

Offshore Transmission: Updated Guidance for Cost Assessment

Guidance Document

Publication date: 24 July 2017

Contact: Paul O'Donovan, Head of Investment Assessment

Team: Networks

Tel: 020 7901 7414

Email: Paul.O'Donovan@ofgem.gov.uk

Overview:

Under the regulatory regime for the construction and operation of offshore transmission assets, Ofgem runs a competitive tender process to select and license Offshore Transmission Owners (OFTOs). To facilitate the tender process, Ofgem undertakes a cost assessment of the offshore transmission assets developed and/or constructed before they are transferred to the appointed OFTOs.

This updated guidance document sets out the cost assessment process that we follow to determine the transfer value for offshore electricity transmission projects developed and constructed by developers. It describes our approach for determining the economic and efficient costs of offshore transmission assets and provides developers with an overview of the information we require.

This guidance builds on both the previous version of this guidance and process development work conducted throughout 2015, as well as incorporating experiences in completing fifteen offshore project assessments.

Context

Ofgem¹ and the then Department for Energy and Climate Change (DECC) developed a regulatory regime for offshore electricity transmission. Under this regime, offshore electricity transmission licences are granted to Offshore Transmission Owners (OFTOs) following a competitive tender process run by Ofgem.

The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015 (the Regulations) provide the legal framework for the process which Ofgem will follow for the grant of offshore electricity transmission licences.

The Regulations² set out the requirement for the Authority to calculate, based on all relevant information available to it at that time, the economic and efficient costs which ought to be, or ought to have been, incurred in connection with developing and constructing the offshore transmission assets in respect of a qualifying project.

Where the Authority has determined to grant an offshore electricity transmission licence to the successful bidder in respect of a particular project, the assessment of costs shall be used by the Authority to determine the value of the transmission assets to be transferred to the OFTO. This transfer value will be reflected in the revenue stream in the offshore electricity transmission licence granted to the OFTO.

Associated documents

- The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015: [Link](#)
- Offshore Transmission: Tender Rules: [Link](#)
- Offshore Transmission – Consultation on potential measures to support efficient network co-ordination: [Link](#)
- Offshore Electricity Transmission: Consultation on tender exercises under the enduring regime: [Link](#)

¹ The Gas and Electricity Markets Authority is the regulator of gas and electricity markets in Great Britain. Ofgem is the Office of Gas and Electricity Markets, which supports the Authority in performing its statutory duties and functions. It is the Authority which is responsible for exercising the relevant statutory powers.

² Regulation 4(1) (Calculation of costs incurred in connection with transmission assets)

Contents

Executive Summary	4
1. The Cost Assessment Process	5
The purpose of offshore transmission cost assessment	5
Regime overview	5
Purpose of this document	5
Stages of the offshore transmission cost assessment process	6
Initial transfer value	6
Indicative Transfer Value (ITV).....	6
2. Cost Assessment Approach	9
Introduction	9
Capital expenditure (Capex).....	9
What do we mean by capital expenditure?	9
Assessment of Capex costs	9
Development costs.....	18
What do we mean by development costs?.....	18
Assessment of development costs.....	19
Interest during construction (IDC)	20
What do we mean by IDC?	20
Allocation and assessment of IDC	20
Transaction costs.....	22
What do we mean by transaction costs?	22
Assessment of transaction costs	22
Taxation	23
Value added tax (VAT)	23
Capital allowances	23
Appendix 1: Cost Assessment & Tender Processes in parallel	24
Appendix 2: Glossary	26

Executive Summary

The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2015 (the Regulations) provide the legal framework for the process which Ofgem runs for the grant of offshore electricity transmission licences. This process includes assessing the economic and efficient costs of developing and constructing the offshore transmission assets.

Since the publication of the Offshore Transmission cost assessment guidance³ in 2012 we have completed cost assessments for a further nine projects. It is now timely to refresh the guidance to ensure that it aligns with regulatory updates and that it reflects the experience of completed cost assessments.

This document is intended to inform interested parties of the Authority's approach to cost assessment for offshore transmission. Much of this has already been documented in the various project cost assessment reports published to date by the Authority.

The main changes since the previous version relate to refinements of our positions on hedging (paragraphs 2.28-2.34), interest during construction entitlement periods (paragraph 2.70-2.81) and development costs (paragraphs 2.62-2.68). There are also a number of areas where we have added clarifications.

By providing this information, we expect that developers will improve their understanding of: the offshore transmission cost assessment process; the key issues that have arisen to date; and, how these have been treated by the Authority.

This guidance is relevant to both ongoing and future cost assessments. We intend to keep both this guidance and our approach to cost assessment under review to ensure alignment with policy developments in the offshore regime and to deal with project specific issues as they arise. We will continue to engage with stakeholders and consult as appropriate to ensure the regime remains fit for purpose.

³ "Offshore Transmission: Guidance for Cost Assessment" Ofgem, 2012

1. The Cost Assessment Process

Chapter Summary

We set out both the context for cost assessment within the regulatory regime for offshore transmission and the cost assessment process adopted for “generator build” projects i.e. those developed and constructed by developers.

The purpose of offshore transmission cost assessment

1.1. As part of the regulatory regime introduced by the government since June 2009 to ensure cost effective development of offshore transmission infrastructure, licences for offshore electricity transmission are granted to an entity which is identified by means of a competitive tender process run by Ofgem in accordance with the Regulations.

