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OFTO Build: Providing additional flexibility through an extended framework

Updated policy proposals

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Overview:

This document contains an update on our approach to the Offshore Transmission Owner (OFTO) build option under the tendering regime for granting offshore transmission licences. OFTO build has the potential to realise many benefits, both for offshore generators and for consumers.

We introduce an extended OFTO build framework, which incorporates a range of additional potential OFTO build tender options. The extended OFTO build framework ensures OFTO build remains a viable and fit for purpose option with flexibility to respond to both the current and future requirements of offshore generators and to adapt to specific project characteristics. Through the extended framework we will ensure that we continue to meet our objectives for the offshore transmission regime and protect the interests of consumers.

We are publishing these updated policy proposals to provide clarity on the future arrangements for OFTO build and to engage with stakeholders about future projects that may be tendered under an OFTO build option.

Context

The government has set an ambitious target for the deployment of renewable energy over this decade. By 2020 the government expects 15 per cent of the UK's total energy needs to be met from renewable sources.

Offshore wind is recognised as an important source of renewable energy and the government has established policies to incentivise investment in renewable energy projects, including investment in offshore wind. Contracts for Difference and the Capacity Market are new mechanisms for supporting investment in renewable energy projects.

Significant investment will be needed to connect offshore wind projects to the GB transmission system. We recognise that a step change in investment of this kind calls for a dynamic approach to the development of transmission networks.

We are responsible for managing the competitive tender process through which offshore transmission licences are granted. This competitive approach encourages innovation and has the potential to bring new sources of technical expertise and finance to the construction and operation of transmission assets.

In 2009 we began the first round of tenders to appoint new Offshore Transmission Owners (OFTOs). To date tenders have been run under the Generator build model, where the generator finances and constructs the transmission assets before transferring those assets to an OFTO for the operational period.

The alternative to Generator build is OFTO build, where Ofgem runs a tender to appoint an OFTO with responsibility for constructing and operating the transmission assets. In the past we have simply distinguished between 'late OFTO build', where the generator undertakes preliminary works and 'early OFTO build', where those works are undertaken by the OFTO.

In this document we provide an update on our proposals for the OFTO build option under the tendering regime for granting offshore transmission licences.

Associated documents

Offshore Transmission: An Investor Perspective – Updated Report, January 2014
https://www.ofgem.gov.uk/ofgem-publications/85943/offshoretransmission-aninvestorperspective-updatereport.pdf

The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2013, February 2013
http://www.legislation.gov.uk/uksi/2013/175/contents/made

Offshore Electricity Transmission: Statement on future generator build tenders, July 2013 (Reference number: 119/13)
https://www.ofgem.gov.uk/publications-and-updates/offshore-electricity-transmission-statement-future-generator-build-tenders

Offshore Electricity Transmission: Updated proposals under the enduring regime, May 2012 (Reference number: 72/12)
https://www.ofgem.gov.uk/publications-and-updates/offshore-electricity-transmission-updated-proposals-under-enduring-regime

Offshore Electricity Transmission: Consultation on tender exercises under the enduring regime, December 2011 (Reference number: 178/11)
https://www.ofgem.gov.uk/publications-and-updates/offshore-electricity-transmission-consultation-tender-exercises-under-enduring-regime

Offshore Electricity Transmission: Implementing further refinements to the enduring regime, November 2010 (Reference number: 137/10)
https://www.ofgem.gov.uk/publications-and-updates/offshore-electricity-transmission-implementing-further-refinements-enduring-regime?docid=85&refer=Networks/offtrans/pdc/cdr/Cons2010

Offshore Electricity Transmission: Further consultation on the Enduring Regulatory Regime, August 2010 (Reference number: 113/10)
https://www.ofgem.gov.uk/publications-and-updates/offshore-electricity-transmission-further-consultation-enduring-regulatory-regime

Contents

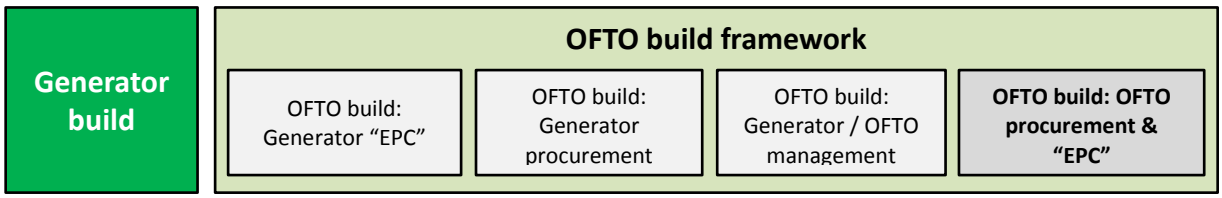
Executive Summary

The offshore transmission regime has so far delivered nearly £2bn of new investment in transmission while delivering consumer benefits through a competitive tender process. We believe that OFTO build tenders can deliver further consumer benefits by helping to drive down the costs of offshore transmission and by providing a viable and efficient alternative to Generator build. This policy update provides clarity on our proposed arrangements for OFTO build to facilitate our engagement with stakeholders about future projects that may be tendered under an OFTO build option.

We are introducing greater flexibility of roles and responsibilities for OFTO build under an extended OFTO build framework, which incorporates a range of additional possible OFTO build tender options. The extended framework provides the flexibility to respond to both the current and future requirements of offshore generators and to adapt to specific project characteristics, whilst continuing to protect the interests of present and future consumers. In offering additional flexibility, we remain committed to delivering our key objectives for the offshore transmission regime, namely:

- Delivering transmission infrastructure to connect offshore generation;
- Providing certainty and best value to consumers through the competitive process; and
- Attracting new entrants to the sector.

Under the extended OFTO build framework the OFTO will still be ultimately responsible for construction. However, different tender options will enable OFTO and generator to have greater or lesser degrees of control over procurement and construction management. To illustrate how the additional flexibility within the extended OFTO build framework could work in practice we have presented four indicative OFTO build options.



- **OFTO build: Generator "Engineering, Procurement and Construction" (EPC)** – the generator carries out all supply chain procurement and manages construction under an "EPC" contract with the OFTO
- **OFTO build: Generator procurement** – the generator carries out elements of supply chain procurement but the OFTO manages construction under an "EPC" contract with a third party
- **OFTO build: Generator/OFTO management** – the generator splits responsibility for managing construction of the offshore transmission assets with the OFTO (eg across onshore/offshore elements)
- **OFTO build: OFTO procurement and "EPC"** – the 'late OFTO build' option set out in our updated proposals on the enduring regime in May 2012.

This is not a prescriptive and exhaustive set of options. As a result this document is generally set out at a high level, except in some areas where we have included details on potential options to provide clarity on our thinking. We expect that while an OFTO build option chosen by a generator may closely resemble one of these illustrative options, in practice the detailed arrangements will reflect the circumstances of the particular project.

Given the flexibility in roles and responsibilities, and to ensure that our key objectives are supported by all tender options within the framework, we propose that all options should be underpinned by the following common principles:

- The OFTO is responsible for construction and for financing construction under the terms of its licence, including ensuring its transmission system is compliant with industry codes and standards;
- The generator is responsible for initial design and preliminary works;
- The generator agrees the particular tender option with Ofgem, which is then clearly communicated to the market before the OFTO tender process starts;
- Risks during construction should be borne by the party best placed to manage them;
- Construction activity should be undertaken economically and efficiently;
- The allowed cost of the construction works, whether these are undertaken by the generator or the OFTO, will be fixed as far as possible during the tender process and subject only to certain limited revenue adjustments for events beyond the OFTO's control, as allowed under the OFTO licence;
- An OFTO will be expected to bid a fixed price revenue stream, which it will receive for 20 years when the offshore transmission assets are complete;
- The OFTO's operation phase rights and obligations (as set out in its licence) will be largely the same as under Generator build.

In combining flexibility of approach with these common principles, we consider that OFTO build will deliver benefits to consumers and generators including:

- introducing a greater range of financing options for transmission construction;
- applying downward pressure on total costs through increasing the scope of competition;
- reducing construction funding requirements for generators; and
- allowing generators to focus on their core business, in accordance with their capability, capacity and risk appetite for involvement in offshore transmission.

We are publishing this policy update to stimulate further engagement with stakeholders about projects that may be tendered under an OFTO build option. We particularly welcome engagement with generators and those potentially interested in bidding for an OFTO build project. We plan to gather initial feedback from stakeholders by the end of January 2015, either through meetings or in writing, and we encourage interested parties to contact us. As flexibility underpins our approach, where appetite for OFTO build exists, we intend to work with generators on an ongoing basis, beyond the end of January 2015, to develop detailed tender arrangements appropriate for each project. In anticipation of future OFTO build tenders we will make changes to the tender regulations and will issue a generic OFTO licence for OFTO build during the first half of 2015.

1. Development of OFTO build

Chapter Summary

This chapter provides an overview of the development of additional options within an extended OFTO build framework. It also restates our objectives for the offshore transmission regime and the potential benefits arising from OFTO build.

Development of the OFTO build model

1.1. The introduction of the offshore transmission regime in 2009 created a new infrastructure asset class which to date has achieved nearly £2bn of investment, attracted global interest and used competitive tendering to deliver benefits to consumers. To date all projects under the regime have been delivered as Generator build tenders, where offshore generators retain ownership of the transmission assets until completion of construction, at which point they are transferred to a competitively appointed OFTO.

1.2. Since early 2012 the option for OFTO build tenders, where the competitively appointed OFTO is responsible for construction of the transmission assets, has existed but has not, to date, been chosen by offshore generator developers (hereafter 'generators'). This document provides an update on our proposed approach to the OFTO build model for licensing the construction and operation of offshore transmission assets by OFTOs. The approach described in this document is the outcome of further internal consideration and our engagement with a wide range of stakeholders including offshore generator developers.

1.3. We have consulted previously on proposals for how OFTO build will operate, most recently in December 2011 and May 2012. In May 2012 we set out our positions on tender policy for OFTO build. These positions were implemented in the Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2013 ('the 2013 Tender Regulations'), which set out the arrangements we apply to run competitive tenders to determine offshore transmission owners.

1.4. Our tender policy established two options available to generators who want to select OFTO build:

- 'Early OFTO build' where, following the generator obtaining a connection offer, the OFTO bids its approach to aspects of preliminary works[1],

[1] "preliminary works" is defined in the 2013 Tender Regulations as all necessary works obtained or to be obtained by a generator in relation to the development of the proposed transmission assets, prior to the grant of an offshore transmission licence to a successful bidder. This may include (but is not limited to) works in relation to planning permissions, consents, wayleaves, easements, leases, topography and sea bed surveys, environment and archaeological surveys, impact assessments and professional fees related

consenting, design, procurement, financing, construction, operation, maintenance and decommissioning of the transmission assets and the costs associated with these activities.

- 'Late OFTO build' where the generator would undertake preliminary works, consenting and high level design of the transmission assets. The OFTO bids its approach to procurement, financing, construction, operation, maintenance and decommissioning of the transmission assets and the costs associated with these activities.

