

# Offshore Electricity Transmission: Process to Close for Tender Round 4 (TR4)

## Guidance

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### Overview:

We are running a competitive tender to appoint an Offshore Transmission Owner (OFTO) for the Burbo Bank Extension project. This is the only project in Tender Round 4 (TR4).

This document provides guidance to bidders, Developers and other interested stakeholders on the process to close, from the determination of a Preferred Bidder to grant of the OFTO Licence, financial close and asset transfer. This guidance applies to TR4.

## Associated documents

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- The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015  
[http://www.legislation.gov.uk/uksi/2015/1555/pdfs/uksi\\_20151555\\_en.pdf](http://www.legislation.gov.uk/uksi/2015/1555/pdfs/uksi_20151555_en.pdf)
- Offshore Electricity Transmission: Tender Rules  
<https://www.ofgem.gov.uk/electricity/transmission-networks/offshore-transmission/offshore-transmission-tenders/tender-round-4> (see under heading 'Publications and updates')
- Guidance on Licence Derogation Requests (19/01/09)  
<https://www.ofgem.gov.uk/publications-and-updates/guidance-licence-derogation-requests>
- Offshore Electricity Transmission: Decision on the implementation of the Generator Commissioning Clause in the Energy Act 2013  
<https://www.ofgem.gov.uk/publications-and-updates/decision-implementation-generator-commissioning-clause-energy-act-2013>
- Offshore Transmission: Guidance for Cost Assessment  
<https://www.ofgem.gov.uk/publications-and-updates/offshore-transmission-guidance-cost-assessment>

### Example documents

- Notice under Section 8A(3) of the Electricity Act 1989 (Westermost Rough)  
<https://www.ofgem.gov.uk/publications-and-updates/notice-under-section-8a3-electricity-act-1989-westermost-rough>
- Offshore Transmission: Cost Assessment for the Westermost Rough transmission assets  
<https://www.ofgem.gov.uk/publications-and-updates/offshore-transmission-cost-assessment-westermost-rough-transmission-assets>

## Contents

<b>1. Introduction</b>	<b>4</b>
Timing of Licence Grant and Asset Transfer	5
<b>2. Preferred Bidder to Successful Bidder</b>	<b>7</b>
The PB Notice and the PB Matters	7
Ofgem's role	9
Derogations and "Minded to" statements	10
Modification of standard terms and conditions of the OFTO Licence	10
Tender Revenue Stream	11
Market Rate Revenue Adjustment	12
The Transfer Value	12
<b>3. Successful Bidder to Licence Grant</b>	<b>14</b>
<b>Appendix - Glossary</b>	<b>15</b>

# 1. Introduction

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1.1. We are running a competitive tender to appoint an Offshore Transmission Owner (OFTO) to own and operate the transmission assets that connect the Burbo Bank Extension offshore wind farm to the onshore network.

1.2. We run the tender over different stages. This document provides guidance on the process to close, which includes the stage from appointment of a Preferred Bidder through to grant of the OFTO Licence, financial close and transfer of the transmission assets.

1.3. This guidance applies specifically to TR4. It may be updated or amended over time to reflect further experience and feedback gained from ongoing tender processes.

1.4. The process to close will include the following steps after appointment of the Preferred Bidder:

- the Preferred Bidder performing confirmatory due diligence and working to resolve the PB Matters set by the Authority (see section 2); finalisation of the TRS in parallel with resolution of the PB Matters (see section 2);
- finalisation of the cost assessment process, by which we determine the Final Transfer Value of the transmission assets (see section 2);
- the Section 8A Consultation in respect of the OFTO Licence (see section 2);
- appointment of the Successful Bidder, followed by a standstill period (see section 3); and
- grant of an OFTO Licence, financial close and asset transfer (see section 3).