1.2. The Regulations require the Authority to determine the value of the transmission assets to be transferred to the offshore transmission owner (the OFTO), by calculating the economic and efficient costs which ought to be, or ought to have been, incurred in connection with developing and constructing the transmission assets.

Regime overview

1.3. Under the enduring regime arrangements, developers may choose to either:

- develop and construct the transmission assets themselves and transfer them to the OFTO identified through a competitive tender exercise (the “Generator build” option); or
- undertake high-level design and preliminary works, but the OFTO identified through a competitive tender exercise then undertakes the detailed design, procurement and delivery of the transmission assets (the “OFTO build” option).

1.4. The cost assessment process for each of these two build options is different. In the case of OFTO build, it will be based on the economic and efficient costs of obtaining the preliminary works, and in the case of Generator build, it is based on the economic and efficient costs of developing and constructing the transmission assets. However, we expect the principles against which costs are assessed to be economic and efficient to be similar.

1.5. For the avoidance of doubt, the cost assessment guidance within this document is focused on the Generator build model.

Purpose of this document

1.6. The Regulations do not stipulate how the Authority should calculate the economic and efficient costs of developing and constructing the offshore transmission assets.

1.7. The intention of this updated guidance is to inform developers and other interested parties of the Authority's approach to offshore transmission cost assessment. Since our original publication, we have issued the cost assessment reports for an additional nine offshore projects. We therefore consider that it is now timely to update this guidance, which should help to improve the process for all stakeholders. We will continue to explore ways in which the regime can be improved, in consultation with stakeholders.

Stages of the offshore transmission cost assessment process

1.8. The developer facing cost assessment process is conducted by the Authority in parallel to the bidder facing side of the tender process. Set out below is a description of stages of the cost assessment process and the points at which they currently interact with the bid side of the tender process.

Initial transfer value

1.9. To support the commencement of a tender exercise, the cost assessment process has focussed on identifying an "Initial Transfer Value". This is not the "estimate" of costs conducted by the Authority under the Regulations, but the developer's initial estimate of how much they anticipate the offshore transmission assets will cost to build. Ofgem provides the developer with a pro forma 'cost template' in which to submit this cost information, broken down into certain categories, namely: capital expenditure; development costs; interest during construction; and, transaction costs. Ofgem normally would perform a basic review of the cost information at this stage and indicate to developers issues that would require more in-depth scrutiny at later stages.

1.10. This Initial Transfer Value is published by Ofgem in the preliminary information memorandum at the Pre-Qualification (PQ) or Enhanced Pre-Qualification (EPQ) stages of the tender exercise⁴ (as applicable). These stages result in a list of bidders that will be invited to participate in the next stage of the tender process.

Indicative Transfer Value (ITV)

1.11. The next stage of the cost assessment process is setting the ITV. This is the 'estimate' of costs which ought to be incurred, given that the construction of the transmission assets has not yet reached a stage when they are available for use for the transmission of electricity. At this stage, the developer submits updated cost information upon which Ofgem, with the support of its consultants, carries out a forensic accounting review and (if required) a technical review.

1.12. The accounting exercise entails a review of the contracts that the developer has entered into for the development and construction of the transmission assets. The contracts are checked against the details previously provided for the purpose of the Initial Transfer Value, and the appropriateness of the proposed cost allocation between the generation assets (which are excluded from the cost assessment) and the transmission assets is reviewed.

⁴For Tender Round 3, Ofgem decided not to hold a QTT Stage and to instead hold an EPQ stage to streamline the tender process and reduce costs for bidders as they will have to prepare only one EPQ submission instead of two submissions (for the PQ Stage and QTT Stage).

1.13. The technical analysis has typically focussed on two aspects:

- Reviewing the overall design of the project, including features such as the choice of electrical design, procurement efficiency, risk logs and the technology options evaluated. The main purpose is to ensure the project design is functionally appropriate for the connected generation. If the project design is considered to be inefficient, we will discuss our concerns with the developer, to inform our consideration of whether the project is efficient and economic.
- Considering whether the costs for the project are economic and efficient. We do this by comparing cost submissions with both costs from other transmission projects Ofgem has assessed (making allowances for project specific elements) and the cost data held by our advisers. Following identification of any cost anomalies, we then discuss the reasons for these differences with the developer, to inform our consideration of whether costs have been incurred in an economic and efficient manner.

1.14. The ITV is normally published at the start of the Invitation to Tender (ITT) stage of the tender process. The outcome of the ITT stage is identification of the preferred bidder for the qualifying project which, subject to satisfaction of certain matters prescribed in the Regulations, will become the successful bidder and ultimately the OFTO. Qualifying bidders at the ITT stage use the ITV as an assumption underpinning the tender revenue stream which they bid to own and operate the transmission assets.

1.15. Costs set at the ITV may be revisited at the Final Transfer Value (FTV) stage. Unless we explicitly state that a cost item is closed, developers should be prepared to provide further justification for costs during discussions to set the FTV.