1.5. This document focuses on the 'late OFTO build' option.

1.6. We continued to engage with stakeholders about OFTO build after the publication of the May 2012 document. Whilst there has been strong interest in the option from potential bidders, in practice generators retained some concerns that have prevented its selection to date. Since then we have developed our approach to OFTO build, drawing on the insights from this stakeholder engagement and on the implications of wider developments across the offshore transmission regime (eg Electricity Market Reform and the introduction of Contracts for Difference). In particular, in early 2014 we undertook a detailed review of financing considerations for OFTO build, assisted by external advisers, Ernst and Young, and working with generators, potential bidders and funders. This considered:

- The benefits to generators and consumers of OFTO build;
- Current financing considerations, including key challenges and barriers, for generators in relation to transmission assets and OFTO build;
- Potential measures to address key financing challenges and barriers, including key risks and opportunities associated with these; and
- The interplay between the measures identified above and OFTO funding and delivery options, including the impact on attractiveness, viability and bankability (ie ability to secure low cost project finance before construction) of OFTO funding options.

1.7. The review identified several principal barriers to OFTO build from the perspective of generators:

- Delivery risk: in particular offshore generators' perceived risks of transmission asset delay, construction interface management, supply

to obtaining the necessary works; http://www.legislation.gov.uk/uksi/2013/175/made

chain roles and procurement process and transmission asset quality that could impact on their generation revenues.

- Cost: uncertainty around likely TNUoS charges as compared to Generator build

- Capability: perceived risk around OFTO capability, particularly in managing interfaces with generation construction and commissioning, and delivering transmission assets on time and to sufficient quality.

1.8. We have investigated ways to overcome each of these barriers, including looking at models used in other regulated and non-regulated sectors. This work has led us to the view that the needs of the offshore market are best met by introducing additional flexibility of roles and responsibilities for generators and OFTOs under an extended 'OFTO build framework'. By 'OFTO build framework' we refer to a range of possible OFTO build tender options where the OFTO is ultimately responsible for construction (including financing of construction), but where the generator and the OFTO have different responsibilities across the options in relation to procuring transmission assets and managing transmission construction activities. As such we consider that the OFTO build framework offers the flexibility to respond to the particular needs and characteristics of offshore projects and generators.

1.9. The framework includes the 'late OFTO build' option we set out in May 2012, but does not currently include the 'early OFTO build' option. In our May 2012 statement we noted, following comments from the industry, that early OFTO build was not viewed as an attractive option to generators in the near to medium term because of the perceived higher uncertainty and risk attached to an early OFTO build tender. Our engagement with generators since May 2012 has not suggested a change to this view. We consider that focusing on late OFTO build options for connecting offshore transmission has the greatest potential to realise consumer benefits in the short to medium term. We do however wish to maintain the option to run an early OFTO build tender at some later point if there is market interest.

1.10. We recently consulted on our draft conclusions for the Integrated Transmission Planning and Regulation (ITPR) project. This included our proposal to extend the use of competitive tendering to onshore transmission assets that are new, high value and can be easily identified as discrete construction projects. We are considering responses to this consultation and how competitive tendering for onshore transmission would be implemented. For the avoidance of doubt the approach outlined in this document relates solely to offshore transmission. In our consideration of extending competitive tendering beyond offshore, we will consider whether and how elements of OFTO build might be adopted. While there are likely to be a number of common considerations across competitive models, there are significant differences in planning, developing and constructing transmission assets which are for the primary purpose of connecting offshore generation and those that are for the purpose of wider system benefit. In developing any approach to competitive tendering of onshore transmission assets, we will review how to best manage incentives, risk, and roles of different parties involved.

Objectives and benefits

1.11. The offshore transmission regime was established with three clear objectives which have underpinned our work to date, including the development of OFTO build and the proposals set out in this document. These objectives are:

- Delivering transmission infrastructure to connect offshore generation;
- Providing certainty and best value to consumers through the competitive process; and
- Attracting new entrants to the sector.

1.12. We believe that OFTO build can benefit consumers by helping to drive down the costs of offshore transmission and by providing an efficient alternative to Generator build. This will enable investment in and delivery of offshore wind to meet renewables targets. In particular we consider that the benefits offered by OFTO build are likely to include:

- reducing construction funding requirements for generators by providing OFTO finance for construction of the transmission assets;
- allowing alternative and extended financing routes, offering more choice for funding solutions as well as different funding providers for transmission asset construction. This is underpinned by an existing offshore transmission regime that has strong fundamentals, including an A-rated counterparty in NGET, an established OFTO equity and debt funding market and strong public sector institutional support;
- enabling an OFTO to take a whole life approach to transmission investment to deliver an overall cost of capital which is competitive relative to Generator build;
- providing early clarity and certainty for generators on future capital expenditure and network charges;
- putting downward pressure on transmission pricing because of increased scope of competition;
- allowing generators to focus on their core business, in accordance with the generator's capability, capacity and risk appetite for involvement in offshore transmission; and
- introducing additional transmission specialists into the GB market.

2. Options within the OFTO build framework

Chapter Summary

In this chapter we introduce the flexibility of options available within the OFTO build framework and outline some illustrative OFTO build options.

Introduction to the OFTO build framework

2.1. We recognise that each offshore wind project may have different offshore transmission requirements due to design, technology, size and generator preference and expertise. We have therefore designed the OFTO build framework to provide generators with flexibility to agree with us a tender option that suits the generator's capability, capacity and risk appetite for procuring and constructing transmission assets, while continuing to deliver value for consumers.

2.2. Under the framework the generator will work with Ofgem to develop a tender option under which the generator undertakes:

- Some or all (or none) of the procurement of the transmission assets, before novating any contracts to the OFTO; and
- Some or all (or none) of the construction of the transmission assets, under contract to the OFTO.

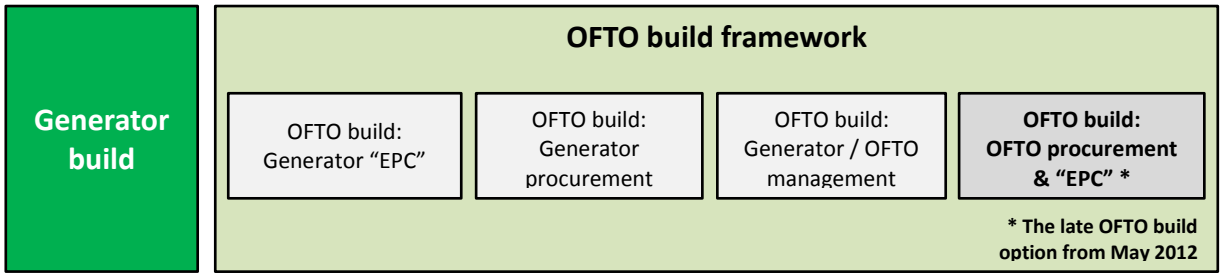
Headline description of illustrative options

2.3. Set out below are four options which are illustrative of the flexibility we propose to allow under the framework. We are not seeking to be prescriptive as to what an OFTO build option may or may not include, therefore these options are illustrative of approaches that could be adopted in tenders. They are not intended as an exhaustive list.

2.4. We will consider variations both within and between each option and encourage generators interested in considering an OFTO build tender to engage directly with us to determine the precise structure of an OFTO build option suitable for their project(s). We expect that this engagement will begin well in advance of the point at which the tender is triggered to ensure the OFTO build tender process can best align with and facilitate the project's needs as well as deliver our objectives for the offshore transmission regime.

2.5. Figure 1 shows how the illustrative options would fit into the framework:

Figure 1: The OFTO build framework



OFTO Build: Generator "EPC"

2.6. The generator (or affiliated SPV) carries out all supply chain procurement and manages the construction of the transmission assets by entering into an "EPC" contract with the OFTO as asset owner. The generator (as "EPC" contractor to the OFTO) receives milestone payments from the OFTO to fund construction. The generator manages construction of the asset under the terms of the "EPC" contract, providing the OFTO with protection against construction risk.

2.7. This option allows the generator to retain an almost equivalent level of management over both procurement and construction as it has under Generator build, whilst benefitting from OFTO finance. The contract offered by the generator gives the generator a level of certainty at the outset over the consideration it will receive for its construction works and on future TNUoS charges in exchange for retaining construction risks under the contract. The protection against construction risk would in turn facilitate the delivery of a low cost of capital financing solution by the OFTO.

2.8. Key areas for the generator to consider under this option will include the balance between provisions under the "EPC" contract to protect the OFTO from construction risk and the level of control and influence the OFTO is provided over construction; as well as arrangements for handover of any transmission works or assets from the generator to the OFTO.

OFTO build: Generator procurement

2.9. The generator carries out transmission asset supply chain procurement but the OFTO manages construction. The OFTO procures a third party (ie not the generator) "EPC" contractor (or contractors) to manage the sub-contractors procured by the generator and to protect the OFTO against construction risk. The OFTO procures the "EPC" contractor's services during the OFTO build tender process, signing the "EPC" contract at Licence Grant.

2.10. This option allows the generator to manage procurement of the main sub-contractors and, by and large, the terms of those sub-contracts. This may be of value where one or more of those contracts involves a long lead time for procurement. By procuring the "EPC" contractor, the OFTO would manage

construction risk subject to the terms and protections of any construction contract(s) it enters into.

OFTO build: Generator/OFTO management

2.11. Under this option the generator would split responsibility for the transmission assets into package(s) of assets it prefers more control over during construction; and other package(s) of assets the OFTO manages during construction. For example, the generator might take responsibility for the offshore elements and the OFTO might take responsibility for the onshore elements. For the assets the generator manages, the generator might procure the assets and offer a Generator "EPC". For the assets the OFTO manages, these might be taken forward under a Generator procurement or OFTO procurement and "EPC" approach. The interface between these asset packages would be managed jointly by the OFTO and generator.

2.12. This option allows the generator to manage procurement and construction of those assets for which it considers this to be of benefit, but to invite the OFTO to procure and construct the remainder of the transmission assets. It therefore enables generators with differing levels of expertise and risk appetite to align their level of involvement and direct responsibility for delivery of the transmission assets.

OFTO build: OFTO procurement and "EPC"

2.13. This option represents the 'late OFTO build' option we set out in May 2012, ie the generator obtains the connection offer and undertakes high level design and preliminary works for the transmission assets. The OFTO undertakes all procurement, construction and operation of the transmission assets. We expect the OFTO would be likely to procure a third party "EPC" contract or similar to protect itself against construction risks.

Definition of "EPC"

2.14. We use the term "EPC" and "EPC contract" in this document to refer to a construction contract put forward as part of the OFTO build tender, either by the generator or by the OFTO as part of the tender. Whilst we recognise that the generator or OFTO (depending on the option selected) may choose to provide a traditional Engineering, Procurement and Construction (EPC) contract, we do not intend to require that all the elements of such a contract are provided. Throughout this document, we refer to "EPC" to describe any construction contract to be entered into by the OFTO (either with the generator or a third party) and which will, to some extent, protect the OFTO from construction risk and that would be considered bankable to OFTO lenders.

