT, responses were broadly supportive of the proposed assessment areas and the use of both price and non-price criteria. Many respondents emphasised that the evaluation framework should focus on identifying the bidder best able to deliver and operate the assets successfully, rather than selecting solely on the basis of lowest cost. Stakeholders generally supported assessment of operational capability, construction delivery, financial robustness, risk management and decommissioning arrangements.

4.7 A common theme was the importance of placing greater emphasis on demonstrated delivery capability, particularly offshore construction experience, programme management, supply chain resilience and interface management. Many stakeholders supported significant weighting for non-price criteria to ensure quality, deliverability and long-term value for consumers are appropriately reflected in tender decisions.

Our decisions

4.8 Having considered stakeholder feedback, we have decided to retain the proposed evaluation framework set out in the consultation.

4.9 We continue to consider that a 2-stage EPQ and ITT process is appropriate for OFTO Build projects. This approach ensures that only suitably qualified bidders progress to the detailed bid stage.

4.10 For pilot projects under the generator EPC model, we will ensure that the detailed evaluation criteria are tailored to reflect the roles and responsibilities associated with that delivery model, with particular emphasis on the successful delivery and management of comparable projects.

4.11 We will publish the detailed evaluation criteria and weightings in advance of any tender to provide transparency and certainty for developers and prospective bidders.

5. Delay risk allocation

This section sets out our decisions on the evaluation approach for OFTO Build: Late Competition.

Introduction

5.1 As we set out in May, the late competition OFTO build model has been available to generators and OFTOs since the launch of the OFTO regime. We understood from engagement with stakeholders that one reason that this has not yet been taken up is due to concerns around the risk allocation between both parties.

5.2 Under generator build, the generator constructs the transmission asset and therefore assume all delay risk associated with the transmission assets. The transmission asset and the wind farm are also constructed simultaneously so, at the point of divestment, both the wind farm and the transmission asset should be at the same or similar stages of completion. This is not the case where a third party is constructing the transmission assets, and therefore we proposed a number of measures to manage delay risk across both parties.

Developer risk of OFTO delay

5.3 We noted that there are existing provisions in the CfD that enable a developer to delay the subsidy if the delay is outside its control, and that this would apply in a late competition OFTO build scenario, protecting the generator's CfD from term erosion in the event of OFTO delay.

5.4 We also proposed that OFTOs would not begin to receive the TRS (Tender Revenue Stream) until the asset has been energised, to align with other similar regimes like CATO. This was to ensure that there is a strong incentive on the OFTO to complete the work in a timely manner. We also proposed that the revenue period is kept whole, to ensure that generators are not disadvantaged by a reduced TRS period.

5.5 In addition, we proposed a milestone-based penalty regime, under which OFTOs would incur financial penalties for late delivery, while retaining opportunities to recover from interim delays by meeting final delivery milestones. We considered a range of options, including a maximum penalty equivalent to 50% of 1 year's TRS for each year of late delivery, applied at a rate of 1/365 for each day of delay beyond an agreed start date. This penalty would be capped at 5% of the base TRS in any given year, with the maximum penalty for one year's delay being spread across 10 years.

OFTO risk of developer delay

5.6 We also consulted on the risks faced by OFTOs where transmission assets are ready but generation assets are delayed. To address this, we presented several options, including:

- TRS is paid from the agreed commencement date;
- recovery of financing costs; or
- mirroring the penalties proposed for OFTO delay, paid for by the delayed generator.

5.7 These proposals were intended to balance risk between generators and OFTOs while supporting the timely delivery of both generation and transmission infrastructure.

5.8 We also consulted on how OFTO readiness would be assessed without available transmission going through it (as deemed by Interim Section K Notification (ISKN) or Final Section K Notification, or other appropriate technical measures).

Questions we asked

Q22. What are your views on penalties through milestoning, with a total maximum penalty of 50% of 1 year's TRS, spread over 10 years, for each year of late delivery?

Q23. How do you expect the penalty regime to impact the capital structures of OFTOs, including financing requirements, rate of returns and other factors?

Q24. What are your views on the proposed measures to manage the OFTO risk of generator delay?

Q25. Should TRS be repaid if the OFTO asset isn't fully commissioned when the generator connects?