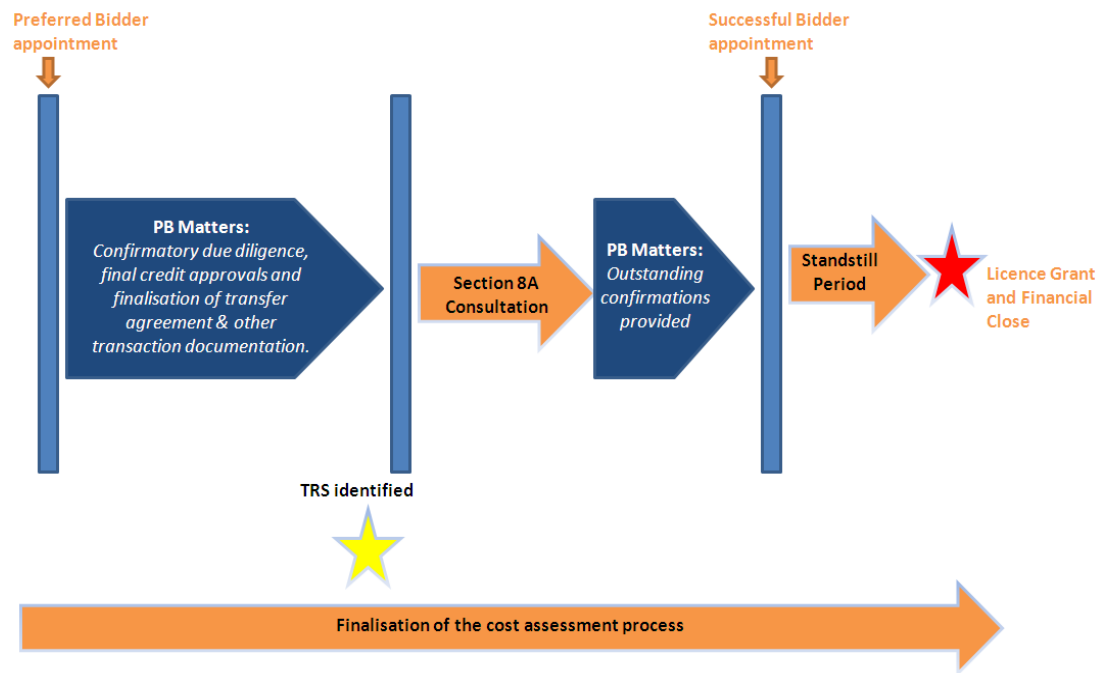
1.5. Financial close generally takes place shortly after grant of the OFTO Licence and is the process by which:

- the TRS is adjusted to reflect market rates; and
- the OFTO finance arrangements are finalised.

1.6. Asset transfer is the point at which the transmission assets transfer from the Developer to the OFTO, and where the OFTO pays the Final Transfer Value. Asset transfers to date have been through an asset transfer agreement, but may also be by way of a transfer of shares in the company that owns the transmission assets.

1.7. The diagram at figure 1 sets out the generic process to close at a high level. This diagram is provided for information only and is based on the anticipated process to close as at the date of publication of this guidance. The timeline for TR4 will be published in the ITT Document. However, it is anticipated that the period between Preferred Bidder appointment and Licence Grant will be approximately six months.

## Offshore Electricity Transmission: Guidance on the Process to Asset Transfer and Licence Grant for the Tender Round 4



**Figure 1**

### Timing of Licence Grant and Asset Transfer

1.8. The duration of the process to close will depend on the underlying construction programme and the readiness of the transmission assets to be transferred. Based on our experience of previous tenders, the Preferred Bidder and Developer will need to finalise technical due diligence following completion of construction of the transmission assets. We therefore aim to have a Preferred Bidder in place by completion of construction.

1.9. A Developer who conveys electricity through transmission assets prior to transfer to an OFTO will contravene the prohibition in the Electricity Act on unlicensed participation in the transmission of electricity.