2.15. It is not our intention to be overly prescriptive about the particular contracting arrangements to be adopted, providing they achieve the right balance of risks and would be considered bankable to OFTO lenders. However, to ensure an appropriate balance of risks, and to ensure that our objectives for the offshore transmission regime are met, we have provided in Appendix 2 some high level principles that we

would expect any "EPC" contract provided by a generator as part of an OFTO build tender to adhere to. We intend to develop these principles further in advance of the first OFTO build tender and expect that during the tender process bidders will have the opportunity to comment on any construction contracts offered by a generator. We anticipate that where an OFTO is responsible for procuring an "EPC" contract that it would be informed by these principles; however, the terms of the "EPC" contract would be for the OFTO to determine and negotiate with its chosen contractor during the OFTO build tender process.

High level comparison of options

2.16. A high level comparison of the allocation of key roles and responsibilities between Generator build and the OFTO build options described in the framework is noted in Table 1 on the following pages. Appendix 1 contains further details specific to each of the options set out in Table 1.

Table 1: The allocation of key roles and responsibilities within the illustrative options in the framework

	Generator build	OFTO build framework			
		Generator "EPC"	Generator procurement	Generator/ OFTO management	OFTO procurement & "EPC"
Pre-construction					
Obtain consents (planning, permitting, etc.)	Generator	Generator	Generator	Generator	Generator
High level design of transmission assets	Generator	Generator	Generator	Generator	Generator
Detailed design of transmission assets	Generator	Generator	Generator / OFTO	Generator / OFTO	OFTO
Supplier engagement	Generator	Generator	Generator / OFTO	Generator / OFTO	Generator / OFTO
Main contracts procurement	Generator	Generator	Generator / OFTO (procures "EPC")	Generator / OFTO	OFTO
During construction					
Legal responsibility for construction (eg under industry codes)	Generator	OFTO	OFTO	OFTO	OFTO
Funder of construction	Generator	OFTO	OFTO	OFTO	OFTO
Regulatory reporting (eg to Ofgem and National Grid)	Generator	OFTO	OFTO	OFTO	OFTO
Consents management (including stakeholder management) during construction (eg MMO, Crown Estate, third party	Generator	OFTO (although may delegate some day to day responsibility to generator "EPC")	OFTO	OFTO (although may delegate some day to day responsibility to generator "EPC")	OFTO

land owners)					
Lender management	Generator	OFTO	OFTO	OFTO	OFTO
Sub-contractor management	Generator	Generator "EPC"	OFTO (through the "EPC" contractor)	Generator "EPC" and OFTO (through the "EPC" contractor)	OFTO (through the "EPC" contractor)
"EPC" contractor management	Generator (if any EPC)	OFTO	OFTO	OFTO	OFTO
Project management of construction activities	Generator	Generator "EPC"	OFTO	Generator and OFTO (as "EPC" contractors) co-manage interface	OFTO
Contract Structure					
Outline contract structure	Generator contracts with sub-contractors or "EPC"	OFTO contracts with generator (as "EPC" contractor). Generator (as "EPC" contractor) contracts with sub-contractors	OFTO contracts with third party (as "EPC" contractor). "EPC" contractor contracts with sub-contractors	OFTO could contract with generator & third party (as "EPC" contractors). "EPC" contractors contract with sub-contractors	OFTO contracts with "EPC" contractor. "EPC" contracts with sub-contractors
"EPC" contractor	Generator's choice (if any "EPC")	Generator	Third party (procured by OFTO)	Generator / Third party (procured by OFTO)	Third party (procured by OFTO)

3. Principles and indicative features of options across the framework

Chapter Summary

In this chapter we summarise the key principles and indicative features of options within the OFTO build framework, including the tender process, cost assessment, OFTO revenue arrangements and risks during construction.

Principles underpinning all options within the framework

3.1. As set out in the previous chapter, generators will have a degree of flexibility in working with Ofgem to develop a proposed OFTO build option. However, we consider that all OFTO build options should be underpinned by a set of principles which all options will adhere to and which will ensure that our objectives for the offshore transmission regime continue to be met. These principles are:

i. The **OFTO** is **responsible** under the industry codes and its licence **for construction** of the transmission assets, including ensuring its transmission system is compliant with industry codes and standards;

ii. The **generator is responsible for initial project design and preliminary works** and we therefore expect that under all options the generator will undertake some activity associated with the transmission assets (eg consenting). To the extent possible, the **OFTO should be responsible for managing consents and property rights** during the **construction period**;

iii. The **OFTO finances construction** and ongoing operations of the transmission assets;

iv. The **generator will work with Ofgem to develop and agree an OFTO build option**, which will be specified **before** tender marketing and tender commencement, so the 'rules' and the commercial package on offer for each tender are clear before a tender exercise commences;

v. At Financial Close and Licence Grant the **OFTO will pay the generator the economic and efficient costs** (as determined by Ofgem) associated with **any works undertaken by the generator up to that point**;

vi. **Risks during the construction period should be borne by the party best placed to manage them,** eg in options where the generator manages construction activities it should take on the liability for risks during the construction period. We expect that **there will be a** clear relationship between the **level of control and influence the OFTO is provided over construction by the generator "EPC" contractor and the extent of the OFTO's construction liabilities**, facilitating a low cost of capital and therefore a low Tender Revenue Stream (TRS) and TNUoS during operations;

vii. **Construction activity should be undertaken economically and efficiently** to deliver value for consumers, in line with industry codes and standards;

viii. We propose that the **allowed cost of the construction works**, whether these are undertaken by the generator or the OFTO, **will be fixed as far as possible** at Financial Close and Licence Grant and **subject only to certain limited revenue adjustments** allowed under the OFTO licence;

ix. Any **costs allowed as a revenue adjustment should reflect the actual costs incurred**;

x. We would expect a tender to require **OFTOs to bid a fixed price TRS** under any of the OFTO build options, and the OFTO's revenue would be largely fixed at Financial Close and Licence Grant;

xi. The **OFTO will receive its revenue stream for a period of 20 years**;

xii. The **OFTO's operation phase rights and obligations** (as set out in its licence) **will be largely the same as under Generator build** subject to further consideration of the compatibility of current licence policy with OFTO build; and

xiii. We would expect **criteria and arrangements for handover** of any transmission works or assets **from the generator to the OFTO** to be clearly set out within **contractual agreements** between the parties and enable the **OFTO to manage its liabilities and obligations under its licence**.

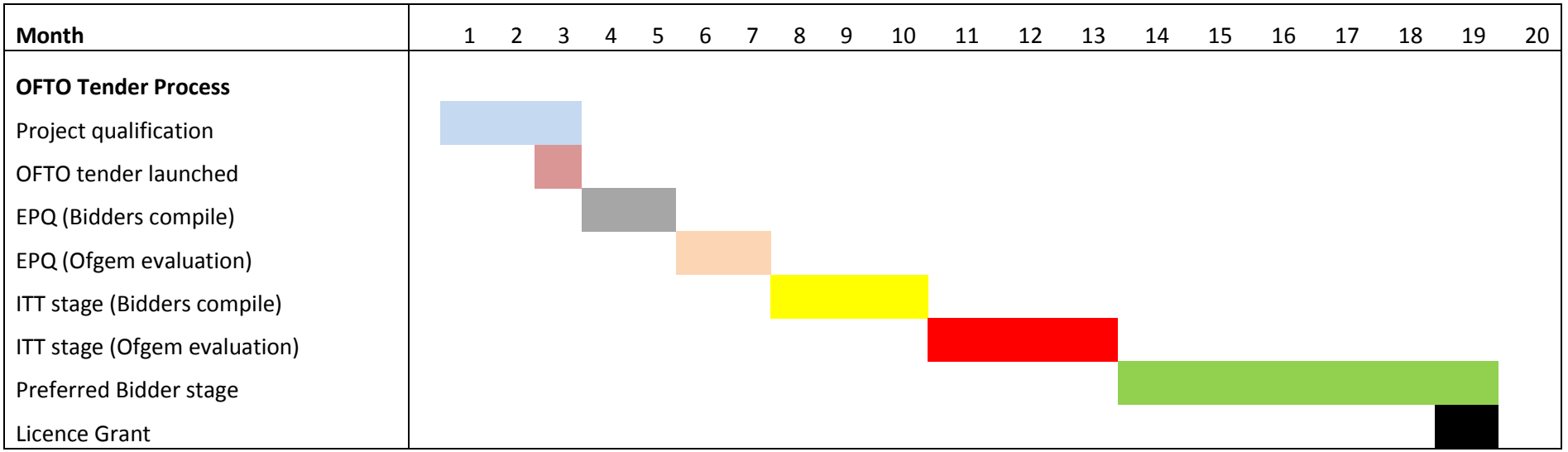
3.2. Based on the above principles, we set out in the remainder of this chapter certain key indicative features we would expect to apply to all OFTO build tenders, including the tender process, cost assessment, the OFTO's revenue and risks during construction.

Tender Process

3.3. We expect that the OFTO build tender process will be broadly similar to the process for a Generator build tender, and will be similar under any option across the framework. Where we expect differences across options from the approach set out below, we have set these out in Appendix 1.

3.4. Consistent with our position set out in May 2012, the timing of an OFTO build tender will be driven by the generator's project development timeline. As an OFTO build tender would happen much earlier in the windfarm project's development than a Generator build tender, we would look to strike a balance between certainty that a project is going ahead, costs incurred by parties during a tender, and the importance of meeting project delivery milestones. For example, consideration would need to be given to the implications of commencing the ITT stage before there is certainty that the associated windfarm project is going ahead and needed, which we realise will be largely dependent on the project securing a Contract for Difference. Licence Grant will be scheduled to take place in time for the start of construction of the transmission assets. An indicative timeline is provided in Figure 2 below.

Figure 2: Indicative timeline of OFTO build tender process



Generators should consider how the OFTO tender timetable will interact with their own asset development timeline when working with us to determine when an OFTO build tender should be launched in relation to their project. We have considered three key asset development milestones below:

- Consent: In practice, we would expect planning consents to have been secured early during the OFTO tender process in order to align with a generator's overall asset development timescales. It is recognised that consent may be achieved well in advance of this date.
- Generator FID: while we would expect generator FID to typically occur at or before OFTO Licence Grant, we recognise there are a variety of approaches to FID timing amongst the generator community.
- Construction start: we would expect that transmission asset manufacture / construction would typically commence after OFTO Licence Grant, however we recognise that the actual timings will reflect the overall asset development timescales. As such, some works may commence earlier than this, eg some onshore construction enabling works.

