

## Introduction and Summary

SP Energy Networks (SPEN) welcomes the latest policy update and the additional information it provides.

An effective tendering process will be key to enabling potential Offshore Transmission Owners (OFTOs) to offer the design, build and operation of offshore transmission networks that will provide the service required by wind farm developers and the return required by investors whilst minimizing the risk to consumers. For the competitive approach to be effective it must remain attractive to potential participants and investors.

The process for transitional projects is considerably more straightforward than the enduring regime and we still believe that more consideration is required on how the regime will deliver timely, cost effective solutions for the future Round 3 offshore wind farm development zones. We remain convinced that this will only be effective if the OFTO is selected at the very earliest stage of the project where infrastructure can be designed that will facilitate the connection of current and future proposals in a managed and phased manner. Engagement of what is likely to be a limited supply chain is an essential component of timely delivery; early selection of an OFTO will allow it to have meaningful negotiations with suppliers and set up appropriate delivery models to secure best value for all concerned. We acknowledge Ofgem's view that the Crown Estates approach will in effect enable developers to drive the connection process. However we would question whether this developer-led approach will deliver the strategic infrastructure required to ensure the most effective offshore transmission solutions in terms of assets, price and timing in the enduring regime.

SPEN has the core competencies and resources available to participate in offshore transmission as an OFTO. However, if the regime is to be attractive the tendering process for the enduring regime must enable all OFTOs to make well-informed bids for the effective design, consenting, construction and operation of whole development zones.

Many of the specific comments below echo our views in earlier consultations.

### Chapter 4 Pre-Tender Requirements for Projects

Independent Audit Engineers Report – An audit report is an important document to enable the bidder to confirm that a project has in fact been constructed to specification and in line with good industry practice. The report should detail the specification to which plant and equipment has been procured and constructed and confirm compliance to these specifications. Areas that are difficult for a bidder to assess should be included within this report (for example inspection of vulnerable areas such as cable entry to J tubes, inspection of cable lay in the sea bed etc.). This report should however not act as a replacement for a potential bidder's own due diligence assessment. Potential OFTOs should have access to plant and equipment to make their own assessment of standards, this should include both completed and in-construction projects.

Timescale for completion – We believe that it may be difficult for a developer to commit to completion within 12 months of the OFTO licence being awarded. However it is essential that an OFTO has a clear understanding of when completion can be expected. The regime should include a mechanism to cover delays in completion beyond the 'agreed' completion date.

Developer and O&M Provision – We recognize that there could be significant benefit in OFTO and Developer making best use of each other's capabilities in terms of O&M and the logistics of access to offshore platforms. Any such arrangement should be a bilateral agreement with the Developer and OFTO and the associated terms and conditions negotiated between these parties.

Model Sale and Purchase Agreement – We believe that model Sale and Purchase agreements will be helpful to prospective OFTOs where a 'standard form of contract' is supplemented by clear variations as required and subject to negotiation.

### Chapter 5 Tender Process for the Transitional Regime

Information – For both the transitional and enduring process we believe that as much information as possible should be made available to the prospective OFTOs to enable them to make early judgment whether they do in fact wish to qualify as a potential bidder. This may require some or all areas of the data room available at this early stage, namely before pre-qualification for specific projects.

Pre-qualification – We would support general pre-qualification of potential OFTOs.

Consortiums and associated changes – It is possible that consortiums will change throughout the life of an OFTO and we believe that Ofgem should not limit how or when these changes might occur.

We do believe that Ofgem should not restrict exclusivity (or otherwise) of supply chains within bidding consortia. (5.25)

Selection Criteria – We support a clear understanding of selection criteria for each stage of the tender process. It should however be recognized that ownership of the associated offshore transmission assets requires clear commitment to the ongoing operation and management of the constructed plant and equipment. The ability and desire for the long term ownership and effective operation of offshore transmission assets is key to the long term delivery of renewable energy and as such believe that the weighting of the non-financial criteria particularly in terms of operational capability should reflect this.

Auctions – We believe that we are at too early a stage to judge whether auctions would be effective and that the first transitional projects should be tendered on the proposed ‘conventional’ basis. We would question, based on the importance of ability to deliver offshore transmission along with the ongoing commitment to ownership and operation, whether auctions will in fact be effective. (see above).

## **Chapter 6 – Tender Process for the Enduring Regime**

Time to tender – This is a crucial area for consideration in the enduring process. Bidders will be putting proposals together for complicated, costly networks, potentially using new HVDC technology and the design and procurement processes will take a considerable time. Although the document states that sufficient time will be allowed for bidders and their suppliers to prepare firm technical proposals, the requirement that at the time of identification of the preferred bidder they will have in place contracts and agreements that will include Design and Build Contracts and Operation and Maintenance Contracts is not viable. It is essential that following preferred bidder status the bidder is allowed to proceed with contract negotiations and the final terms of the price control are not invoked until these negotiations are complete. It is also possible that O&M contracts will not be finalized at this stage and the bidding OFTO should include a price for this element within their bid and accept any risk associated with market changes. This is particularly relevant for Round 3 Development Zones.

Tender windows – We would continue to support tender windows, but still believe that there should be some flexibility around timing. A rigid 12 month interval may be too short and in some instances an 18 or 24 month window may be more appropriate. Ofgem should take into account that for enduring projects the time taken to tender a project(s) will be considerably in excess of 12 months and tendering will ‘overlap’.

Round 3 – We believe that the approach to the provision of infrastructure and connection of the Round 3 Development Zones is crucial for the successful development of offshore renewables and offshore transmission. However we remain unconvinced that NGET’s role as GBSO coupled with the Developer’s ability to trigger connection applications will on their own result in the most effective timely infrastructure design. We believe that although the connection to a development zone is likely to be radial there must be the capability to extend and provide phased connections and this will only be effective where a single OFTO has the remit to develop the transmission system for the whole of the development zone. This OFTO can make the appropriate investment and environmental decisions. Any arrangement for these large, costly and complex connections should allow an OFTO to work with NGET to develop a timely, cost effective, phased infrastructure that can be built as the connections are required or in advance as the regulatory regime allows. We do not believe that even with the zonal partner arrangement for Round 3 the developers are likely to commit in sufficient time for the bidding,

design, consenting and procurement process to be in place to enable effective and timely connections. Early engagement of an OFTO for design and development of offshore development zones is key to the effective delivery of Round 3 infrastructure and connections.

### **Chapter 7 – Other Tender Process Issues**

We note that bidders will be required to fund their own and Ofgem's costs for any offshore tender. We believe that this is an onerous requirement and that to encourage full participation unsuccessful bidders should recover their bidding costs. For Round 3 Development Zones the design requirements will be extensive and, in conjunction with the early selection of an OFTO, consideration should be given to providing allowances to the OFTO to carry out detailed design works and the securing of suppliers' designs. The potential design considerations for the integration of multiple HVDC systems should not be underestimated.