Statkraft

Offshore Electricity Transmission: Consultation on tender exercises und er the enduring regime - Response

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Introduction

Decision to pursue a single "OFTO build" option at this time

Statkraft understands Ofgem's proposals to pursue a single OFTO build model at present, based on the "late OFTO build" concept. This option offers the best potential to make OFTO build acceptable to offshore wind developers to deliver transmission assets to directly connect offshore wind generation to the UK transmission network.

Having said that, Statkraft would propose that Ofgem consider very carefully whether there in addition may be a place for the "early OFTO build" model. Work under the Offshore Transmission Co-ordination Group (OTCG) is currently exploring the potential for a co-ordinated offshore network as part of the UK transmission network. Should this process determine that there is the potential for offshore assets to be utilised as wider reinforcements (i.e. not required to directly connect an offshore wind generator to the transmission network but for wider system benefits), the early OFTO build may be a very suitable option for the delivery of such assets. Examples include:

- Inter-project links within a zone which are not required by the projects to connect but offer wider system benefits by reducing the volume of onshore reinforcement required

- Inter-zone links proposed by the NETSO as wider system reinforcements bypassing onshore reinforcements

Since these assets are not required by the wind-farms to connect, they could be decoupled from the conventional OFTO tender process (where the generator triggers the tender process at a time that suits the wind-farm development cycle) and tendered separately, triggered by a suitable design authority. This would then fit very well into the early OFTO build model, whereby the OFTO consents, designs, procures, owns and operates the asset. A suitable mechanism, similar to that currently used for the onshore Transmission Owners (TOs) would need to be found to provide commercial comfort to the selected OFTO. Because the assets would not be required to facilitate the connection of a wind-farm in order to allow generation to commence, the timing of delivery of such an asset could be based on a process similar to how current onshore TOs ensure efficient and economic expenditure on such strategic reinforcements.

An additional advantage is that the early OFTO build model for assets which are not critical path for the connection of wind generation would allow OFTOs to build up experience and competence in the marine environment, and lead to increased confidence from the developer community that there are technically competent OFTOs in the market. This would increase the likelihood of developers utilising the OFTO build models, since there would be increased confidence in the ability of OFTOs to procure and build in the marine environment and deliver to the timelines which generators require. This would

remove one of the biggest obstacles to developers selecting OFTO build. Assets such as inter-project links within an offshore zone would be in the order of £100m capex to construct, and hence is still a very significant construction project to demonstrate technical and delivery competence.

Ofgem should, as part of its further consultation on co-ordinated offshore networks, give significant thought to how the early OFTO build model could be adapted to deliver wider co-ordination benefits while at the same time protecting consumers by ensuring that such assets were not brought forward ahead of having a robust need case in place.

Comments on the OFTO Build option as per Chapter 3 of the consultation

General comment: Statkraft understands that there has been limited appetite to date from developers for an OFTO build model in the enduring regime. We believe that such a model could become sufficiently attractive to developers to be utilised, but the tender process needs to be evaluated very carefully. When designing the tender process, the transmission assets must be considered as part of a much larger procurement exercise for an offshore wind-farm, of which the transmission assets only comprise 10-20% by capital cost. The OFTO must be thought of as a sub-supplier to the overarching wind-farm project.

There is limited point in designing a tender process which cannot be utilised because it sets stringent timing and commitment requirements which mean the procurement and investment decision process for the offshore wind-farm is not practical. Statkraft would strongly advise that, if the OFTO build model is to be made viable, a shift in mindset is required to understand how it can fit into the procurement and investment sanctioning process of electricity utilities.

Q3.1 What are your views on the proposed arrangements for triggering a tender exercise?

Statkraft does not believe that the proposed arrangements are fit for purpose. From the perspective of an offshore wind-farm development, there cannot be an imposed fixed timeline between the granting of consent for the wind-farm and the need to reach a financial investment decision. As the size of investment decisions increase and as there is an increasing mismatch between the volume of offshore wind coming through the consenting process (with the Round 3 developments) and the UK government ambitions for offshore wind deployment this problem will tend to get worse.

The tender round for the OFTO build assets should be actively triggered by the generator to align with the project's other procurement activities, which are timed to work towards the final wind-farm investment decision, and not linked to consent for the project.

Significant additional clarity is required from Ofgem on the commercial commitments which will be placed on the wind-farm developer once the OFTO has been appointed under the OFTO build model. However if the generator is to be held liable for the commercial commitments which the successful OFTO bidder has made, the generator will need to ensure that the acceptance of a second stage offer under their Construction Agreement (giving the OFTO certainty to finalise commercial agreements for delivery of the transmission assets) aligns with the financial investment decision on the entire wind-farm.

The financial investment decision on an offshore wind-farm, especially at Round 3 scales, could be a decision to invest circa £3billion, and may be made by a number of ownership partners. Such a process

can take a considerable period of time to achieve, and hence the OFTO tender process should be designed not only to align as best as possible in the first instance with the wind-farm procurement and investment process, but also provide as much flexibility as possible in terms of the length of time for which the stage 2 offer is available to the developer, to allow the largest opportunity for alignment of investment. Without such considerations being built into the process, there will be little appetite from utilities for the OFTO build process, due to the risk that the OFTO tendering will artificially drive the overall wind-farm investment decision.

Q3.2 What are your views on whether our proposal on generator security will ensure the appropriate level of commitment from a generator?

A measure of security from the generator seems appropriate during the tender stage. Much more clarity is required of the security obligations on the generator after an OFTO has been appointed, and the mechanism for any security. Security arrangements for developers are currently under review under CMP192, but no mention of securities for offshore transmission under OFTO build was included.