As the OFTO tender process progresses, a generator will be required to commit increasing levels of security in order to compensate Ofgem for tender costs incurred should the windfarm not reach FID. At the same time, the generator will receive increasing clarity regarding TRS, TNUoS, and certainty of deliverability of the transmission asset. For example, with Ofgem's input, the generator should be able to pre-estimate TRS and TNUoS at the start of the tender based on anticipated procurement and contract costs, as well as previous data on financing and O&M. At the Preferred Bidder stage this TRS and TNUoS figure will be near certain, and the figure will then be finalised at OFTO Licence Grant.

3.5. Currently the Tender Regulations provide for Ofgem to run three mandatory tender stages (PQ, QTT and ITT) for an OFTO build tender before appointing a Preferred Bidder. However, we propose to include flexibility in the next set of Tender Regulations to run an Enhanced PQ (EPQ) stage in place of the PQ and QTT stages for an OFTO build tender (as we have recently done for Generator build tenders in Tender Round 3).

3.6. Based on the above, indicative timing and key activities of each tender stage are broadly as follows:

- At the **EPQ** stage, we expect evaluation of the bid submissions to focus on assessing the technical competence of the bidders and their ability to finance, own and operate the transmission assets. We expect that the EPQ stage will typically last 3-4 months including the evaluation period. Before this stage we will specify the initial transfer value of any preliminary works to be transferred to the OFTO from the generator.

- At the **Invitation to Tender (ITT)** stage, we expect the evaluation of the bid submissions will vary according to the role played by the OFTO but we anticipate, at a minimum, that ITT will focus on financial deliverability, the value and robustness of the TRS bid, and the approach to asset and contract management, operations and decommissioning. Depending on the OFTO build option selected, and the associated role the OFTO will play in procurement and construction, we anticipate supplementing these criteria with varying degrees of additional requirements relating to the technical competence and deliverability of the OFTO's bid, which we anticipate to have greater weighting relative to funding than under Generator build. We expect to determine the Preferred Bidder based on evaluation of a combination of the value of their TRS bid and the quality and robustness of the assumptions underlying the TRS bid. We may consider introducing funding competitions during the Preferred Bidder stage where we feel it will drive consumer benefits, thus reducing the funding component to be evaluated at the ITT stage.

- We envisage that the ITT stage will typically last 6-8 months, including the evaluation period. Before this stage we will determine the indicative transfer value of any preliminary works to be transferred to the OFTO from the generator.

- Once a Preferred Bidder is selected, we anticipate that **the Preferred Bidder (PB)** stage will last approximately 4-6 months before Financial Close and OFTO Licence Grant. We consider this to be a realistic timescale to finalise any construction contracts and transfer agreement in respect of preliminary works; however, the timescale will be dependent on the nature of any works transferred to the OFTO and the nature and complexity of any contracts to be entered into by the OFTO. During this stage we will determine the final transfer value of any preliminary works to be transferred to the OFTO from the generator. The Preferred Bidder will be required to satisfy certain matters specified by

Ofgem (which will relate to their ability to perform the activities required as an OFTO – noting that these may differ slightly across the OFTO build options in the framework) before the OFTO licence section 8A consultation, followed by Financial Close and Licence Grant.

3.7. For tender options where the generator offers a construction contract (eg Generator "EPC"), we anticipate that the generator will upload the draft contract to the project data room at the start of the EPQ stage. We anticipate inviting comments from bidders before the generator makes a final draft of that contract available in good time for bidders to take into account in their ITT submissions. Under such tender options, we also anticipate informing bidders of Ofgem's determination of the initial, indicative and final value of the construction contract at different stages of the tender, in line with the arrangements set out under 'Cost assessment' below.

3.8. We consider that there is appetite for OFTO build tenders amongst a wide range of potential bidders; however, we recognise that the level of interest and types of bidder will depend on the details of the option and the role and risk profile of the OFTO during construction. As such, and to ensure an OFTO build tender is attractive to potential bidders, we anticipate setting out clear tender rules and expectations; engaging early with the market on the potential tender to test appetite for the OFTO build option to be offered; undertaking robust marketing; and retaining continuity with approaches taken under Generator build where appropriate.

3.9. As we stated in our May 2012 consultation, under an OFTO build tender the generator will be required to provide security to Ofgem to cover the costs associated with the tender exercise being cancelled as a result of the actions of the generator, eg due to the windfarm project not going ahead. Under such circumstances the generator maybe liable to forfeit its security. The amount forfeited would be based on the costs incurred by Ofgem during the tender exercise up to that point. In the unlikely event that the tender exercise does not lead to appointment of an OFTO, we consider that the generator may be able to pursue a Generator build approach, depending on the specific circumstances.

Cost assessment

3.10. Under the framework we intend to principally use three mechanisms to ensure that costs incurred, or to be incurred, during development and construction of the transmission assets are economic and efficient.

Ofgem cost assessment of preliminary works and in relation to procurement of any supply chain contracts transferred to the OFTO at Licence Grant

3.11. The generator will be expected to undertake preliminary works for the transmission assets. These would include land consents, sea bed surveys and FEED studies, which may be completed long before procurement and construction commence. We also propose that, for OFTO build options where the generator is involved in procurement (eg for the Generator "EPC" option), the costs associated with procurement by the generator of supply chain contracts (eg for cables, substations etc.) may be included in this cost assessment. For the avoidance of

doubt, this would relate to the costs associated with the procurement of the contracts, not the value of the contracts themselves, which we would consider separately, as set out below. We will determine the economic and efficient costs associated with any of these activities and determine a final transfer value during the tender. This transfer value will be payable by the OFTO to the generator at Financial Close and Licence Grant.

Ofgem determination of the value of any construction contracts provided by the generator to the OFTO

3.12. Under OFTO build options where the generator manages transmission asset construction (eg Generator "EPC"), we anticipate that the generator would be the only party able to offer the "EPC" construction contract to the OFTO under the terms of OFTO build tender. The value of that contract would be largely determined by the actions of the generator, not through competition between OFTOs to procure a construction contractor on the open market. We therefore intend to determine the value of any construction contracts provided by, or procured by, the generator that the OFTO would have to enter into at Licence Grant. This would ensure the costs associated with the construction contracts are economic and efficient, and would also allow Ofgem to provide all OFTO bidders with the same assumptions as to the appropriate value of the contract to be entered into. We would anticipate that the value of the construction contract (as determined above) would be paid by the OFTO over the course of the construction period, in line with the payment profile set out in the construction contract.

3.13. Where relevant in our determination of the cost of any such contracts we anticipate benchmarking costs against available data. We expect that, similar to our cost assessment for Generator build, we would draw on external expertise as part of this process. Further details are provided under each of the illustrative models set out in appendix 1.

Competitive tender for any construction contracts procured by the OFTO

3.14. Where contracts or subcontracts are procured by OFTOs as part of the OFTO build tender process we expect the value of these contracts to be bid by the OFTO.

Allowed Revenue Adjustments

3.15. We anticipate using the above approach to determine the allowed cost of the development and construction works prior to Licence Grant. We do not therefore propose to undertake any cost assessment after Financial Close and Licence Grant. In circumstances where we agree to increase the OFTO's allowed revenue after Licence Grant (eg where we are satisfied that an event covered by a licence revenue adjustment has occurred) we would expect to analyse the costs associated with the event and any other relevant costs. We will ensure that any additional allowed revenue is economic and efficient and net of any agreed contingencies that may be priced into contracts.

OFTO revenue commencement

3.16. We maintain our view that the OFTO's revenue term will be 20 years and will not commence until the transmission assets are complete. This will ensure there is an incentive to complete assets within the agreed timeframe.

3.17. As set out in May 2012, we anticipate defining transmission asset completion as the date on which the plant and apparatus that form the offshore transmission system are commissioned under the SO-TO Code. We also consider that completion of the transmission assets will be the point at which the conditions relating specifically to the operations phase in the OFTO licence, such as the availability incentive, will come into effect. In practice we anticipate that the completion date would precede full compliance with industry codes and standards. As such we intend to consider further whether any changes may be required to the OFTO licence for OFTO build.

3.18. We also consider that the revenue term should not reduce in duration due to delays (ie in the event of delays to asset completion, the revenue stream will remain as 20 years from the date of completion). The 20-year revenue term, triggered by asset completion, ensures the OFTO is incentivised to operate and maintain the assets over a full 20-year period, as provided for under Generator build and in transitional tenders to date.

Risks during construction

Pass through costs

3.19. As outlined in May 2012 we consider that the income adjusting event pass through would allow an OFTO to recover economic and efficient costs resulting from certain events during construction that cause unforeseen additional costs for the OFTO. We expect that income adjusting events would, as currently provided by the OFTO licence, be tightly limited to events that fall under the STC definition of 'Force Majeure' or are otherwise beyond the control of the licensee (including any party working on the licensee's behalf). We continue to consider that an OFTO would be able to claim during construction to have any allowed additional costs paid on commencement of its revenue (ie following asset completion).

3.20. We do not consider that any further pass through items should be included as a standard term in the generic OFTO licence for OFTO build that are not currently included in the generic Tender Round 3 OFTO licence.

Risk of delay or abandonment

3.21. Following the appointment of an OFTO we anticipate that both OFTO and generator will have strong incentives to complete construction and to do so in line with realistic completion dates determined at the outset. However, we recognise that, however unlikely, there is a risk of construction delay or abandonment by either party.

3.22. Under the provisions of the industry codes, generators can opt for Liquidated Damages (LDs) from NGET (which NGET would recover from the OFTO) in the event of construction delay on the offshore transmission assets. Where generators are managing construction we expect that generators would not opt to receive LDs for late delivery of the offshore transmission assets, given their role in the construction of the assets and therefore control over any delays.

3.23. We consulted extensively on provisions to mitigate the risk of abandonment prior to the implementation of the offshore transmission regime and consider the arrangements put in place to be fit for purpose without revision. To restate several key points:

- We consider the risk of generator abandonment of the offshore generation during construction to be low. This risk will be further mitigated in future given the CfD application process. However, in the unlikely event of generator abandonment an OFTO would be able to recover costs incurred under its construction agreement with NGET. We expect NGET would in turn recover this from the generator through user commitment as set out in the Connection and Use of System Code.

- We also consider the risk of abandonment by the OFTO to be low given the high technical and financial thresholds we expect to apply when selecting an OFTO through the tender process and given the processes applied by lenders to the OFTO. In the unlikely event of OFTO abandonment, we consider that the risk to generators and consumers is largely mitigated both by the construction security that would be paid by the OFTO to NGET under the provisions in the industry codes and the arrangements that exist to continue construction, including running another tender or appointing an OFTO of Last Resort as a final measure.

Industry codes and standards

3.24. Industry codes and standards currently allow for both early and late OFTO build. We have designed the OFTO build framework to be compatible with the existing arrangements for late OFTO build – the OFTO would be legally responsible for construction, and the main innovation proposed by the framework is around contracting options that allow generators a greater level of influence over procurement and construction under OFTO build.

3.25. As such we consider that the codes and standards do not need to be revised. However, to ensure a low cost of capital from OFTO bidders, it is important for generators to structure any contractual agreements between themselves and the OFTO so that these enable the OFTO to manage its liabilities and obligations under its licence, as well as under the industry codes and standards.