1.10. As part of constructing and developing the transmission assets, a Developer will export some power to test and commission the transmission assets to facilitate due diligence by the OFTO. Section 6F of the Electricity Act 1989, as introduced by section 147 of the Energy Act 2013 (known as the generator commissioning clause) allows Developers under certain circumstances to lawfully convey electricity for commissioning purposes for a defined period of 18 months from issue of a completion notice. Detail of the change can be found in our final consultation on the implementation of the generator commissioning clause.<sup>1</sup>

<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/final-consultation-implementation-generator-commissioning-clause>

## 2. Preferred Bidder to Successful Bidder

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### The PB Notice and the PB Matters

2.1. The Preferred Bidder (PB) Stage follows the Enhanced Pre-Qualification (EPQ) Stage and the Invitation to Tender (ITT) Stage, or the Best and Final Offer (BAFO) Stage if applicable. The PB Stage commences once a Preferred Bidder is appointed.

2.2. We will issue a PB Notice to the PB, setting out the PB Matters, which must be resolved to our satisfaction within certain timeframes before the PB becomes the Successful Bidder. The PB Matters are set out in the Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015 (the Tender Regulations) at a high level and are detailed in the PB Notice. The PB Matters in the PB Notice are likely to include:

- (a) confirmations that the Preferred Bidder has established necessary arrangements to provide Transmission Services for that particular Qualifying Project, including that:
  - (i) contractual and other arrangements which are required for the Transmission Assets to be transferred are agreed (including, as required, the Transfer Agreement, Interface Agreement, disclosure letter, The Crown Estate lease, any crossing agreements, deeds of assignment and/or novation or security documents);
  - (ii) relevant property, rights, consents, licences and permits required by the proposed OFTO for operational purposes are in place or are agreed;
  - (iii) contractual and financial arrangements required by the proposed OFTO are agreed (including all necessary financing, operation and maintenance, and management service agreements);
  - (iv) operational arrangements are in place (including the takeover and transition plans, operation and maintenance, and health and safety policies);
  - (v) the proposed terms and conditions of the OFTO Licence have been accepted following the Section 8A Consultation;
  - (vi) a proposed Market Rate Revenue Adjustment methodology is in place in relation to any proposed MRA term in the OFTO Licence;
  - (vii) a financial close protocol, setting out the processes and timescales which are to be followed by the Preferred Bidder to achieve financial close, together with the accompanying financial model optimisation protocol are in place; and
  - (viii) in relation to financing, all necessary contractual and financial arrangements are in place.

- (b) confirmation that the Preferred Bidder has in place a bilateral agreement with the NETSO to provide Transmission Services for that particular Qualifying Project;
- (c) confirmation that the Preferred Bidder has acceded to the System Operator-Transmission Owner Code; and
- (d) any other matters which the Authority may determine are necessary in relation to that particular Qualifying Project, which may include:
  - (i) confirmation that funding terms and approvals remain valid;
  - (ii) confirmation that there has been no change between the arrangements set out in the bid and the final arrangements which will be put in place for provision of Transmission Services for that Qualifying Project.

2.3. We expect that a PB Notice would include the PB Matters listed above. However the PB Notice and the PB Matters may be tailored to the particular project characteristics and circumstances of the Preferred Bidder at the time of issue. We will also publish a notice of appointment of Preferred Bidder in respect of the Qualifying Project on our website, setting out an overview of the PB Matters in general terms.

2.4. Once we have issued the PB Notice the Developer is required to use its reasonable endeavours to enable:

- (a) the Preferred Bidder to resolve the PB Matters to the extent that resolution of those matters depends upon actions of the Developer; and
- (b) the Transmission Assets to be transferred to the Successful Bidder.

Failure by a Developer to comply with these obligations is an event of disqualification under the Tender Regulations (paragraph 2(e) of Schedule 9).

2.5. We expect the Preferred Bidder to move promptly to resolve the PB Matters within the relevant timeframes set out in the PB Notice by liaising directly with the Developer and other relevant third parties.