At the end of the tender period, if the stage 2 offer based on the winning tender is commercially or technically unacceptable, or the selected offer is not deemed to be competent to deliver on the required timescale, the generator may wish to pull back from the process and look to re-tender. Such a judgement should be facilitated by Ofgem given that the generator is not actively involved in the selection of the preferred bidder. If the stage 2 offer means that the generation project is uneconomic, then a revised process will be required.

Q3.3 Do you agree with our proposed approach to the tender specification for an OFTO build tender exercise?

We agree with your tender specification, but would further encourage that National Grid be given very limited ability to alter the interface point of an offshore wind-farm once development has commenced, to avoid unnecessary and avoidable stranded development costs.

Q3.10 What are your views on the examples of alternative approaches for supply chain engagement under OFTO build outlined in this chapter?

It is very typical for utilities to engage with the supply chain to secure access to long lead time items ahead of full investment decision, and transfer these arrangements to EPC suppliers at a later date. We see no reason why such a model cannot be used in the OFTO tender process, and do not see that the objections raised are insurmountable.

Q3.13 Do you agree that the current 20 year revenue stream provides the best value to consumes under the enduring regime (OFTO build or Generator build)? If not, what alternatives should we consider?

We would expect that many assets offshore would have a lifetime well in excess of 20 years, and as such a longer revenue period should be seriously considered.

Q3.23 What are your views on the proposals for involving generators in evaluation of bids? In particular, what key technical aspects of bids are most important for NETSO to evaluate?

We would strongly support the involvement of generators in the bid evaluation phase of the tender process, especially around competence of bidders to meet quality and programme targets.

Q3.25 Are there areas on which you think allowing variant bids under OFTO build would add value to the process and consumers?

Variant bids in the form of less proven technology which may offer reduced costs but increase the risk profile of the transmission assets should be put in front of the generator to veto if required.

Q3.26 What are your views on generators recovering efficiently incurred pre-construction costs at the point at which the transmission construction works are completed? Efficiently incurred costs should be fully recovered by the generator, at the point of OFTO appointment. Further, clear guidelines should be provided on what constitutes inefficiently incurred costs.

Chapter four – Generator Build

Q4.1 What are your views on whether there are benefits under Generator build to the generator undertaking the seabed survey against a comprehensive generic survey specification agreed by the industry?

We do not agree that a generic seabed survey specification is appropriate. Noting the focus on efficiently incurred costs, it is important to note that expenditure by a developer on seabed surveys is triggered as appropriate for the stage of development. Prior to consent, non-intrusive geophysical surveys and benthic surveys are required for Environmental Impact assessment purposes. Post-consent, further surveys are performed, including intrusive geotechnical surveys, to inform the procurement process. Further surveys are performed prior to construction on the finalised route.

It would not be appropriate to stipulate a single, comprehensive survey requirement for generator build, because this would not be fit for purpose for the development process and could trigger stranded development costs should consent not be secured, and further stranded costs should the project not achieve sanction.

Q4.2 Do you agree with the approach that Ofgem continues to run tender runs for groups of projects, not necessarily limited to one per year, or would you recommend an alternative approach?

Tenders should be run as often as required by projects, to ensure the tender process does not act as a delay or blocker to the delivery of offshore wind and the meeting of strategic UK goals.

Q4.5 What are your views on the benefits of involving generators in evaluation of bids as outlines in this section?

We would strongly support the involvement of generators in the bid evaluation phase of the tender process, especially around competence of bidders to meet quality and programme targets.

Q4.6 Do you have any suggestions on amendments which would improve the efficiency of the process for finalisation of transfer documentation and which would maximise value to consumers?

We do not support the proposal to provide no financial certainty to the generator on cost recovery of the constructed assets. Such an additional risk will cause an increased cost of capital for the development of offshore wind, meaning a higher CfD strike price is required, ultimately costing UK consumers.

Further, Statkraft directs Ofgem to the work of the RenewableUK Offshore Grid Group and their recording of the outstanding issues from the transitional tender process. The satisfactory resolution of these issues will be of paramount importance to making a robust enduring process.

Chapter 5 Phased/staged projects

Staktraft views this as a critical issue for the delivery of Round 3 offshore wind, and would encourage Ofgem to further flesh out its thoughts on this topic at the earliest possible opportunity.

This section is silent on the transfer process for phases and stages. It is our strong opinion that phases should be tendered in a single tender exercise, and furthermore that the transfer should be designed so that all assets are transferred to the OFTO once all the assets have been commissioned. This would allow the widest potential OFTO bidding range, and hence facilitate most competition, but it would require the transmission assets to be utilised for generation significantly before the OFTO was appointed.

Q5.1 Are you satisfied with the practical relevance of our definition of the terms 'phase' and 'stage'?

We are comfortable with the definition as written. However it should be noted that both phase and stages could be delivered in separate Financial Investment Decisions, and hence this should be taken into account.

Q5.2 What are your views on the measures we propose to determine whether a stage or phase within a site/zone qualifies for a single tender exercise?

It is important for the developer to propose the best grouping of assets for tendering, and this should be a strong guide to Ofgem unless a significant reason is justified to disregard the developer's wishes.

We would strongly argue that as a rule a phase should be grouped together in a single tender exercise to avoid excessive and unworkable numbers of OFTOs within a zone. As an extreme example, the Dogger Bank zone may have up to 12 separate projects ("phases" in the definitions of the consultation), each of which could have two stages, plus potentially each phase would trigger an inter-project link. This would be up to 36 separate OFTO tender exercises, and therefore potentially 36 separate owners of transmission assets within Dogger Bank.