Final Transfer Value (FTV)

1.16. The next stage of the cost assessment process is setting the FTV. This is the 'assessment', referred to in the Regulations, of the costs which ought to have been incurred in connection with development and construction of the transmission assets. It is the amount to be paid to the developer by the OFTO for the transmission assets. The trigger point for commencing this assessment has been when circa 90 – 95% of the project costs have been incurred. At this point, there has been sufficient cost certainty for Ofgem to make a robust assessment of the extent to which costs have been economically and efficiently incurred. If we were to delay the assessment process until all project spend had been incurred, the process to asset transfer and licence grant would be unnecessarily delayed.

1.17. As with establishing the ITV, Ofgem instructs both accounting and technical consultants (as required) to support this stage of the cost assessment process, reviewing all expenditure submitted by the developer. The accounting analysis focusses on checking that the contracts presented by the developer at the ITV stage have been performed, and examining the developer's bank statements in order to reconcile stated contract costs with actual payments. The technical review tends to focus on areas where there may have been significant cost increases since Ofgem set the ITV, cost issues not finalised during the ITV stage or where comparative analysis has indicated some costs to be outside their expected ranges.

1.18. Following this assessment, Ofgem sends the developer a draft cost assessment report setting out the assessed transfer value of the transmission assets. This gives the developer the opportunity to correct factual errors and propose redaction of commercially confidential information. The draft report is also sent to the preferred bidder, to factor the assessed transfer value into its tender revenue stream calculations. The tender revenue stream amount, incorporating the assessed transfer value, is then published in a consultation pursuant to section 8A of the Electricity Act 1989, by which the Authority proposes modification to the standard conditions of the Licence on a project specific basis (the section 8A consultation). We refer to this as the "section 8A TRS", which is adjusted at licence grant to result in a final tender revenue stream amount payable to the OFTO under its licence.

1.19. The draft cost assessment report is published alongside the section 8A licence consultation. The report remains in draft form until the section 8A consultation has concluded and the Authority has determined to grant an offshore transmission licence to the successful bidder. After licence grant, the final cost assessment report containing the FTV is published on the Ofgem website.

1.20. So far, Ofgem has finalised the assessment of costs prior to commencement of the section 8A consultation and the section 8A TRS has reflected 100% of the FTV. Where it is not possible to finalise the assessment of costs in time for commencement of the section 8A consultation, the section 8A TRS would instead reflect the ITV. Where the Authority completes the assessment of costs after the section 8A consultation and sufficiently in advance of licence grant, the Post-Tender Revenue Adjustment term (PTRA)⁵ would be used at Licence grant to adjust the tender revenue stream to account for 100% of the FTV. If, under exceptional circumstances, this is not possible, the transfer value would be paid by the OFTO to the developer as deferred consideration following licence grant, upon conclusion of our cost assessment. Again, we would utilise a PTRA term after Licence grant to adjust the tender revenue stream to reflect the FTV.

Timely provision of data throughout the process

1.21. Under the Regulations, the Authority can require a developer to provide further information to assist the Authority make its cost assessment calculations. Where the Authority does request further information, it shall provide a date by which that information is to be provided. Where a developer fails to provide the information by the required date, the Authority may decide not to take into account the information provided after that date when determining either of/both the ITV or FTV.

⁵ The PTRA term is contained in amended standard condition E12-A3 of the Generic OFTO Licence. Use of the PTRA term post-licence grant in the be provided for and consulted upon in the amended standard conditions.

2. Cost Assessment Approach

Chapter Summary

We set out the approach we use for assessing the ITV and FTV of Generator build projects.

Introduction

2.1. The cost assessment process analyses developer cost submissions across four broad cost categories:

- capital expenditure
- development costs
- interest during construction
- transaction costs

2.2. Our assessment considers costs incurred in connection with the development and construction of offshore transmission assets up to the point at which they are available for use for the transmission of electricity.

2.3. Below, we have set out the description of the cost assessment approach for each of the above cost categories. We also comment on taxation issues at the end of this chapter.

Capital expenditure (Capex)

What do we mean by capital expenditure?

2.4. The development and construction of offshore transmission assets requires developers to enter into a variety of design, delivery, construction and installation contracts. Typically, the assets that are constructed are offshore platforms, the high voltage electrical power systems on the platforms, export undersea cables, onshore substations and associated apparatus. We define Capex costs as the costs involved in the delivery, construction (including civil works), installation and commissioning of assets associated with the offshore transmission system.

Assessment of Capex costs

Allocation and accuracy of Capex costs

2.5. Where common components are jointly procured (for example cable and cable laying services), Capex costs should be split out between the generation and transmission elements of the project. It is important that these costs are apportioned appropriately so that there is no undue cross subsidy of the transmission elements by the generation elements, or vice versa.

2.6. We would expect that the apportionment methodology adopted by a developer would be done on an objective and transparent basis, such that it can be independently

replicated and verified. In such instances we would expect to be provided with the details underpinning the allocation methodology and metrics that the developer has used to determine what proportion of the costs have been allocated as transmission costs.

2.7. Such a methodology may be based on metrics such as the relative proportion of direct equipment costs (excluding all shared costs) for the transmission assets compared to the project as a whole. Developers may discuss their methodologies and underlying rationale with us ahead of any submission. Once any methodology is agreed, we will cross-check that the allocation of cost accurately reflects the methodology.