2.6. We expect Developers to organise themselves internally to prepare for close and to comply with their obligations under the Tender Regulations. It is expected that a Developer will need, for example, to do the following:

- (a) put in place appropriate technical, financial or other resource to prepare the relevant package of due diligence information and deal with due diligence enquiries;
- (b) complete any internal due diligence to inform the final terms of the Transfer Agreement, with input from relevant advisers;
- (c) obtain appropriate internal and third party or funder approvals to finalise the Transfer Agreement; and

(d) satisfy itself as to the completeness of due diligence information.

2.7. Adequate preparation for the due diligence process is key to efficient progression of the Transfer Agreement during the PB Stage in particular. Developers are also advised to try, insofar as possible, to ensure continuity of personnel in the Developer teams involved throughout the tender process.

2.8. The PB Notice will set out details of the Preferred Bidder payment to be made to Ofgem in accordance with regulation 21(6)(b) of the Tender Regulations. The Preferred Bidder payment will be payable shortly after Preferred Bidder appointment. The Preferred Bidder payment and all other payments described in this guidance are recoverable by the OFTO as allowed pass-through items via a revenue adjustment condition in the OFTO Licence. Further details on payments can be found in the Cost Recovery Note.

### **Ofgem's role**

2.9. Our role in the competitive tender process is set out in the Tender Regulations. During the process to close, our role includes:

- (a) establishing the PB Matters to be resolved by the Preferred Bidder;
- (b) determining whether the Preferred Bidder has resolved the PB Matters to our satisfaction for the purpose of commencing the Section 8A Consultation in the first instance and for the purpose of the Preferred Bidder becoming the Successful Bidder following the Section 8A Consultation;
- (c) calculating the Final Transfer Value of the transmission assets (see paragraph 2.29 below);
- (d) where applicable, granting minded-to statements in respect of derogations and/or consents in respect of relevant conditions of the OFTO Licence (see paragraph 2.13 below);
- (e) finalising the TRS for the purpose of conducting the Section 8A Consultation (see paragraph 2.22 below); and
- (f) granting the OFTO Licence to the Successful Bidder.

2.10. A key PB Matter to be resolved by the Preferred Bidder is finalisation of documentation to effect asset transfer and financial close, including the Transfer Agreement, funding documentation, the operation and maintenance arrangements, and the Interface Agreement. We do not intend to review or participate in the development of documents to which we are not a party, nor to act as an arbiter of disputes between the parties. We expect that where issues arise in the process to close, most will be for resolution on a commercial basis between the Preferred Bidder, the Developer and any other relevant parties.

2.11. During the process to close, we will host bilateral meetings with each of the Preferred Bidder, Developer and other third parties as necessary to monitor progress towards resolution of the PB Matters. In limited circumstances, we may also attend meetings between the Preferred Bidder and the Developer where this facilitates efficient conclusion of the process to close.



## Derogations and "Minded to" statements

2.12. If the Qualifying Project does not meet an applicable requirement of a particular technical code or standard, for example the STC, the Preferred Bidder may request that we grant a derogation from the OFTO Licence requirement to comply with that particular technical code or standard. A derogation is a direction from us relieving a licensee from its obligation to comply with a technical standard or code in its licence in specified circumstances and to a specified extent. The Preferred Bidder is expected to identify and approach us promptly with any such derogation requests. We refer you to the Guidance on Licence Derogation Requests for further information.

2.13. Where the Preferred Bidder submits a request for a derogation prior to Licence Grant, we will confirm in advance of Licence Grant whether we intend to consent to or approve of such arrangements following Licence Grant.

2.14. Where the OFTO has submitted a request for a derogation on or after Licence Grant, the derogation will apply from the date on which we issue the direction.

