
OFTO tender process consultation for future tender rounds: Response from The Crown Estate

17th May 2018

1. General comments

Thank you for the opportunity to respond to the consultation on OFTO regime, published on 8th March 2018. The Crown Estate welcomes this consultation as it raises a number of important policy issues at a time when offshore wind is maturing into a mainstream energy source; it is an appropriate time therefore to review key policy positions for offshore transmission. We hope our response is helpful in refining your policy in this area, and we are happy to discuss any aspect further.

2. The Crown Estate's role and responsibilities

The Crown Estate is a £12bn independent business that comprises of property assets in central London, strategically situated prime retail and leisure holdings, rural land and the majority of the seabed around England, Wales and Northern Ireland to the 12 nautical mile territorial limit. Established by an Act of Parliament, we return all our profit to the UK Treasury; this has totalled £2.6bn over the last ten years.

Our Energy, Minerals & Infrastructure (EMI) portfolio comprises virtually the entire seabed out to the 12 nautical mile territorial limit in England, Wales and Northern Ireland and also the sovereign rights to explore and make use of the natural resources of the continental shelf (with the exception of coal, oil and gas). Activity within the EMI portfolio is diverse and we lease and licence seabed across a number of business sectors including offshore wind, wave and tidal energy, aggregate dredging, cables and pipelines and other infrastructure. In addition, we also have responsibility for just under half of the foreshore and beds of estuaries and tidal rivers in England, Wales and Northern Ireland. Our coastal activities mainly comprise the leasing and licensing of land for coastal management activity, outfalls, aquaculture, moorings, jetties and other infrastructure.

3. Context for our response

The offshore wind industry is one of the UK's modern success stories; there is over 7GW of capacity currently in operation, projects in development that will deliver around 10GW by 2020, and an industry aspiration to deliver 30GW of capacity by 2030¹. This rapid expansion is being developed off of the back of a significant reduction in cost; costs for the CfDs awarded in 2017 were virtually half of those awarded in 2015. This maturing of the industry from its roots in the early 2000s puts it at the forefront of the decarbonisation of the UK economy, with significant positive developments for the supply chain and UK jobs.

¹ See announcement on the proposed Sector Deal for offshore wind, March 2018: www.renewableuk.com/news/391723/UK-Offshore-Wind-Industry-Reveals-Ambitious-2030-Vision.htm

The Crown Estate provides seabed rights for all offshore wind projects – and offshore transmission infrastructure – in English, Welsh and Northern Irish waters, therefore playing a key role in enabling development. We take an active approach to our management of this unique asset, collaborating with the offshore wind sector and other stakeholders to share both data and best practice and also address common challenges, thereby helping attract investment and bring costs down further. We have granted these seabed rights in a series of structured leasing rounds, the last major tranche of which was in 2008/09. In late 2017 we announced plans to work with industry and wider stakeholders to consider making new rights available².

It is through the context of this offshore generation activity – which is the ultimate driver for offshore transmission infrastructure – that we are responding. Given the juncture the sector is at, we are very keen to work alongside Ofgem and industry to support the evolution of the OFTO regime to ensure it remains fit-for-purpose as the offshore wind industry industrialises over the coming years.

4. Responses to questions raised in the consultation

We set out below our feedback to some of the specific issues raised in the consultation.

Chapter 2

We do not have comment to make on the specific questions raised in this chapter. However, we have a number of comments on the issues discussed, specifically those raised in the initial market feedback on OFTO regime (section 2.7-2.16):

Bidder/developer interactions: We support the point raised regarding establishing an industry forum between offshore wind operators/developers and OFTOs. We have direct positive experience from this type of fora as a way of sharing experience and lessons learned on development and operational issues, such as through the Offshore Wind Programme Board³ (and subsidiary groups including the Grid Group which we are a member of) and the sector-specific customer events we run periodically. We held our most recent offshore wind customer event in April 2018 to support the launch of our latest operational report⁴, and this brought together both offshore wind operators and OFTOs in a way that we understand does not occur that often. We believe formalising such an arrangement would be welcomed across both OFTOs and the offshore wind sector, particularly as it looks ahead to ramping up deployment during the 2020s.

² www.thecrownestate.co.uk/energy-minerals-and-infrastructure/offshore-wind-energy/working-with-us/potential-new-leasing/

³ Further detail is available on the ORE Catapult website: <https://ore.catapult.org.uk/work-with-us/industry/offshore-wind-programme-board/>

⁴ Our 2017 operational report was launch in March 2018: www.thecrownestate.co.uk/media/1142291/offshore-wind-operational-report_digital.pdf

Certificate of Title: It is not clear from the consultation document what specifically is meant by the suggestion that developers provide a Certificate of Title, but given we understand it relates to property aspects we would need to be cited on the detail to help take forward its development (if that was considered appropriate). However, note it is not currently possible to register title to seabed below mean low water mark⁵ in England, Wales and Northern Ireland.