2.8. In the event that a developer is unable to provide a metric and has based allocations on an estimate, we may decide to either impose a metric or exclude elements of those costs from the transfer value. However, in such instances we will discuss options with the developer to allow the opportunity for appropriate substantiation of their estimate to be provided.

2.9. On occasions, procurement of generation and transmission assets as a package may lead to manufacturing discounts. In such instances, we would expect the discount to be appropriately allocated between the generation and transmission elements of the project. Where discounts are tied across several different projects (e.g. bulk purchase deals), we would expect there to be an objective allocation of the savings across all of those projects so that there is no cross-subsidisation between projects.

2.10. Where insurance policies are procured to jointly cover transmission and generation assets it will be necessary to identify the cost allocation between transmission and generation assets. In the absence of any metrics supplied by the developer that are considered appropriate by Ofgem, we may revert to a ratio of the direct costs of generation assets versus the direct costs of transmission assets.

Efficiency of Capex costs

2.11. This section sets out a number of elements which we typically consider in assessing whether the Capex costs have been economically and efficiently incurred:

- Direct costs for transmission assets
- Approaches to procurement and contract management
- Treatment of contingency
- Spares
- Post energisation faults
- Land costs
- Hedging of exchange rates or commodity prices
- Insurance
- Outstanding costs
- Treatment of cost overruns
- Capitalisation of operating costs
- Cable surveys and risk assessments
- Depreciation of operational projects
- Anticipatory and wider network benefit investment
- Interlinks
- Connection costs

2.12. We deal with each of these in turn below.

Direct costs for transmission assets

2.13. To inform the ITV and FTV stage, we carry out benchmarking analysis, supported by our technical advisors as appropriate.

2.14. We use this to guide our decisions on what cost areas it may be appropriate to investigate further, rather than as an absolute determinant of allowable costs. Where this highlights specific costs as a concern, further analysis is conducted to determine whether these costs would be or were incurred in an economic and efficient manner. Developers are given the opportunity to explain why their costs may differ from industry averages derived from similar projects. In the absence of appropriate evidence to justify these differences, we may use benchmarking data to inform our view of economic and efficient costs.

2.15. We have consulted on the use of benchmarking within the cost assessment process⁶ and engaged consultants to review offshore transmission cost data from the projects assessed to date. Following this review and taking into account responses we received, we concluded that due to the current sample size and the variety of project specific factors across the range of offshore developments, it is not appropriate to solely rely on benchmark data to set target values for Capex costs⁷.

2.16. As more projects are assessed and our accumulated data becomes more robust, we expect this type of analysis to play an increasingly important role as an evidence base for what constitutes efficient Offshore Transmission costs.

Approaches to procurement and contract management

2.17. Efficient procurement processes can make a significant contribution to controlling cost. In considering the extent to which costs have been economically and efficiently incurred, we review the efficiency of the procurement and contract management processes. Developers are advised to provide us with appropriate documentation relating to the process that was followed and a detailed justification of the outcome.

2.18. The developers of projects to date have adopted a variety of approaches to contract management. Some have managed through combinations of alliancing, wrapped contracts and utilisation of own resources, while others have utilised the turnkey approach. Ofgem does not have any preference as to the approach taken to contract management, but developers should be able to justify that the costs have been economically and efficiently incurred. As an example, we would expect that turnkey contracts may increase a project's initial cost forecast, but there would be a commensurate reduction in project risks and associated costs that could be included in the FTV. Furthermore, where developers opt for a wrapped or turnkey contract, they should provide disaggregated cost data if requested to do so, to allow Ofgem to make meaningful comparisons of the different cost categorisations.

2.19. We expect developers to manage their contractors effectively. They should evidence that project management or contract control processes are put in place up front (i.e. before the contract is signed) to minimise cost overruns. Developers should also be able to evidence how their contract and cost control processes are implemented through the project lifespan. If a lack of robust contract cost management leads to increased

⁶ Offshore Transmission Cost Assessment: Development Proposals, Ofgem December 2013.

⁷ Offshore Transmission Cost Assessment Development Update, Ofgem June 2015.

costs in the development and construction of the transmission assets, the Authority may conclude that such costs were not economically and efficiently incurred.

2.20. Where developers incur additional costs to complete or rectify works owing to a contractor's failure to deliver (including costs incurred in replacing failing or defaulting contractors), we would expect the developer to seek recompense through the appropriate contract(s) rather than through the cost assessment. Where such a contractual settlement has been reached, we would expect the developer to be able to explain the rationale for the settlement and identify clearly the assessment of damages, the value proposed by the contractor and the settlement reached, including details of the negotiations and justification of the settlement sum. If contractual settlement terms apply across both generation and transmission elements, we would expect the developer to be able to justify the apportionment methodology used. Any sums recovered through such claims may be reflected in an adjustment to the FTV. If claims are not due for settlement at an appropriate point in the cost assessment process (e.g. prior to the section 8A consultation), we would consider reflecting an appropriate amount in the FTV.

Treatment of contingency

2.21. For projects still in the design or construction phase, developers' cost data forecasts for the initial transfer value and/or the ITV have tended to include contingency amounts to deal with future uncertainty over the actual cost and timing of construction. We would expect a developer to have in place a methodology for establishing the contingency amount and be in a position to explain this to us. Part of this process would usually involve a review of the project's risk log.