2.15. Each derogation granted will be entered onto our public register.<sup>2</sup>

2.16. Similarly, we have discretion to grant derogations from or provide consent to alternative arrangements in relation to certain matters set out in the OFTO Licence, for example with respect to credit rating or business separation arrangements. The Preferred Bidder may identify and approach us in advance of Licence Grant to request any relevant consent or approval in respect of such alternative arrangements.

## Modification of standard terms and conditions of the OFTO Licence

2.17. The OFTO Licence we grant will, by default, include only standard conditions and the terms. Therefore, we will modify the OFTO Licence at Licence Grant to incorporate OFTO specific provisions such as the TRS, incentives, and business separation requirements. We intend to make use of our powers under section 8A of the Electricity Act to propose these OFTO specific modifications, which will be subject to a consultation period of at least 28 days.

2.18. We will publish a notice on our website commencing the Section 8A Consultation. Any circumstances occurring during the Section 8A Consultation which give rise to the need to change the proposed OFTO Licence conditions may require the Section 8A Consultation to be re-run. For example, any change to the TRS arising from further negotiation of the commercial terms between the parties during the consultation period may have this effect. It is therefore important that all parties confirm that an effective "commercial close" has been reached before the Section 8A Consultation commences.

2.19. Neither commencement of the Section 8A Consultation, nor the resolution of commercial issues and transaction documents prior to commencement of the Section 8A Consultation, places the Developer or Preferred Bidder under any

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<sup>2</sup> <https://epr.ofgem.gov.uk/>

contractual obligation regarding transfer of the transmission assets nor does it require the Authority to grant an OFTO Licence.

2.20. Following expiry of the Section 8A Consultation (and consideration or any responses received), we will consider whether the Preferred Bidder has satisfactorily resolved the PB Matters for the purpose of appointing it as Successful Bidder.

### **Tender Revenue Stream**

2.21. At appointment of a Preferred Bidder we require the TRS bid upon which the Preferred Bidder was selected to be firm, fully reflective of the final Transfer Agreement for the Qualifying Project made available by the Developer during the ITT Stage, and subject to the conditions precedent set out in the ITT document.

2.22. There may be certain circumstances under which we may consider permitting changes to the TRS bid during the PB Stage.

2.23. The Preferred Bidder will be provided with further details of the process for notifying us of proposed changes to the TRS bid following appointment, but it is anticipated that the following may lead to a permissible change:

- (a) changes to underlying market rates (excluding any applicable credit spreads and margins) up to the point of financial close (see paragraph 2.26);
- (b) changes to the Indicative Transfer Value or Final Transfer Value notified to the Preferred Bidder by Ofgem prior to Licence Grant (see paragraph 2.29);
- (c) updates to the final Transfer Agreement, only where these result in a reduction to the TRS bid;
- (d) material changes in respect of the Transmission Assets since the date of the ITT Submission (or BAFO Submission, if applicable);
- (e) any other circumstances expressly notified by us to the Preferred Bidder as potentially leading to a permissible change to the TRS bid.

2.24. We also expect the Preferred Bidder to work on a transparent basis to notify us of matters that may lead to a reduction in the TRS as a result of any improvements to the position set out in the ITT Submission (or BAFO Submission if applicable), including, but not limited to, potential savings identified in the ITT Submission (or BAFO Submission if applicable).

### **Market Rate Revenue Adjustment**

2.25. Finalising the TRS will occur in parallel to the activities to be carried out by the Preferred Bidder in advance of the Section 8A Consultation. The TRS bid, as adjusted by any changes permitted by the Authority, will be published during the Section 8A Consultation.

2.26. The MRA term in the OFTO Licence provides for the OFTO's revenue to be adjusted to reflect the difference between market rates, including where relevant

bond spreads in the case of a public bond issuance, assumed in the TRS for the purpose of the Section 8A Consultation and the market rates determined on the day of financial close. This ensures that the OFTO is not affected by underlying movements in market rates, including bond spreads, since its ITT Submission or BAFO Submission if applicable.