4. Next Steps

Chapter Summary

In this chapter we summarise our next steps, specifically our intention to engage with stakeholders, revise the current tender regulations and issue a generic OFTO licence for OFTO build in anticipation of future tenders.

Invitation to engage further to develop and run an OFTO build tender

4.1. We are interested in stakeholders' views on our approach to OFTO build, in particular on the key principles underpinning all OFTO build options, as well as on the illustrative options set out in this document. We plan to gather initial feedback from stakeholders by the end of January 2015, either through meetings or in writing, and we encourage interested parties to contact us via the contact details set out at the front of this document.

4.2. We welcome further engagement with generators who wish to explore OFTO build in relation to their projects. Where appetite for OFTO build exists, we intend to work with generators on an ongoing basis, beyond the end of January 2015, to develop a detailed tender appropriate for each project.

4.3. We also welcome further engagement with potential bidders for a future OFTO build tender, including expressions of interest where appropriate.

Tender regulations and tender documentation

4.4. To implement the OFTO build options across the framework, we recognise that changes to the 2013 Tender Regulations will be required. We intend to consult on draft revised Tender Regulations in the spring of 2015, with a view to having revised Tender Regulations in place during the summer of 2015.

4.5. In advance of an OFTO build tender, we will also develop a number of documents that describe the tender in more detail and that support implementation of the tender; these will include Tender Rules, the cost recovery methodology, stage-specific documents and other relevant documents. We will develop these documents once we have clarity on the timing and nature of the first OFTO build tender, but will ensure that relevant tender documentation is prepared and made available to tender participants in good time in advance of the tender.

4.6. As set out in paragraph 2.7, we also intend to publish an '"EPC" principles guidance' document in advance of an OFTO build tender.

OFTO licence for OFTO build

4.7. We intend to issue a generic licence for OFTO build, in line with the policy set out in this document and expect to consult on this well in advance of an OFTO build tender. We expect that an OFTO build project specific licence would be made available to bidders in time for commencement of the first OFTO build tender.

Industry codes and standards

4.8. As stated previously we have designed the OFTO build framework to be compatible with existing industry codes and standards. As such we consider that the codes and standards do not need to be revised. However, we welcome stakeholder views on the compatibility of the illustrative options set out in this document with codes and standards. In the event that stakeholders consider that any changes may better facilitate an OFTO build tender, it would be up to industry to bring these changes forward.

Appendices

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Appendix 1 – Illustrative Options

1.1. In chapter 2 we set out four illustrative OFTO build options that would fit into the framework. This appendix sets out further indicative details of these illustrative options, and in particular provides details on:

- The commercial arrangements during construction
- Allocation of risks during construction
- The OFTO's revenue stream under its licence
- Handover arrangements
- Ofgem's cost assessment and valuation of contracts
- Ofgem's tender process

1.2. As set out in chapter 2 we are not seeking to be prescriptive as to what an OFTO build option may or may not include. The details provided in this appendix are indicative of how these options might work and are for illustrative purposes only. In practice we expect that arrangements and exact details will reflect the nature of the project and the option taken forward.

1.3. We have provided details in this appendix for the Generator "EPC" option (including a guarantee contract variant), the Generator procurement option and the Generator/OFTO Management option. We have not provided details on the OFTO procurement and "EPC" option as this option is the 'late OFTO build' option which has been set out previously in some detail in our May 2012 document.

Generator "EPC"

Summary

1.4. Under the Generator "EPC" option the generator manages all supply chain procurement and transmission asset construction for the OFTO under an "EPC" contract, which provides protection to the OFTO from construction risk.

1.5. The Generator "EPC" option provides generators with the ability to remain involved in the transmission assets throughout construction, until the assets are completed and handed over to the OFTO. The degree to which the OFTO is involved with the construction process could vary significantly, depending on the exact commercial arrangements. As set out in chapter 3, where the OFTO has limited influence over construction, we would expect the generator to limit the OFTO's exposure to construction risk accordingly.

1.6. Under this option the generator could opt to insulate the OFTO from all construction risk (for example through a corporate guarantee). This would deliver full protection for the OFTO against construction risk, subject only to the credit worthiness of the generator, and would not require asset management activities by the OFTO during the construction period. The generator would commit to delivering the asset on time and to an agreed price, with the generator covering the OFTO's additional costs, including financing costs, in the event of a delay. The guarantee could be secured against the transmission assets to facilitate the delivery of a low cost of capital financing solution by the OFTO.

1.7. The diagrams on the next page illustrate the key money flows. The Generator "EPC" option would be likely to involve a separate subsidiary set up with the purpose of providing the "EPC" contract, whereas the generator guarantee variant would likely involve a contract directly with the generator.

1.8. We anticipate that payment from the OFTO to the generator at Financial Close would reflect the transfer value of the preliminary works (as determined by Ofgem). We anticipate that the payment profile to the generator "EPC" entity would be set out in the "EPC" contract, and may include for example an initial up-front payment, followed by milestone payments for construction.

Figure 3 Money flows during construction for the Generator 'EPC' option

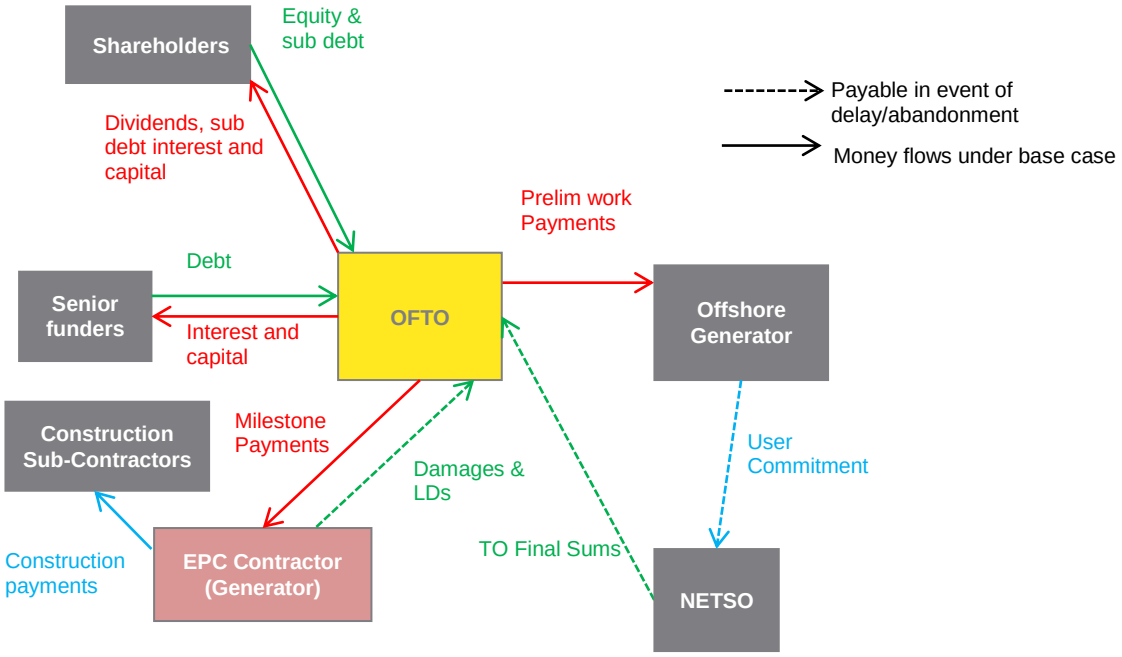
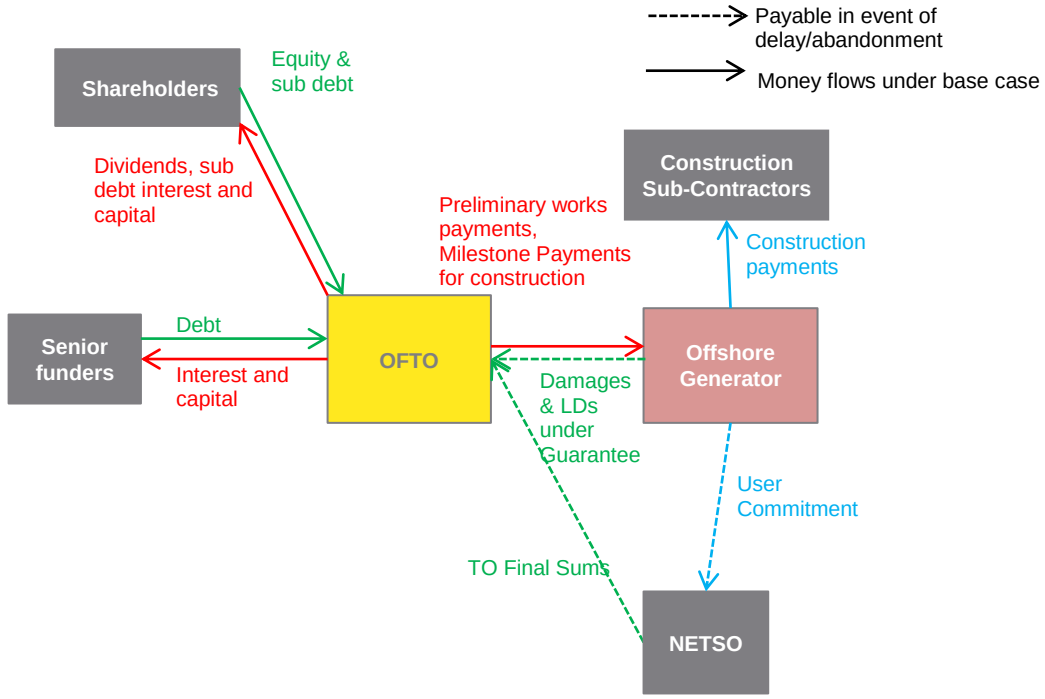


Figure 4 Money flows during construction for the generator guarantee variant



Commercial arrangements

1.9. The generator (or affiliate SPV with the same ultimate parent as the generator) would procure and enter into the subcontracts to construct the transmission assets. This 'generator SPV' would then enter into an "EPC" contract with the OFTO at Financial Close and Licence Grant.

1.10. There may be scope for a variation of this option whereby the generator procures a third party company to provide an "EPC" contract, and therefore passes risk and management role to this unrelated "EPC" contractor.

1.11. We would expect the "EPC" contract to be a fixed price contract containing a security package which is sufficient to facilitate the delivery of a low cost of capital financing solution by the OFTO. We have set out in appendix 2 some draft principles that we would expect any "EPC" contract provided by the generator as part of an OFTO build tender to adhere to.

Risks during construction

1.12. We will work with the generator to determine the exact liabilities and risk allocation in the "EPC" contract during the OFTO build tender process. We also anticipate allowing bidders to comment on the contract. We envisage risks due to adverse events during construction may be broadly allocated as follows:

- Under the "EPC" contract security package we anticipate that the OFTO would be protected, up to the limits of any caps on the various liabilities, against construction delays, cost overruns, transmission asset performance, latent defects and abandonment by the "EPC" contractor. We would expect the OFTO debt and, to the extent possible, equity parties to be kept whole and insulated from these delays by the "EPC" contractor, to the limit of any caps.