2.22. At the time of setting the FTV, the transmission assets should be available for use for the transmission of electricity and all associated costs should be either settled or agreed with suppliers. We do not allow contingency amounts to form part of the FTV.

2.23. If there are outstanding costs or costs in dispute when we are setting the FTV, we will come to a view (informed by developer submissions) as to the appropriate amount of these costs to be allowed in the FTV.

Spares

2.24. Where spares for the transmission assets are to be transferred to the OFTO, we will include the economic and efficient costs of these assets as part of the FTV. Typically spares that have been transferred to the OFTO have been accounted for as part of the original contract prices and relate to the assets that are installed, for example, cable lengths, joints and substation spares. Developers should consider procurement of spares early in project design in order to achieve economic and efficient costs.

2.25. If additional spares are to be transferred to the OFTO and their costs included in the FTV we would expect the developer or incoming OFTO to justify why they are required. For material cost items, this justification may take the form of a cost benefit analysis. Developers should have considered a range of alternative suppliers to enable us to determine whether the cost of any additional spares is economic and efficient.

Operational faults

2.26. During the commissioning stage the transmission assets are subject to various tests. Once commissioned and energised the assets are considered to be available for use for the transmission of electricity, and the developer assumes full operational control for the system. A number of projects have experienced faults on the transmission assets post commissioning and energisation. In some cases developers have sought to include the repair and associated costs in the transfer value. It is important to note that these costs cannot be included as the Regulations provide for recovery of development and construction costs only, not those in connection with operational and maintenance activities.

Land costs

2.27. Offshore transmission systems require an onshore substation and overground/underground cables. Land is required to locate the substation and consents and easements are required for the land cable route. Developers either purchase or lease a plot to locate the substation and they secure lease agreements for the land cable. Typically, developers also need to compensate land owners for disruption caused by construction activities. We can consider including these costs up to the point of construction being complete, but not beyond that point into the operational phase. Developers are advised to confirm their approaches for all of these activities and provide the appropriate documentation.

2.28. Developers have taken differing approaches in respect of the retention of land ownership following transfer of the transmission assets. We do not have any preference as to whether land ownership is transferred with the assets or retained by the developer. However, if it is retained, we would expect the land lease costs for use during the construction and development phases to be based on an evidenced (preferably market-based), open and transparent methodology.

Hedging of exchange rates or commodity prices

2.29. We recognise that developers will adopt different approaches for paying contracts in foreign currency or for agreeing volatile commodity prices; for example, the developer may hedge by fixing the forward exchange rate or commodity price in advance. The payment of their contracts should then be based on such fixed rates.

2.30. Hedging can avoid the developer incurring higher costs than anticipated and ultimately protect consumers against the cost increases that would otherwise occur. We therefore encourage hedging of all their main contracts, in as transparent a manner (e.g., at Special Purpose Vehicle [SPV] level) as possible.

2.31. Two courses of action, or a combination of these two, can constitute hedging. These are either: the forward purchase of currency to be used to pay invoices; or, taking out an option (or similar financial instrument) to purchase currency at a pre-agreed rate.

2.32. In the case of forward purchase of currency:-

- Forward purchased currency will always be used in payment; as a consequence, Ofgem will accept costs incurred for forward purchased exchange. In the SPV's books, we should find the value of the construction costs at the hedged exchange

rate. The prevailing exchange rates will not be considered as the position has been hedged. Any gains or losses will not be taken into consideration.

2.33. In the case of the purchase of an option on currency:-

- Options should be exercised wherever doing so is demonstrably advantageous. Ofgem will accept costs incurred for the costs of the purchase of the option itself, and then allow for the cheaper of the hedged rate or the spot rate for assessing the sterling costs. In the SPV's books, we should find the cost of purchasing the option on currency and the value of the construction costs at the rate exercised – either the option rate or the spot rate, whichever was more favourable. If the spot rate is used the prevailing exchange rates will be accounted for. If the option is exercised, the option rate at the time the invoice is accounted for will be used. Any gains or losses will not be taken into consideration.

2.34. We ask developers at the outset of the assessment process whether or not they intend to hedge items such as foreign currency and individual commodity prices. Where a developer has hedged, we expect the cost submission to apply these rates consistently across costs incurred throughout the development and construction period. Where developers are unable or unwilling to provide the relevant information and calculations in respect of any hedging undertaken, then we will adopt an assumption that hedging was not undertaken. Accordingly, we may determine the rate for foreign currency transactions based on the lesser of:

- The forward rates applicable at the time that the contract was signed; or
- The day rates applicable when payments were made under the contract.

2.35. A developer may choose not to hedge costs which are small, and/or unpredictable in timing. Ofgem will review such decisions on a case by case basis and, if it agrees that it was not appropriate to hedge these costs and finds that the developer acted in an efficient and economic manner, it will accept the costs at the sterling cost paid assessed at the spot rate prevailing at the time of payment.

Insurance

2.36. We recognise that it is prudent for developers to procure insurance to cover events that may occur during construction. We therefore allow an economic and efficient cost for procuring insurance for the construction of the transmission assets in the FTV. When determining what is an economic and efficient level of cost we may compare the cost of insurance on a specific project against that which we have seen on comparable projects to date, taking into account market conditions and project specific issues.

