

January 22nd 2021

Response to consultation - OFTO Regime tender process

Introduction

Thank you for the invitation to discuss our perspective on the OFTO Regime Tender Process.

By way of introduction, we represent Howden Specialty, a leading renewable energy broker in the London market. We are well connected to the UK OFTOs and offshore wind industry, taking particular interest in the insurance matters of said areas. Although Howden is not a broker to an OFTO, we are well placed to offer comments and suggestions regarding the OFTO Regime Tender Process based on our vast industry experience; our reputation as a specialty broker in the renewable energy space derives from the expertise of our employees, including those who originated in the OFTO insurance industry.

Our view on the insurance requirement

We agree that the OFTO insurance market has hardened, and there is at this point no reason to anticipate a softening from the traditional panel of insurance candidates. Markets have even changed to the extent that OFTOs can no longer bind capacity in long-term agreements without an additional premium load.

At present, the OFTOs rely heavily on the grace of and strategic relations with the insurers, creating an unhealthy balance insofar as the OFTOs are dictated by the regulator as to what cover to seek.

Liberalizing the regime would have many beneficial outcomes, including enhancing and strengthening competition amongst bidders.

In a more liberal approach, different bidders would have different internal thresholds; by allowing each to utilize their individual capacity and strengths it is likely that it would attract more competitive contestants and ultimately more competitive bids. It is our view that this would drive innovation in the sector. In addition, other financial insurance tools, such as credits and bonds, could be explored.

Building further on traditional insurance products, for example moving away from LEG3 and potentially allowing Welcar clauses to supersede it, would enable easier access for Oil & Gas markets, who are currently exploring their way in, but are hampered by a tradition of misunderstanding or not adhering to London Engineering Group clauses.

Obviously loosening the fixed insurance requirements would elicit a need for different scrutiny in the tender process as the financial capabilities and offered guarantees of the bidders would be pivotal for their appointment; this would need to be taken into account.

An alternative solution

To promote an even playing field for bidders, the cable insurance risk could be removed entirely by seeking to create a mitigation portfolio product administered by Ofgem, with the insurance market providing capacity, including a coordinated spares and repair framework agreement with vessel operators on standby at pre-agreed rates. This option would promote pure and fair competition where the management and operation of the assets is the only driver of price. Insurers are often told that the insurance premium is a very large portion of the allocated O&M costs; this would be a way of channelling said costs into one pool, which every OFTO benefits from and which in turn becomes cheaper for the consumer.

Conclusion

Ultimately, we mainly see benefits of introducing a less prescriptive requirement within the OFTO Regime Tender Process. This also rules out any specific requirement for purchasing BI protection which should remain at the discretion of the bidder. A more liberal approach would attract more capacity and allow greater flexibility for bidders to make their best available offer, which in turn would benefit the consumer.

Best regards

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Sustainable Energy

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