- In the event of an income adjusting event which results in an allowed revenue adjustment for the OFTO under its licence (either additional cost or delay), we would make an associated adjustment to the OFTO's revenue stream. We anticipate that any revenue adjustments allowed under the OFTO licence would be reflected in the "EPC" contract (and flowed down to the sub-contracts as appropriate), to ensure the "EPC" contractor is compensated by the OFTO for events for which the OFTO will recover its costs through its licence. As the OFTO's revenue will only commence upon transmission asset completion, we would expect the OFTO debt and equity would build in sufficient contingency and flexibility into their financing arrangements to manage the impact of a delay.

- If the generator cancels the connection agreement during construction, we expect that a contractual mechanism may be able to ensure that the OFTO's compensation from any security package provided by the generator and any compensation due to the OFTO under TO Final Sums

(allowed under the SO-TO code) would not exceed the costs incurred by the OFTO.

1.13. We consider that it is not appropriate to disadvantage the generator in the event of OFTO tender delay that is not as a result of the actions of the generator. For tender delay within a pre-agreed acceptable time limit we consider that the generator would have the option to either wait for OFTO appointment, or proceed with construction of the transmission assets until the tender is complete and the OFTO is appointed. For tender delay beyond an agreed time limit, possible options (dependent on circumstances of delay) include us running another OFTO build tender, or the generator could construct the transmission assets before triggering a later Generator build tender.

Handover

1.14. As set out in chapter 3, we would expect criteria and arrangements for handover of any transmission works or assets from the generator to the OFTO to be clearly set out within contractual agreements between the parties and enable the OFTO to manage its liabilities and obligations under its licence.

1.15. We anticipate that final handover to the OFTO would be based on the transmission assets achieving full compliance with industry codes, but also on satisfaction of certain physical standards, for example on cable burial. We also anticipate that the "EPC" contract may outline specific arrangements for verification of completion of the assets before handover, which would align with transmission asset completion criteria under the industry codes and standards and may also include independent sign-off of the completed works. We anticipate full compliance would only be achieved after initial commissioning of the assets by NGET and therefore after the completion date for the assets set out in the industry codes. As such the handover date may occur after the OFTO's revenue commences and its operational phase obligations begin.

OFTO revenue stream under the licence

1.16. We consider that compensation payable to the OFTO in the event of delays that are beyond its control is best managed via contractual arrangements in the "EPC" contract (eg the "EPC" contractor may be liable to keep the OFTO whole in the event of a delay to completion). However, we remain open to alternative options, including potentially dealing with delays via an earlier revenue commencement date (ie prior to the completion of the assets) - although industry would need to consider fully any wider implications such as the impact on the generator's TNUoS charges. We expect that regardless of commencement date the revenue term would be 20 years.

Cost assessment of preliminary works and valuation of construction contracts

1.17. As set out in chapter 2, the capital costs to be paid by the OFTO under this option broadly fall into two categories, which are covered separately below.

Preliminary works and any contracts transferred to the OFTO

1.18. We expect the generator will undertake preliminary works for the transmission assets prior to procurement and construction, as is the case under Generator build. For example, land consents, sea bed surveys and FEED studies may be completed long before procurement and construction commence. Under the Generator "EPC" option, the generator may also procure supply chain contracts associated with construction of the transmission assets (eg in relation to cables, substations, etc.).

1.19. We anticipate assessing the economic and efficient costs incurred by the generator for undertaking the preliminary works and for procuring any supply chain contracts prior to OFTO appointment using a similar cost assessment methodology to that which we currently employ for Generator build. The final transfer value for these works and contracts would be determined by our cost assessment process and would be payable by the OFTO to the generator at Financial Close and Licence Grant (in line with the terms set out in a transfer agreement, similar to the approach used for Generator build).

1.20. We are aware that in some circumstances a down payment may be required for certain long lead time supply chain items. We would need to consider such payments in our cost assessment process where they are incurred before Financial Close and asset transfer.

"EPC" construction contract entered into between the generator and the OFTO

1.21. We expect that the construction costs to be incurred between OFTO Licence Grant and completion of construction of the transmission assets would be set out in the Generator "EPC" contract with the OFTO. We expect to determine the final value of this contract in advance of OFTO Financial Close and Licence Grant to ensure that the costs associated with the construction contract are economic and efficient – see 'Tender process' below.

1.22. We intend to set out further details on how we would determine the value of the "EPC" construction contract closer to the time of an OFTO build tender. We currently anticipate that our determination of the value of the "EPC" construction contract would include an assessment of the below components:

- Cost associated with delivery of sub-contracts: we would look at the value of all sub-contracts and determine whether these are economic and efficient.

- Risk premium for contingency: we would expect the risk premium to be based on a robust risk assessment and modelling. We would expect to determine whether it is economic and efficient and on market.

- Management fee: this may take the form of a fixed fee based on expected costs from the "EPC" contractor over the contract duration. We

would expect to determine whether it is economic and efficient and on market.

1.23. Where relevant in our determination of the value of the "EPC" contract we anticipate benchmarking costs against available data. We expect that, similar to Generator build, we would draw on external expertise as part of this process.

Tender process

1.24. As outlined in the main document, the key features of the tender process are likely to be similar for all OFTO build options. We expect the following considerations to be relevant specifically to this option:

- As part of the **project qualification and tender entry requirements** we anticipate that the generator would submit a draft "EPC" contract (or Heads of Terms, as applicable) which we would review against our "EPC" principles (see appendix 2).

- At the **Enhanced PQ (EPQ)** stage, in addition to specifying an initial transfer value for preliminary works, we anticipate specifying an initial value for the "EPC" contract. We would also anticipate giving OFTO bidders access to a draft "EPC" contract (or Heads of Terms, as applicable) to be offered by the generator, which bidders would be invited to comment on as part of their submission.

- At the **Invitation to Tender (ITT)** stage, we anticipate that the preliminary works, subcontracts and "EPC" contract provided by the generator would be placed in the project data room. We anticipate that there will be a process in the initial ITT stage for further bidder comments to be provided on these before they are made available in final form for ITT submission purposes. We anticipate determining the indicative transfer value of the preliminary works as well as determining the indicative value of the "EPC" contract before the start of the ITT stage.

- At the **Preferred Bidder (PB)** stage, we anticipate that the Preferred Bidder would undertake final financial and technical due diligence on the "EPC" contract in discussion with the generator, before finalising the "EPC" contract. We anticipate determining the final transfer value associated with the preliminary works and the final value of the "EPC" contract before OFTO Financial Close and Licence Grant.

Generator procurement

Summary

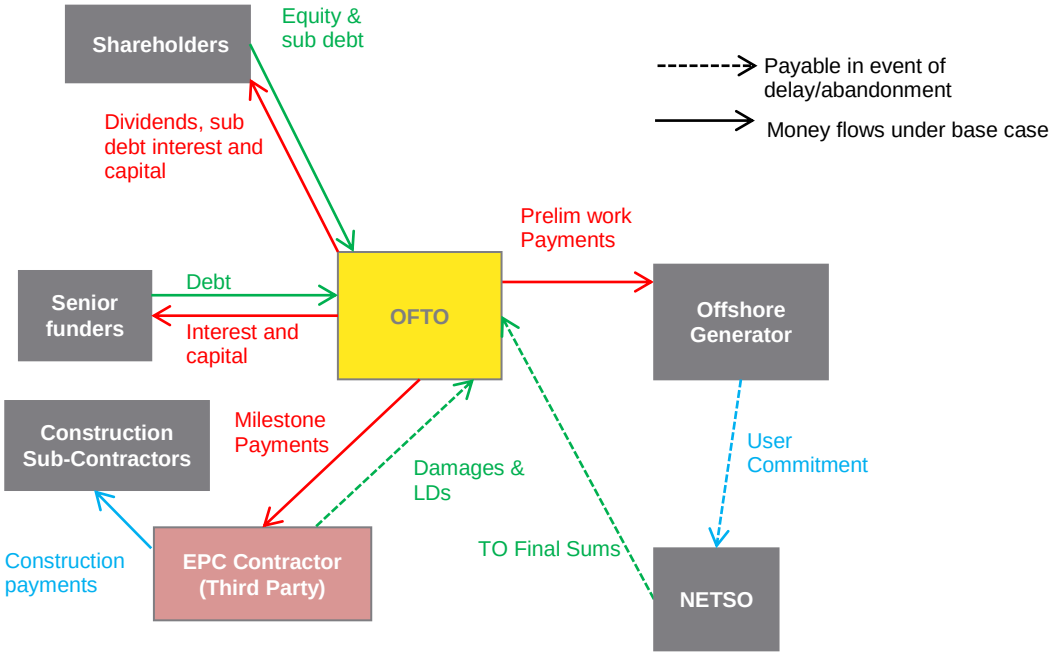
1.25. Under the Generator procurement option we anticipate that the generator would carry out all supply chain procurement and the OFTO would likely procure an

"EPC" contractor (or similar) to take on the main construction contractor role and to take on oversight and delivery of the procured contracts.

1.26. The contractual structure is likely to be essentially the same as under the Generator "EPC" option, with the exception that the "EPC" contractor would be a third party procured by the OFTO, not a generator affiliate. We would therefore expect the Generator procurement option to share similarities with the Generator "EPC" option although the OFTO would clearly take the lead role in construction delivery under this option. Key areas of difference are noted below.

1.27. The diagram below illustrates the key money flows applicable to this option. We anticipate that the payment profile for the OFTO "EPC" contract would be set out in the competitively procured "EPC" contract. We anticipate that the sub-contractors, procured by the generator initially, would contract with the "EPC" contractor and therefore would agree their payment profiles with the "EPC" contractor.

Figure 5 Money flows during construction for the Generator procurement option



Commercial arrangements

1.28. Under this option the OFTO may seek protection from construction risk via a robust security package under the terms of the "EPC" contract, against which it would be possible to secure low cost finance prior to the start of construction.

1.29. The nature of the "EPC" contract would be for the OFTO to determine and negotiate with its chosen contractor.

1.30. Under this option the generator would determine the identity of some or all of the main sub-contractors and the terms of those sub-contracts. As the sub-contractors would contract with the "EPC" contractor, the sub-contracts may need to be finalised between the sub-contractor and "EPC" contractor or novated from the generator. Any changes that may be considered material may need to be agreed by the generator.

Risks during construction

1.31. We envisage risks during construction are likely to be largely the same as under the Generator "EPC" option. The extent to which the OFTO's debt and equity are kept whole in the event of delays or performance issues would depend on the details of the contract it has negotiated with its "EPC" contractor.

Handover

1.32. We envisage handover considerations to be broadly similar to those set out under the Generator "EPC" option; however the identity of the parties involved would be different, ie under this option there would be no need for the generator (or its affiliate) to be party to any contracts with the OFTO relating to the handover of the transmission assets, and handover would be agreed between the OFTO and their "EPC" contractor.