2.37. It is the developer's responsibility to ensure that it has adequate and appropriate insurance to recover all costs in the event of an insurable event occurring. Therefore, we do not expect the developer to seek cost recovery through the cost assessment for costs that are either unrecovered or disputed from insurance claims.

2.38. If a claim arises due to an event that occurred during the construction of the transmission assets, insurance deductible costs that are assessed as economic and efficient will be allowed in the FTV. The cost of insurance deductibles relating to claims made for incidents that occur after the transmission assets are operational will not be allowed in the FTV.

2.39. In the event of multiple claims, the cost of each deductible will be allowed in the FTV provided that each of these claims are incurred economically and efficiently and relate to incidents that occurred during the construction period.

Outstanding costs

2.40. When the cost assessment process is completed, cash payments made by the developer may not equal the FTV because there may be a number of outstanding non-cash items such as retentions, accrued invoices and provisions for work that is yet to be completed. If the level is significant (e.g. greater than 5% of the value of the transmission assets), we may delay our final assessment⁸. Where non-cash items have been considered to be reasonable and do not amount to a significant percentage of the FTV they will be treated as a firm commitment by the developer to allow the assessment to be completed.

Treatment of cost overruns

2.41. The Capex costs that developers submit for consideration during the cost assessment process may vary from the ITV estimate as the construction progresses. For example, a number of projects have experienced construction and cost overruns during the installation of the subsea export cable due to a number of reasons including unforeseen events.

2.42. When significant construction cost overruns arise we expect developers to discuss these matters with us in a timely manner. In such circumstances, we may undertake an investigation, supported by our advisers, to inform our decision on whether costs have been economically and efficiently incurred and should be included in the FTV. We will consider each case on a project specific basis as issues that arise may not be common across projects. To inform our decision making, we may instruct our advisors to liaise closely with the developer to assist us in understanding, amongst other things, the decisions and mitigating actions taken.

2.43. To facilitate conclusion of the cost assessment process in a timely manner, developers are advised to provide as a minimum the following supporting information: a detailed explanation of each cost overrun, including for example, the root cause(s); a chronological order of events; solutions considered; the preferred option; the chosen solution(s) with technical justification (where relevant); the rationale; associated risk assessment; whether the event was insurable; details of claims; and, supporting board papers. Without this information we may be unable to determine that the costs have been economically and efficiently incurred, which may cause a delay to the cost assessment process and exclusion of unjustified cost overruns in the FTV. Under the Regulations⁹, where developers fail to provide information by a required date, the Authority may decide not to take into account the information provided after that date when determining the ITV or FTV.

Capitalisation of operating costs

2.44. We do not allow the capitalisation of operating costs, as this is not within the scope of the cost of developing and constructing the transmission assets. For example, we

⁸ If necessary, we could use the PTRA mechanism to avoid delays to the transaction (see paragraph 1.20)

⁹ Regulation 4(7)

would not allow set up costs relating to ongoing operation (e.g. maintenance) that may have been capitalised.

Cable surveys and risk assessments

2.45. The efficient and timely installation of export cables is dependent on a number of factors, for example, effective pre-installation surveys and risk assessments undertaken by the developer or its contractor. A number of projects have experienced cost overruns related to the cable installation process. The reasons for such cost overruns are numerous and relate to, amongst other things, technical difficulties, bad weather and waiting on weather costs. However, an emerging theme in such cases is the extent and quality of seabed surveys and risk assessments undertaken by the developer or its contractor prior to the cable installation process. We understand that this information is relied upon in determining which cable laying equipment is used during the installation process. If the seabed conditions are not as expected in the survey, this can lead to significant cost overruns, which a developer may seek to include in the FTV.

2.46. We will examine cable installation cost overruns closely, with support from our advisors as necessary. A key issue in determining whether these costs are permitted is to understand the steps and actions taken by developers to mitigate the likelihood of cost overruns. The question of whether or not to undertake detailed seabed surveys is a commercial decision for each developer. Where a developer decides not to do so, it is liable for the costs arising from that decision.

2.47. Developers should also provide evidence that sufficient pre-installation risk assessment and mitigation procedures are in place prior to the commencement of the cable installation works. A submission of the project's risk register would normally form an integral part of the evidence base. If after investigation it is shown that costs are attributable to inefficient pre-installation risk assessment procedures or mitigation procedures, then these costs will not be allowed in the ITV or FTV.

2.48. There is currently variation in the approaches and standards used by generators when commissioning geophysical studies, geotechnical investigations and cable route assessments. A publication by the Offshore Wind Programme Board recognised that effective surveys can reduce the risks and costs associated with cable installation¹⁰. The publication highlights good practice for marine survey activity and we suggest developers consider reviewing the guidance presented in this document to understand good survey practices. This should create greater consistency across the industry and improve standards which may reduce the level of risk priced in by bidders. This could also reduce the risk of project delays resulting from insufficient information on cable burial conditions.

Depreciation of operational projects

2.49. The design life indicated by manufacturers for offshore transmission assets is greater than the 20 year revenue entitlement period. On this basis, although some projects may be operational for a period of time prior to the assets being transferred to the OFTO, we consider it reasonable not to apply depreciation to the assets' FTV.