Q21. Do you agree that an ISKN-type construct (or equivalent technical certification) should be used as the primary basis for determining OFTO "readiness" where generator delay prevents full commissioning?

Summary of Responses

Developer Risk of OFTO Delay

5.9 Responses on the proposed milestone penalty regime were mixed. While a number of respondents supported the principle of financial incentives for timely delivery, many emphasised that penalties must remain compatible with project financeability. Several stakeholders considered that the calibration of penalties would be critical to maintaining bidder participation and competition.

5.10 A common theme was concern that the proposed penalties may not appropriately balance incentives, compensation and financeability. Some respondents argued that the proposed penalty levels were insufficient to reflect the losses generators could incur as a result of transmission delays. Stakeholders highlighted that delays could result in significant revenue, financing and contractual impacts for generators, while the proposed compensation mechanisms may only partially

offset these losses, particularly where payments are spread over an extended period.

5.11 They noted some European comparators where frameworks typically compensate generators for 90-100% of losses arising from TSO-caused delays.

5.12 Others considered the proposed regime overly onerous given that OFTOs would already face deferred revenue where assets are delivered late, noting that the cost of delay to the OFTO is significant, as it delays the start of its revenue stream under the TRS until commissioning.

5.13 Responses from prospective OFTO bidders also generally highlighted concerns that the proposed penalty regime could increase financing costs, reduce debt capacity and lead to more conservative capital structures. Many respondents noted that higher penalty exposure would likely increase investor return expectations, require greater equity contributions and ultimately result in higher bid prices.

OFTO risk of developer delay

5.14 Responses were mixed on how OFTOs should be protected from generator-caused delays. Many respondents agreed that OFTOs should be compensated where delays arise outside their control, but views differed on the appropriate mechanism. While some stakeholders supported OFTO revenue (TRS) commencing from the agreed date, others preferred compensation limited to efficiently incurred costs, particularly financing costs.

5.15 A common theme was the need to balance protection for OFTOs with maintaining appropriate incentives and avoiding excessive costs for generators and consumers. Several respondents expressed concern that automatic payment of TRS could overcompensate OFTOs, reduce incentives for timely completion and shorten the effective licence period available to generators. Many stakeholders therefore favoured compensation linked more closely to actual costs incurred. Others emphasised the importance of symmetrical risk allocation, clear attribution of responsibility for delays and ensuring that risks are borne by the party best placed to manage them.

5.16 Responses were also mixed on whether OFTOs should repay TRS where assets are later found not to be fully commissioned. Many respondents agreed that any repayment mechanism should be linked to the cause of the issue and should not penalise OFTOs for matters outside their control. Several stakeholders emphasised the importance of maintaining financeability and avoiding retrospective revenue uncertainty.

5.17 A common theme was that any repayment or clawback should be proportionate and reflect the extent to which the transmission assets are unable to provide their intended service. While some respondents supported repayment where assets are not fully functional, others favoured availability-based adjustments or

targeted deductions, rather than full repayment of TRS. Most stressed the need for clear attribution of responsibility and appropriate protection against overcompensation.

OFTO Readiness

5.18 Responses were generally supportive of using an ISKN-type construct to assess OFTO readiness, with many respondents viewing it as an objective means of distinguishing between OFTO and generator delays.

5.19 However, several stakeholders emphasised that readiness certification should not replace full commissioning and should be supported by clear standards and ongoing incentives to complete outstanding works. Many also stressed that OFTOs should remain responsible for rectifying defects identified after readiness certification.

Our decisions

5.20 Having considered stakeholder feedback, we continue to consider that the existing CfD protections for delays caused by the OFTO are relevant for late competition OFTO Build projects and note that they provide important protection for generators where transmission delivery is dependent on a third party.

5.21 We have also decided not to introduce an additional OFTO penalty regime. Having reviewed responses, we consider that the delayed commencement of the TRS provides a sufficient financial incentive for timely delivery, and additional penalties would neither meaningfully increase that incentive nor materially compensate generators when applied at a level that would ensure OFTOs remained financeable. It would, however, likely lead to increases in TRS levels due to the increased risk profile for bidders.