2.27. The PB Notice will require the Preferred Bidder to prepare a statement outlining the proposed methodology to calculate this adjustment. This statement must meet the criteria outlined in the OFTO Licence and be approved by us. We will determine the value of the MRA, in accordance with this methodology, and direct the MRA term in accordance with the terms of the OFTO Licence on the day of financial close.

## The Transfer Value

2.28. Pursuant to regulation 4 of the Tender Regulations, we will assess the economic and efficient costs which ought to have been incurred in connection with the development and construction of the Transmission Assets of the Qualifying Project. The assessment of costs will be used to determine the Final Transfer Value of the transmission assets to be transferred to the Successful Bidder.

2.29. We will calculate our estimate of the economic and efficient costs and provide this as the Indicative Transfer Value for use in ITT Submissions by Qualifying Bidders. The Final Transfer Value will be calculated once the transmission assets are available for use for the transmission of electricity.

2.30. During the process to close, we will liaise with the Developer to finalise the cost assessment process and determine a Final Transfer Value. We intend that 100% of the Final Transfer Value will be payable at Financial Close. We will notify the Preferred Bidder of the Indicative Transfer Value or determination of the Final Transfer Value. Any change to the transfer value prior to commencement of the Section 8A Consultation will be notified to the Preferred Bidder and considered as a permissible change to the TRS bid.

2.31. We intend to determine the Final Transfer Value prior to commencement of the Section 8A Consultation, with the published TRS accounting for 100 per cent of the Final Transfer Value. Where the Final Transfer Value is determined after commencement of the Section 8A Consultation and sufficiently in advance of Licence Grant, we expect that:

- (a) the published TRS would continue to reflect the Indicative Transfer Value;
- (b) we would use the PTRAs term at Licence Grant to adjust the TRS to reflect 100 per cent of the Final Transfer Value, which will be payable at close.

2.32. If, under exceptional circumstances, this is not possible then we may adjust the TRS to reflect the difference (if any) between the Indicative Transfer Value and the Final Transfer Value (where completion of the our final assessment of costs occurs after Licence Grant). We would use the PTRAs term after Licence Grant to adjust the OFTO's revenue to reflect the Final Transfer Value.

2.33. Our Guidance for Cost Assessment sets out how we conduct cost assessments for offshore transmission projects. In addition, the cost assessment report for Westermost Rough provides an example of the key principles that were applied in the cost assessment process for Tender Round 3. This report is provided for information purposes only and we are not bound to follow the format or contents of such report for the purposes of TR4.

## 3. Successful Bidder to Licence Grant

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3.1. The Successful Bidder (SB) Stage is the final step of the tender process and immediately follows the PB Stage.

3.2. Following conclusion of the Section 8A Consultation, and once we are satisfied that the Preferred Bidder has resolved all the PB Matters, the Preferred Bidder shall become the Successful Bidder for the Qualifying Project. We will notify the Successful Bidder accordingly and confirm the amount of the Successful Bidder payment payable in accordance with regulation 28(4)(a) of the Tender Regulations.

3.3. We will notify each unsuccessful Qualifying Bidder of our determination to grant an OFTO Licence to the Successful Bidder. A standstill period of 10 working days will then be observed as set out in regulation 29 of the Tender Regulations.

3.4. As soon as reasonably practicable after the end of the standstill period, we will confirm our earlier determination to grant an OFTO Licence to the Successful Bidder and shall publish a notice to that effect.

3.5. We will confirm the amount of the cost assessment payment payable by the Successful Bidder in accordance with regulation 5(2) of the Tender Regulations. This payment covers our costs in carrying out the cost assessment of the transmission assets for the Qualifying Project.

3.6. We will liaise with the Preferred Bidder and the Developer in the period leading up to Licence Grant regarding the detailed mechanics of Licence Grant and the financial close process, which may vary depending on the particular characteristics of the proposed OFTO, its funding structure and the Qualifying Project.