OFTO revenue stream under the licence

1.33. The OFTO would have greater control over contract and construction management under this option than under an option where the generator is managing construction. It is important that there is a strong incentive on the OFTO to deliver the assets on time, so we would therefore not anticipate considering the option of compensating the OFTO for construction delays via an earlier TRS start date for either the full or partial TRS amount. We would expect compensation for delays may be captured within the "EPC" contract.

Cost assessment of preliminary works and valuation of construction contracts

1.34. We expect we would assess the transfer value of the preliminary works and any contracts transferred to the OFTO at Licence Grant using the same cost assessment methodology as under the Generator "EPC" option.

1.35. However, we would not assess the value of the "EPC" contract. The value of this contract would be determined via the competitive OFTO build tender process and would be bid by the OFTO at the ITT stage.

Tender process

1.36. We expect that the overall timeline and requirements for the OFTO build tender are likely to be broadly similar to those set out under the Generator "EPC" option.

1.37. The generator would not be providing an "EPC" contract and therefore would not be required to include this in the data room. We would however expect the generator to provide full details in the data room of all sub-contracts to be transferred to the OFTO, and would anticipate inviting bidders to comment on these during the tender process.

1.38. Given the increased role for the OFTO in procuring and managing the "EPC" contractor(s), the tender evaluation would also be likely to include a greater focus on "EPC" contract terms, including the allocation of risks, and the OFTO's construction asset management approach and capabilities.

Generator/OFTO Management

Summary

1.39. Under the Generator/OFTO Management option the generator has the option to adopt one OFTO build option for some of the transmission assets and another OFTO build option for the remainder of the assets. For example, the generator might manage procurement and construction of the offshore elements and the OFTO might manage procurement and construction of the onshore elements. However, the OFTO would be responsible for all the transmission assets under the terms of their licence.

1.40. We envisage that the split might involve some of the assets being delivered under the Generator "EPC" option, with the remainder being delivered under another OFTO build option (eg the Generator procurement or OFTO procurement and "EPC" option).

1.41. For any assets delivered under the Generator "EPC" or Generator procurement options, these options would operate as explained in the earlier sections of this appendix.

1.42. For any assets delivered under the OFTO procurement and "EPC" option, the OFTO would carry out all supply chain procurement and construction for the assets concerned, in line with the arrangements set out in our May 2012 document.

1.43. We recognise that this option may introduce interfaces which would not exist in the other OFTO build options, and we would evaluate the OFTO bidders on their proposed approach to managing these interfaces. We do not currently consider that these interfaces would be any less manageable than the many interfaces which exist in any offshore construction programme. We invite generators who are interested in this option to discuss any such interfaces, and solutions to manage them, with us.

Appendix 2 – Draft "EPC" Principles

Summary

1.1. As set out in chapter 3, it is not our intention to be overly prescriptive about the particular contracting arrangements to be adopted under OFTO build, providing they achieve the right balance of risks and would be considered bankable to OFTO lenders. As such, we would expect to undertake a detailed review, on a project by project basis, to ensure that any proposed arrangements were in consumers' interests.

1.2. However, to ensure an appropriate balance of risks, and to ensure that our objectives for the offshore transmission regime are met, we would expect any "EPC" contract provided by the generator as part of an OFTO build tender to adhere to the following key principles:

- the "EPC" contract should provide a robust set of terms, which will facilitate the delivery of a low cost of capital financing solution by the OFTO;
- the terms and conditions for the "EPC" contract should, as a starting point, look to align with traditional "EPC" contracts within the broader infrastructure sector against which long-term project finance debt has been raised;
- there should be a clear relationship between the level of control and influence the OFTO is provided over construction by the generator "EPC" contractor and the extent of the OFTO's construction liabilities, ie the extent to which any of the generator "EPC" contractor's liabilities are capped within the contract should be proportionate to the amount of influence the OFTO has during construction;
- construction activity should be undertaken economically and efficiently, to deliver value for consumers, in line with industry codes and standards; and
- criteria and arrangements for handover of any transmission works or assets from the generator to the OFTO should be clearly set out within contractual agreements between the parties and enable the OFTO to manage its liabilities and obligations under its licence.

1.2. We intend to develop these principles further and publish an '"EPC" principles guidance' document in advance of the first OFTO build tender. We anticipate that bidders will have the opportunity to comment on any "EPC" contract offered by a generator during the tender process. We expect that the "EPC" contract would be

finalised prior to Financial Close and OFTO Licence Grant, and any subsequent variations should be subject to the agreement of the OFTO and the "EPC" contractor.

1.3. Table 1 outlines at a high level the areas we would expect the generator to take into consideration in drafting an "EPC" contract.

Table 1: High level areas covered by an "EPC" contract

Contract areas	**Outline Description**
Contract summary	
Design, specification and scope	Covers all transmission assets in the qualifying project being constructed under the "EPC" contract and aligns with the related specifications for the offshore transmission assets as set out in the BCA and TOCA and under any other industry codes and standards. Likely to include: - full scope of works and agreed outputs - proposed build quality criteria/requirements (eg cable burial depths)
Price structure	
Price	Specifies a fixed price for constructing the transmission assets (excluding cost of preliminary works subject to an Ofgem cost assessment, which will be paid separately by the OFTO to the generator).
Cost over-runs	Specifies how these will be borne by "EPC" contractor.
Payment structure	Specifies the expected payment profile by the OFTO to the "EPC" contractor for transmission asset construction. Likely to reflect the profile of costs incurred, including any initial payment, milestone payments thereafter, and any retention until performance testing is completed satisfactorily.
"EPC" obligations and liabilities	
Roles and responsibility	Covers the nature and extent of the roles played by the "EPC" contractor, the OFTO and lenders (as appropriate). Covers how construction risk will be borne by the "EPC" contractor, and how the "EPC" contractor manages the sub contracts and interface risk between sub-contractors.
Completion date	Specifies a fixed deadline date for transmission construction completion and sets out any mechanisms for variations to dates. We anticipate that 'completion' may be staged based on separate sets of activities, for example: • expected date of initial commissioning of the assets by NGET and 'completion' of the transmission assets in line with the arrangements set out in industry codes and standards;

	• expected date at which the transmission assets will achieve full compliance with industry codes, linked to final handover arrangements (see below).
Completion tests	Covers how completion of the transmission assets will be verified. We anticipate that this will align with transmission asset completion criteria under the industry codes and standards and may also outline any specific arrangements, including independent sign-off of the completed works.
Global Cap on "EPC" contractor liability	May specify any global caps on "EPC" contractor liability (if appropriate)
Security package to be provided by the "EPC" contractor	Specifies any security package provided by the "EPC" contractor. May include: retentions, performance bond, indemnities, Parent Company Guarantee (PCG), defects liability cover
Delay Liquidated Damages	Specifies any delay LDs payable to the OFTO, and their value over time.
Performance Liability	Specifies any compensation payable to the OFTO for loss of expected revenue as a result of lower performance, and any time limits on this.
Warranties	Specifies any warranties included.
Other expected clauses	
Design Variations	Covers any policy and/or process to request variations (if appropriate).
OFTO step in rights	Specifies any events and longstop dates (where applicable) which would allow the OFTO to step in and any direct agreement between OFTO debt lenders and "EPC" contractor.
Termination rights in case "EPC" contractor does not perform	Specifies any rights and related buffer period (where applicable) the OFTO has to terminate the contract should the "EPC" contractor breach contract (as a result of contract breach or termination trigger).
Creditworthiness of "EPC" contractor	Specifies any requirements on the "EPC" contractor's credit worthiness and experience.
Handover arrangements	Specifies how operational control of the assets would pass to the OFTO, which is likely to follow successful commissioning and acceptance of the assets by NETSO, as well as completion of all aspects of the design, scope and specification. Specifies any "EPC" contractor liability for the assets until compliance testing (eg under the SO-TO Code) is complete, which would take place after commissioning and acceptance, and may include independent verification arrangements in addition to NETSO's sign off on compliance.

Appendix 3 - Glossary

A

Availability incentive

The obligations and financial incentives designed to incentivise OFTOs to maximise system availability and repair faults promptly.

B

Benchmarking

The process of comparing one party's costs to those of others in the industry or in comparable external organisations.

Bidder

Any person or Bidder Group that makes a PQ Submission or an EPQ Submission, a Qualifying Bidder, a Preferred Bidder, a Reserve Bidder or a Successful Bidder (as applicable).

C

Capacity market

A mechanism established by EMR to provide regular retainer payments to reliable forms of capacity (both demand and supply side), in return for such capacity being available when electricity supply is squeezed.

Capex

Capital expenditure.

Connection and Use of System Code (CUSC)

The contractual framework for connection to, and use of, the national electricity transmission system. The methodologies used to derive the charges that National Grid Electricity Transmission levies for connection to and use of the national electricity transmission system are also set out in the CUSC.

Contracts for difference (CfD)

Long-term contracts established by EMR to encourage investment in new, low-carbon generation.

Cost Recovery Methodology (CRM)

The methodology for calculating and recovering the Authority's tender costs in relation to a particular tender round published by the Authority in accordance with regulation 11(4) of the 2013 Tender Regulations.

D

Data Room

In respect of a Qualifying Project, a secure electronic area populated and maintained by Ofgem with information provided by the relevant generator, which is made available to relevant Bidders through the Portal.

Debt (Debt Finance)

Any debt which is provided by a party external to the Qualifying Bidder. For the avoidance of doubt this includes all limited and non-recourse bank debt as well as bonds and similar capital market instruments.

E

Electricity Market Reform (EMR)

A government policy intended to incentivise investment in secure, low-carbon electricity generation, while improving affordability for consumers.

Enduring Regime

The regulatory regime for offshore transmission for any project qualifying for a Tender Exercise after 31 March 2012. This regime allows windfarm developers to choose between Generator build and OFTO build for the construction of offshore transmission assets.

Enhanced PQ (EPQ) Stage

An extended version of the PQ stage of a Tender Exercise that can be used for Generator build Tender Exercises where the Authority decides not to run a QTT Stage. At the end of this 'enhanced' PQ stage, the Authority will determine which Bidders become Qualifying Bidders and will be invited to participate in the ITT Stage of the Tender Exercise.

Equity (Equity finance)

Ownership in any asset, usually in the form of shares or quasi-equity subordinated debt.

F

FEED studies

Front End Engineering & Design studies

Final Investment Decision (FID)

In the context of this document, FID is the point when the generator makes a final investment decision to proceed with construction of the wind farm (and therefore also construction of the transmission assets under scenarios where the generator is constructing these).

Final Transfer Value

The final value determined by Ofgem, using its assessment of the economic and efficient costs that ought to have been incurred in connection with:

(a) for a Generator build Tender Exercise, the development and construction of the relevant transmission assets; or

(b) for an OFTO build Tender Exercise, obtaining the relevant preliminary works.