5.22 The cost of delay to the OFTO is significant, as it delays the start of its revenue stream under the TRS until commissioning. Extending the TRS term at the end of the licence could allow the OFTO to recover the same revenue in real terms, but this would only partly offset the effect of delay because revenues received later in the licence term have a lower present value than revenues received earlier. The overall effect of a significant delay is therefore a material reduction in the lifetime discounted value of revenues to the OFTO.

5.23 We recognise stakeholder concerns that further penalties could increase financing costs, reduce market participation and ultimately increase costs for consumers. Our view is that delaying the start of TRS until the transmission assets are available for service appropriately aligns incentives with delivery performance while maintaining a financeable regime for prospective OFTOs.

5.24 European regimes manage the construction of transmission assets offshore in a different way from in the UK, with transmission being usually constructed by one monopoly TSO, and generators being assigned a connection date. As a result, this

may not be an appropriate comparison for the OFTO Build regime, but it is worth noting that there are long connection queues and other drawbacks of other regimes with different characteristics that may provide fuller compensation for generators.

5.25 We recognise that OFTOs may incur costs where generators are delayed in developing the wind farm. We have therefore decided that OFTOs will be able to recover efficiently incurred financing costs. This approach seeks to keep OFTOs financially whole without creating windfall gains or imposing unnecessary costs on consumers.

5.26 We remain of the view that risks should, where possible, sit with the party best placed to manage them, and that the generator EPC model also supports the management of these risks, as the generator will be overseeing the construction work and will therefore be sufficiently incentivised to deliver on time.

5.27 We also will maintain the ISKN as a construct to assess OFTO readiness as a trigger to enable OFTOs to claim delay compensation (as set out above).

6. Other OFTO build components

This section sets out Ofgem's proposed approach to TRS adjustments.

Introduction

6.1 We set out that Ofgem's Cost Assessment approach for late competition OFTO build would be as set out in Part 3 of the Tender Regulations.

6.2 Ofgem is required to perform a cost estimate, then assessment of the value of costs incurred (or ought to have been incurred) by the developer ahead of the tender (i.e. the costs of the preliminary works and the value of the contracts that will need to be novated to the OFTO). These costs will form the 'transfer value' of the asset.

6.3 The regulations also require Ofgem to estimate the costs that ought to be incurred by the successful OFTO through the construction phase contracts. We will do this by cost assessment of the EPC.

6.4 These will be added to the 'transfer value' of the asset and together form the baseline value that we expect to see in any bid from the potential OFTOs.

6.5 Ofgem's assumption is that there will need to be a mechanism to adjust the TRS post-award in the event of unforeseeable costs outside of the OFTO's control. These will have to be cost assessed in order to manage the consumer's exposure to rising costs, as is the case with TRS adjustments in the generator build model.

Questions we asked

Q31. Do you agree with our proposed approach to TRS adjustments for late competition OFTO build?

Summary of Responses

6.6 Responses on the proposed TRS adjustment mechanism were mixed. Several respondents supported adjustments in principle, arguing that OFTOs should be able to recover efficiently incurred and unforeseeable costs outside their control to maintain project financeability and avoid excessive risk pricing.

6.7 However, many stakeholders emphasised that any adjustment mechanism should be tightly defined, transparent and applied only in limited circumstances. A common concern was that post-award adjustments could create cost uncertainty for generators, particularly at CfD bid and FID stages, and ultimately increase costs for consumers. Several respondents therefore supported clear eligibility criteria, governance arrangements and limits on recoverable costs.

Our decision

6.8 Based on the feedback received, we have decided to retain our approach to TRS adjustments, which is enabling OFTOs post-tender to submit requests for changes to the TRS, in the event of unforeseeable costs outside of the OFTO's control. These will have to be cost assessed in order to manage the consumer's exposure to rising cost.

6.9 We have noted feedback from respondents, and will ensure that these are managed tightly and assessed so that only economic and efficient costs are allowed. These will also only be accepted in the case of genuinely unforeseen or unforeseeable events.

Send us your feedback

We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this decision. We would also like to get your answers to these questions:

- Do you have any comments about the quality of this document?
- Do you have any comments about its tone and content?
- Was it easy to read and understand? Or could it have been better written?
- Are its conclusions balanced?
- Did it make reasoned recommendations?
- Do you have any further comments?

Please send your feedback to stakeholders@ofgem.gov.uk.