¹⁰ See "Overview of geophysical and geotechnical marine surveys for offshore wind transmission cables in the UK", Offshore Wind Programme Board, September 2015

However we will keep this under review and consider depreciation on a case by case basis.

Anticipatory and wider network benefit investment

2.50. The projects that have been through the cost assessment process to date have been simple radial (point-to-point) connections. However, some future projects may have coordinated grid connections, which involve additional capability within their transmission asset design to connect future offshore generation phases or provide wider network benefits. Our work has identified two types of anticipatory investment, as follows.

Developer-led Wider Network Benefit Investment

2.51. In its current role in making connection offers the system operator (SO) may already request a developer of offshore generation to include Wider Network Benefit Investment (WNBI) in its project if the SO believes this would support the economic and efficient development of the network.

2.52. Gateway assessments are carried out to minimise the risk of consumers bearing the cost of 'stranded' transmission assets and to give developers comfort on their route to cost recovery for the developer-led WNBI included in their project. Through the gateway assessments we review the rationale for including the WNBI in the developer's project. If, under the gateway assessment, we consider that the WNBI would be in the interests of consumers, we would include the costs of WNBI in the cost assessment as part of a subsequent offshore tender. This provides the developer confidence that they are able to recover the economic and efficient costs of the additional investments. For more information on gateways assessments please see our latest conclusion document on the matter¹¹.

Generator Focused Anticipatory Investment

2.53. We consider that the owner of the generation project for which Generator Focused Anticipatory Investment¹² (GFAI) is undertaken is best placed to manage the associated stranding risk. In July 2013 we confirmed our view that consumers should be protected from increased stranding risk through user commitment type arrangements and that subject to the effective management of stranding risk, developers could be given greater confidence on the route to cost recovery for the scope of GFAI undertaken. National Grid has consulted on how best to manage stranding risk associated with GFAI and has decided that bespoke arrangements should be agreed on a project-by-project basis¹³.

2.54. We note that some single developer multi-stage projects are required to carry out work for subsequent stages in one operation as part of their Development Consent Order approval, e.g. laying onshore cable ducting for several stages in one combined operation so as to minimise environmental impacts. Our position on this is that developers will only be able to recover costs directly applicable to the specific project phase during the cost assessment process. Therefore, in the example where a developer lays ducting for two project phases at the same time, the costs for each will be recovered separately during

¹¹ "Integrated Transmission Planning and Regulation (ITPR) project: final conclusions" Ofgem 17 March 2015

¹² GFAI is anticipatory investment in offshore transmission infrastructure which is led by a developer to support the later connection of specific offshore developments

¹³ "Conclusions Letter on GFAI User Commitment" National Grid April 2015

each of their individual assessments. The dormant assets will not attract Interest During Construction (IDC) while work is not ongoing for that specific project phase.

2.55. Where developers are required to do anticipatory work for other developers, we would review how they should be remunerated on a case-by-case basis.

Interlinks

2.56. An offshore interlink is a circuit which connects two (or more) offshore substations that are connected to a single common onshore substation. It is held in open standby until there is a transmission fault that limits the generator's ability to export power to the onshore substation. It is possible that such an interlink could connect two different projects owned by two different OFTOs, though so far, they have all been connecting offshore substations from the same project.

2.57. Following the Authority's approval of CUSC modification Proposal CMP242¹⁴, the costs attributable to the interlink need to be separable from the remainder of the system for transmission network charging purposes. We expect interlinks to be costed up separately from the remainder of the project, with project management, etc., allocated appropriately.

Connection costs

2.58. Developers will pay a charge for connecting up to the relevant onshore distribution or transmission network. Developers have had differing approaches to these costs; some have submitted these for inclusion in the transfer value, others have not.

2.59. We will review connection charge submissions on a project-specific basis. For each submission, we require the rationale for either including or excluding any such charges. Where included, we would also need some justification for the level of cost incurred.

Development costs

What do we mean by development costs?

2.60. Before construction of offshore transmission assets takes place, the developer would usually undertake a front-end engineering design process, followed by a detailed process to obtain the relevant consents and permissions that are required for constructing assets offshore and onshore. For example, detailed surveys of the seabed will be required to ensure that the assets avoid existing apparatus or seabed wreckage, and a detailed environmental impact assessment will be required to satisfy statutory requirements. The onshore cable route for the transmission assets will require detailed planning to avoid existing assets (e.g. pipes, cables, roads and railway tracks), to take account of land conditions and in some cases special measures may be required to satisfy local planning arrangements. Obtaining the relevant consents will require project management services and the use of specialist equipment and contractors. We generally refer to these costs as pre construction development costs.

¹⁴ "Connection and Use of System Code (CUSC) CMP242: Charging arrangements for interlinked offshore transmission solutions connecting to a single onshore substation", approved on 16 February 2016

2.61. When the project enters the construction phase, project management and some development activities will continue. The approach to managing the construction and day to day control of contractors has varied across developers; for example, some have project managed via in-house resources and others have outsourced project management or contracted out the supply and installation through a turnkey contract.

2.62. Through the cost assessment process we will review the developer's historical and ongoing development costs. Set out below is an overview of the analysis that we will undertake to ensure that the development costs included in the cost assessment processes are allocated appropriately, and have been incurred economically and efficiently.