Financial Close

The process by which ownership of the offshore transmission assets is transferred. Often used to refer to a particular day or set of procedures.

G

GB

Great Britain.

Generator build

A model for the construction of offshore transmission assets. Under the Generator build option, the generator carries out the preliminary works, procurement and construction of the transmission assets. The OFTO operates, maintains and decommissions the transmission assets.

Generator developers (generators)

The entity responsible for the construction of the offshore generation assets who has requested a connection to the NETS and for whom the tender exercise is being, or is to be, held.

Generic OFTO Licence

The standard form of the OFTO licence as provided for under each Tender Round.

I

Industry codes

The industry codes underpin the electricity wholesale and retail markets and define the terms under which industry participants can access the electricity networks including the Connection and Use of System Code (CUSC), the Balancing and Settlement Code (BSC), the Grid Code, the System Operator – Transmission Owner

Code (SO-TO code or STC), the Distribution Connection and Use of System Agreement (DCUSA) and the Distribution Code.

Integrated Transmission Planning and Regulation (ITPR) Project

A project launched by Ofgem in March 2012 to consider how Great Britain's network planning and delivery arrangements can provide for a future integrated system for onshore and offshore transmission and interconnection.

Invitation to Tender (ITT) Stage

The stage of a Tender Exercise during which the Authority may determine which Qualifying Bidder becomes the Preferred Bidder or whether to hold a BAFO stage. This stage starts from the distribution of the ITT Document to Qualifying Bidders by Ofgem, and includes the preparation, submission and evaluation of ITT Submissions.

ITT Submission

A Qualifying Bidder's response to the ITT Document.

L

Licence Grant

Following its determination to grant an Offshore Transmission Licence to the Successful Bidder, the Authority confirms such determination in accordance with regulation 28(6) of the 2013 Tender Regulations and grants such Offshore Transmission Licence to the Successful Bidder pursuant to section 6(1)(b) of the Electricity Act 1989.

Liquidated Damages

Payments in the event of late delivery of transmission assets that may be agreed as part of the TOCA and/or a generator's connection agreement (under the CUSC).

M

MMO

Marine Management Organisation.

N

National Electricity Transmission System (NETS)

The system consisting (wholly or mainly) of high voltage electric lines owned or operated by transmission licensees within Great Britain, in the territorial sea adjacent to Great Britain and in any Renewable Energy Zone and used for the transmission of electricity from one generating station to a sub-station or to another generating station or between sub-stations or to or from any interconnector and includes any electrical plant or meters owned or operated by any transmission licensee within Great Britain, in the territorial sea adjacent to Great Britain and in any Renewable Energy Zone in connection with the transmission of electricity.

National Electricity Transmission System Operator (NETSO)

The National Electricity Transmission System Operator is the entity responsible for coordinating and directing the flow of electricity over the NETS.

NGET

National Grid Electricity Transmission Plc. NGET owns and maintains the transmission system in England and Wales. It is also the NETSO for GB.

O

Offshore Transmission

As defined in section 6C of the Electricity Act means the transmission within an area of offshore waters of electricity generated by a generating station in such an area, where offshore waters means:

(a) waters in or adjacent to Great Britain which are between the mean low water mark and the seaward limits of the territorial sea;

(b) waters within an area designated under section 1(7) of the Continental Shelf Act 1964.

Offshore Transmission Licence (OFTO Licence)

The licence awarded under section 6(1)(b) of the Electricity Act 1989 following a Tender Exercise authorising an OFTO to participate in the transmission of electricity in respect of the relevant Offshore Transmission System. The licence sets out an OFTO's rights and obligations as the offshore transmission asset owner and operator.

Offshore Transmission Owner (OFTO)

The holder of an Offshore Transmission Licence.

Offshore Transmission System

A Transmission System that is wholly or partly in:

(a) waters in or adjacent to Great Britain which are between the mean low water mark and the seaward limits of the territorial sea; or

(b) waters within an area designated under section 1(7) of the Continental Shelf Act 1964

and is constructed wholly or mainly for the purpose of conveying electricity generated by a generating station in the areas listed in paragraphs (a) or (b) or in waters within an area under section 84(4) of the Energy Act 2004.

Ofgem

Office of Gas and Electricity Markets.

O&M

Operations and maintenance.

OFTO build

A model for the construction of offshore assets. Under the OFTO build option, the generator obtains the connection offer and undertakes high level design and preliminary works. The OFTO is responsible for constructing, operating, maintaining and decommissioning the transmission assets.

OFTO of Last Resort

An OFTO appointed outside of a Tender Exercise from existing transmission licensees to provide transmission services in respect of particular offshore transmission assets in accordance with standard conditions B18 and E21 of the Transmission Licence where there is a significant likelihood that the generator whose generating station that is, or is to be, connected to those transmission assets would be unreasonably delayed or stranded.

P

PB Stage

The stage of a Tender Exercise during which the Preferred Bidder has to resolve certain matters in order that Ofgem may grant the Offshore Transmission Licence. This stage starts at the date of Ofgem's notice to a Qualifying Bidder that it has been selected as Preferred Bidder and ends at the date Ofgem determines that the Preferred Bidder has become the Successful Bidder and publishes a notice to that effect in accordance with regulation 27(2) of the 2013 Tender Regulations.

PPP

Public Private Partnership.

Preferred Bidder (PB)

In relation to a Qualifying Project, the Qualifying Bidder determined by Ofgem following its evaluation of the submissions received, to which Ofgem intends to grant the Offshore Transmission Licence subject to the satisfaction of the conditions specified by Ofgem in accordance with the Tender Regulations in force at that time.

Preliminary Works

Are defined in the 2013 Tender Regulations as 'all necessary works obtained or to be obtained by a developer in relation to the development of the proposed transmission assets, prior to the grant of an offshore transmission licence to a successful bidder in respect of an OFTO build qualifying project, for example, without limitation, works in relation to planning permissions, consents, wayleaves, easements, leases, topography and sea bed surveys, environment and archaeological surveys, impact assessments and professional fees related to obtaining the necessary works '.

Q

Qualification to Tender (QTT) Stage

The stage of a Tender Exercise starting from the distribution by Ofgem of the QTT Document to Qualifying Bidders, including the preparation, submission and evaluation of the QTT Submissions and ending once Ofgem has published the shortlist of Qualifying Bidders who are invited to participate in the ITT Stage.

S

Section 8A Consultation

The public consultation required by section 8A of the Electricity Act 1989 for any modifications to the standard conditions of the Offshore Transmission Licence to be made at Licence Grant. The modifications are required to incorporate the OFTO-specific provisions in the licence. The consultation must run for at least 28 days.

Security

Includes a charge over a bank account or any other asset, a deposit of money, a performance bond or bank guarantee, an insurance policy or a letter of credit.

SPV

Special Purpose Vehicle.

System Operator (SO)

An entity responsible for coordinating and directing the flow of electricity over a transmission system. The SO for GB is the NETSO.

System Operator – Transmission Owner Code (SO-TO code or STC)

The industry code that defines the relationship between the System Operator and Transmission owners setting out the roles, responsibilities, obligations and rights of these parties.

T

Tender Entry Conditions

The requirements that a Developer must meet before commencement of a Tender Exercise, as described in paragraph 1 (for Generator build projects) or paragraph 2 (for OFTO build projects) of Schedule 2 to the 2013 Tender Regulations.

Tender Exercise

A specific competitive tender run by Ofgem to identify a Successful Bidder to whom a particular Offshore Transmission Licence is to be granted.

Tender Process

The competitive process run by Ofgem in accordance with the tender regulations to identify and appoint an OFTO. The tender process is made up of a number of stages: PQ stage and QTT stage or EPQ stage, ITT stage and PB stage before reaching Licence Grant and Financial Close.

Tender Regulations

The Tender Regulations are made under section 6C of the Electricity Act 1989 and set out the legal framework and powers for the Authority to run a competitive tender process for the grant of an Offshore Transmission Licence in respect of an Offshore Transmission System. Currently the 2010 Tender Regulations (only for certain Qualifying Projects) and 2013 Tender Regulations are in force.

2013 Tender Regulations

The Electricity (Competitive Tenders for Offshore Transmission Licences) 2013.

Tender Revenue Stream (TRS)

The revenue established through the tender process, which is the value set out in paragraph 4 of amended standard condition E12–J2 (Restriction of Transmission Revenue: Revenue from Transmission Owner Services) of the OFTO Licence.

TRS Bid

The revenue entitlement of the OFTO as bid by the OFTO through the tender process.

Tender Round

One or more Tender Exercises being held or to be held by Ofgem, with a view to determining the Successful Bidders to whom Offshore Transmission Licences are to be granted for each Qualifying Project subject to such Tender Exercises, commencing on the date specified in a notice given in accordance with the Tender Regulations.

Tender Round 3 (TR3)

The first competitive Tender Round for the grant of Offshore Transmission Licences for Generator build projects under the Enduring Regime.

Tender Rules

The rules for each Tender Round published by Ofgem in accordance with regulation 11(4) of the 2013 Tender Regulations.

The Crown Estate

The body that manages Crown property and that is responsible for awarding offshore wind leases for access to the seabed to wind farm operators. Each OFTO must enter into a lease or licence with the Crown Estate to be able to operate and maintain its Offshore Transmission System on the seabed.

TO Final Sums

As defined in the STC, the amount payable by NGET on termination of a TOCA, including fees expenses and costs incurred by a TO.

TOCA

Transmission Owner Construction Agreement.

Transfer Agreement

The agreement to transfer any:

(a) property interests, rights or liabilities in relation to Transmission Assets;

(b) shares or other interests in an undertaking in which any property interests, rights or liabilities in relation to Transmission Assets are vested; or

(c) beneficial interest in any property interests, rights or liabilities or shares or other interests relating to Transmission Assets;

from a generator to a Successful Bidder in respect of a Qualifying Project subject to a Tender Exercise under the Enduring Regime.

Transmission Assets

Are defined in paragraph 1(3)(a) of Schedule 2A of the Electricity Act 1989 as 'the transmission system in respect of which the offshore transmission licence is (or is to be) granted or anything which forms part of that system'. The transmission system includes subsea export cables, onshore export cables, onshore and offshore substations, and any other assets, consents, property arrangements or permits required by an incoming OFTO in order for it to fulfil its obligations as a transmission operator.

Transmission Owner (TO)

A holder on a transmission licence, including OFTOs.

Transmission Network Use of System (TNUoS) charges

Charges levied by the NETSO to users of the NETS to recover the cost of installing, operating and maintaining the NETS.

Transmission System

Is defined in Section 4(4) of the Electricity Act 1989 as 'a system which consists (wholly or mainly) of high voltage lines and electrical plant, and is used for conveying electricity from a generating station to a substation, from one generating station to another or from one substation to another'.

U

User commitment

As set out in the CUSC, the methodology and principles applied by NGET in respect of cancellation charges and cancellation charge secured amounts applicable to generators entering into a connection agreement.