3.7. The process to close will culminate in Licence Grant and the transfer of the transmission assets to the new OFTO. The OFTO is then a regulated entity subject to the regulatory regime administered by us.

## Appendix - Glossary

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### A

#### Authority

The Gas and Electricity Markets Authority established by section 1(1) of the Utilities Act 2000. The Authority governs Ofgem.

### B

#### BAFO Submission

A selected Qualifying Bidder's response to the BAFO document, which is the document delivered to each Qualifying Bidder invited to submit a BAFO and which sets out the rules and requirements of the BAFO Stage.

#### Best and Final Offer (BAFO) Stage

A stage of a Tender Exercise which the Authority may decide to run after the ITT Stage in order to determine which Qualifying Bidder shall become the Preferred Bidder in respect of a Qualifying Project. This stage starts from the distribution by Ofgem of the BAFO document to selected Qualifying Bidders, including BAFO preparation, submission and evaluation, and ending when a Preferred Bidder is selected and notified.

#### Bidder

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

#### Bidder Group

Two or more persons acting together as a consortium for the purposes of any PQ, EPQ, QTT, ITT or BAFO Submission to Ofgem in accordance with the Tender Regulations.

### D

#### Developer

The Tender Regulations define a 'Developer' as 'any person within section 6D(2)(a) of the Electricity Act or within a Developer Group'. Section 6D(2)(a) of the Electricity Act defines such person as 'the person who made the connection request for the purposes of which the tender exercise has been, is being or is to be, held'. In practice, such person is also the entity responsible for the construction of the generation assets and, under Generator Build, the transmission assets. Under Generator Build, this is the person who requests that Ofgem commences a Tender Exercise in respect of a proposed project.

#### Developer Group

The Tender Regulations define a 'Developer Group' as two or more persons acting together for the purpose of developing a Qualifying Project.

### E

#### Electricity Act

The Electricity Act 1989 as amended from time to time.

### 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.

## **F**

### 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.

### Full Commencement

Full commencement is the extension of the offshore regulatory regime to apply to all OFTO Build and Generator Build offshore transmission assets at or above 132kV. The offshore regulatory regime is currently partially commenced and applies to projects conveying electricity from offshore at 132kV from the point of asset transfer to an OFTO.

## **G**

### Generator Build

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

## **I**

### Indicative Transfer Value

Ofgem's estimate of the economic and efficient costs which ought to be 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.

### Interface Agreement

The agreement to be entered into between the Developer and the OFTO under the requirements of the Connection and Use of System Code.

### 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, which is the document prepared and issued by Ofgem to each Qualifying Bidder invited to make an ITT submission, and which sets out the rules and requirements of the ITT Stage.

### L

#### Licence Grant

Following its determination to grant an OFTO Licence to the Successful Bidder, the Authority confirms such determination in accordance with regulation 29(5) of the Tender Regulations and grants such OFTO Licence to the Successful Bidder pursuant to section 6(1)(b) of the Electricity Act 1989.

### M

#### Market Rate Revenue Adjustment (MRA)

An adjustment to the base revenue under Amended Standard Condition E12-A2 of the OFTO Licence to account for any difference between the market rates assumed in the TRS and the market rates on the date that the OFTO Licence comes into force.

### N

#### 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 National Electricity Transmission System.

### O

#### 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 OFTO Licence.

#### Offshore Transmission System

A transmission system made up of Transmission Assets that is used for purposes connected with transmission of electricity in offshore waters, 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; and
- (c) waters within an area under section 84(4) of the Energy Act 2004.

#### Ofgem<sup>3</sup>

Office of Gas and Electricity Markets.

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<sup>3</sup> "Ofgem" and "the Authority" are used interchangeably in this document.



## OFTO Build

A model for the construction of offshore assets. Under the OFTO build option, the Developer obtains the connection offer and undertakes high level design and preliminary works. The OFTO constructs, operates, maintains and decommissions the transmission assets.