Clarity on regulatory arrangements beyond 20 years: We agree with the sentiment that further clarity is required. Please see our more detailed comment below on this.

Chapter 3

We do not have any comments on the questions in this chapter.

Chapter 4

Offshore wind is expected to be a significant part of the future electricity mix under all credible scenarios, and the offshore transmission infrastructure that connects these generators provides their sole route to market. Therefore standing back to reflect on issues such as the way in which OFTOs are remunerated (including term) and clarifying the arrangements for what happens at the end of the default revenue term at this time is welcome to ensure there are no avoidable adverse impacts on the user of the assets.

Q9: End of revenue term arrangements: We welcome Ofgem providing further clarity on the broad options that could apply at the end of the default 20-year revenue term, and we acknowledge that the arrangement adopted will be dependent on specific project circumstances of the connected offshore windfarm. We have undertaken work looking at some of the factors that offshore windfarms would need to take into account in their decision-making on life extension, and are happy to discuss this further with you.

Of the two options presented in the consultation, extending the revenue term based on costs would appear to be the most straightforward to administer given the incumbent is already providing offshore transmission services through ownership of the physical infrastructure and by virtue of the seabed rights to the route for the period of the lease agreement. If this option were to be pursued, we would urge Ofgem to look beyond simply cost when re-setting the allowed revenue, and also take into account the incumbent's track record of the quality of service provided to the connected offshore windfarm over the preceding period, including in terms of availability of the assets and demonstrable evidence of good asset management practice. An option Ofgem may want to consider is adopting a traditional periodic price control approach after the end of the pre-defined term in order to help manage the uncertainty beyond this period.

⁵ Other than in some coastal instances where contained within an administrative boundary

Re-tendering the OFTO for an additional revenue term would appear a more complex solution given the ownership and property rights the incumbent operator has. However, it may be a more appropriate option in circumstances where significant additional capital expenditure is needed to ensure the infrastructure can meet the ongoing needs of the connected offshore windfarm or in circumstances where the incumbent OFTO has not performed sufficiently, for example in terms of the quality of service provided.

We look forward to further consideration and consultation on this issue over the coming months.

Notwithstanding the above, the lack of clarity on the period beyond 20 years creates uncertainty for all stakeholders and could dilute incentives on OFTOs for longer term asset integrity management if they do not understand their longer term revenue profile. The 20-year period is at odds with the plans of several offshore windfarms, who are considering an asset life of up to 25 years (or potentially longer). Given this, we would recommend Ofgem starts formally engaging with the relevant offshore windfarm operator earlier than year 15 of operation, which is the timeframe we understand where OFTOs start to build up necessary funds for decommissioning and where we believe there is a risk that incentives on good asset management could reduce. Engaging in good time should provide the best opportunity to ensure good asset management over the longer term. We would also suggest Ofgem considers undertaking audits on OFTOs' performance against their licence obligations, particularly in this latter period of the default revenue stream.

Q10: Changing default revenue period from 20 years: We recognise that establishing a default revenue period is important for providing certainty to bidders and financiers of OFTO assets. The current default of a 20-year revenue term was decided based on the expected economic life of the windfarm at the time when the OFTO regime was introduced. However, we believe there is a growing body of evidence that indicates that the economic life of the more recent generation of offshore windfarms is now significantly longer than this, potentially up to 25 years, with leading wind turbine generators now having their products certified for 25 years of operation (although this would be asset specific).

Any update to the default revenue term should take into account a range of factors including costs to consumer, financability of the infrastructure and incentives within the revenue stream period. Key external factors will be the expected economic life of the connected offshore windfarm (potentially up to 25 years), the economic subsidy regime for offshore wind and the length of the lease agreements for the seabed (typically 50 years). Looking forward, the most appropriate length may need to be tailored to the specific characteristics of infrastructure in question, although we recognise that this would introduce greater administrative complexity.

As part of its review on updating the length of the default revenue stream, we would suggest Ofgem includes within scope the appropriate principles for determining revenue for multiple use infrastructure (e.g. infrastructure with more than one offshore windfarm connected or a combination of offshore wind and interconnection). In these instances, there would unlikely be a single determining factor for the ongoing need for the asset, but multiple. Whilst there are no operational examples of this at present in GB, we are aware of concepts being considered and therefore it would be prudent to re-open how this type of asset could be treated within the regime going forward.

The above are a series of suggestions for consideration, and we would welcome further consultation and from Ofgem on this particular topic over the coming months.

5. Conclusion

We trust that you will find these comments constructive. We would be very willing to provide additional information on any of the points we have raised above and be very pleased to discuss these matters with you further. Nothing in this response is confidential and therefore it may be placed in the public domain.

Yours faithfully,

A handwritten signature in black ink, appearing to be "Richard Clay", written in a cursive style.

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