## P

### PB Matters

The matters to be resolved by the Preferred Bidder to the Authority's satisfaction as specified in regulation 21(4)(a) or (b) of the Tender Regulations, as the case may be, before that Preferred Bidder becomes the Successful Bidder in accordance with regulation 28(4) of the Tender Regulations.

### PB Notice

A notice under regulation 21(6) of the Tender Regulations given by the Authority to the Preferred Bidder setting out the detail of the PB Matters which must be resolved by the Preferred Bidder, how such matters shall be resolved and by what date, and the amount of payment payable to the Authority as calculated in accordance with the Tender Regulations in relation to the PB Stage.

### 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 OFTO Licence. This stage starts at the date of Ofgem's notice to a Qualifying Bidder that it has been selected as Preferred Bidder and ending 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 28(2) of the Tender Regulations.

### Post-tender Revenue Adjustment (PTRA)

An adjustment to the base revenue under Amended Standard Condition E12-A3 of the OFTO Licence to account for any difference between the Indicative Transfer Value and the Final Transfer Value.

### 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 OFTO Licence subject to the satisfaction of the conditions specified by Ofgem in accordance with the Tender Regulations in force at that time.

### Pre-Qualification (PQ) Stage

The stage of a Tender Exercise starting from the publication of the PQ document, including the preparation, submission and evaluation of PQ submissions and ending once Ofgem has published the longlist of Qualifying Bidders who have been invited to participate in the QTT Stage.

## 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.

### Qualifying Project

An offshore transmission project in respect of which Ofgem determines that the Developer has satisfied the requirements described in:

- (a) for Generator Build projects, paragraph 2 of Schedule 1 to the Tender Regulations, or will use its reasonable endeavours to satisfy the relevant Qualifying Project requirements within a period specified by Ofgem; or
- (b) for OFTO Build projects, paragraph 1 of Schedule 1 to the Tender Regulations.

## R

### Reserve Bidder

The Qualifying Bidder determined by Ofgem as the second choice Qualifying Bidder (in accordance with regulations 19(3) or 20(5) of the Tender Regulations) to which Ofgem would consider granting the OFTO Licence should Ofgem ultimately decide not to grant the OFTO Licence to the Preferred Bidder.

## S

### SB Stage

The period starting at the date of Ofgem's notice to a Preferred Bidder that it has become the Successful Bidder and ending at the date when the Successful Bidder is granted an OFTO Licence in relation to a particular Qualifying Project.

### Section 8A Consultation

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

### Successful Bidder (SB)

The Preferred Bidder in a Tender Exercise who has resolved the PB Matters to the Authority's satisfaction, such that the Authority intends to grant to it an OFTO Licence.

### System Operator – Transmission Owner Code (STC)

The industry code that defines the high level relationship between the NETSO and Transmission Owners setting out the roles, responsibilities, obligations and rights etc of the NETSO and the Transmission Owners.

## T

### Tender Exercise

The competitive process run by Ofgem in accordance with the Tender Regulations in order to identify a Successful Bidder to whom a particular OFTO Licence is to be granted.

### Tender Regulations

The Electricity (Competitive Tenders for Offshore Transmission Licences) 2015.

### 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.

## 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 OFTO Licences are to be granted for each Qualifying Project subject to such Tender Exercises.

### Tender Round 4 (TR4)

The fourth competitive Tender Round for the grant of an OFTO Licence for the Burbo Bank Extension project.

### 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.

### 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 Developer to a Successful Bidder in respect of a Qualifying Project subject to a Tender Exercise.

### 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 is expected to include 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)

An owner of a high-voltage transmission system.

### Transmission Services

Those services which are provided or are to be provided to the system operator by another transmission licensee pursuant to standard condition E15 (Obligation to provide transmission services) of the OFTO Licence.