Assessment of development costs

Allocation and accuracy of development costs

2.63. Development costs may not be clearly attributable to either the generation or transmission construction activities, as they relate to the process of developing and constructing the offshore project as a whole (spanning both generation and transmission assets). As such, in considering how development costs should be attributed, we will consider the robustness of the rationale underlying the allocation proposed by the developer. We will also consider the robustness of reasons given for any development costs changing during the cost assessment process. To support this analysis we require developers to provide a detailed breakdown of their pre-construction development expenditure and ongoing project management/development costs.

2.64. We note that developers have adopted different approaches to reporting their development costs. For example, some have reported ongoing project management within construction packages, while others have reported these at an aggregated cost level. It is important for Ofgem to be able to benchmark costs in a consistent manner. Therefore, costs associated with specific elements of a project should be allocated to that package; for example, project management of the onshore substation work package should be in the onshore substation cost template. The remaining project management and development costs will be allocated to the "general development" cost category. Where necessary, we will instruct developers to reallocate costs that have been incorrectly classified so that costs can be fairly compared at both the work package and overall project levels.

2.65. In a number of cases, particularly for historical development costs like seabed surveys which cover the whole of the project, developers may be unable to provide a supporting metric for the transmission elements and consequently base allocations on estimates. The developer must provide a robust rationale and evidence to support the allocation proposed, especially if the costs in question are predominantly generation related. If a developer is unable to do so, we will either adopt a general cost allocation rate used elsewhere on the project¹⁵ or exclude an amount of the cost in question from the transfer value.

2.66. Where projects have been acquired from another party, the total acquisition cost paid by the developer may include aspects related to both generation and transmission. Only the costs which relate to the development and/or construction of the transmission

¹⁵ For example, a ratio of the direct costs of generation assets to the direct costs of transmission assets

assets (and their associated financing costs which are assumed to be included in the acquisition cost) may be included in the FTV. This may require the developer to use an appropriate allocation metric to split such costs between transmission and generation. The developer should not include in this split cost any profit, premium or goodwill which forms part of the acquisition cost, as such elements reflect the value of the generation capacity rather than the transmission component.

Efficiency of development costs

2.67. In calculating the FTV we will review whether development costs are broadly in line with the range provided by our advisers. Where these differ markedly we will undertake additional analysis to ensure that only appropriate development costs are allowed.

2.68. We have completed the cost assessment process for fifteen projects. The emerging trend for offshore projects is that development costs are typically in the range of 10-15% of total project costs. However, this cost can increase significantly if a project experiences construction difficulties. It is our expectation that development costs as a percentage of total project costs should reduce as developers gain more experience of constructing offshore transmission assets.

2.69. For some projects, we have capped the allowed development cost at 15% of the allowed capex. In the absence of any project-specific evidence that demonstrates the efficient development costs to be above this level, we will continue to cap development costs at 15% of the allowed capex.

Interest during construction (IDC)

What do we mean by IDC?

2.70. IDC refers to the financing costs incurred by a developer in the period of developing and constructing the transmission assets. Industry commonly recognises this financing cost as part of capital expenditure. We consider that for the purposes of the cost assessment IDC is the rate of interest that an efficient transmission owner ought to incur during the development and construction phase. This may not be the same rate that a developer considers it has incurred.

Allocation and assessment of IDC

Allocation of IDC

2.71. IDC is only applicable to the cash flow that represents the capital expenditure and development costs associated with the transmission assets. Where amendments are made to the developer's submitted cost information from either the re-allocation of costs from the generation build part of the project or from efficiency assessment of the costs, this will be reflected in the cash flow. This ensures that the IDC calculated for the transmission assets relates to the economic and efficient cost of developing and constructing the assets.

2.72. For staged projects, IDC ceases for each stage of the project when the associated transmission assets built to that point are available for use for the transmission of

electricity to the onshore network. The remaining stage(s) will continue to accrue IDC until they are also available for transmission. See the section on "Generator Focused Anticipatory Investment" for further details.

2.73. IDC is only allowed on the actual cash flow which represents when payments are made against the contracts for developing and constructing the transmission assets. We do not apply IDC to accounting data as it does not represent the actual cash cost to the developer and may include non-cash elements such as retentions, accruals for work completed but not invoiced, unpaid invoices, any set-off amounts deducted and provisions.

Efficiency of IDC

2.74. The aim of providing IDC to developers is to recompense them for the economic and efficient costs of financing the development and construction of the transmission assets. The test of being 'economic and efficient' applies in respect of both the rate and the period. The interest rate is only applied up until the date transmission asset construction ceases. We will consider the applicable IDC period, including the length of time for pre-construction activities and take into account whether the overall programme for expenditure contains inefficient costs or inefficient delays. IDC will not be applied to those costs or during those inefficient periods. IDC will also be curtailed in line with any Capex reductions made to the project. The issues of IDC rate and duration are set out and discussed below.

Interest rate applied to the project

2.75. We calculate IDC on a pre-tax nominal basis. The use of a pre-tax rate ensures that developers receive a rate that enables them to meet the expected level of tax in the chargeable gain arising from the inclusion of financing costs in the assessed costs.

2.76. The level of IDC should reflect the average rate that the developer (or in the case of corporate supplied funds, its corporate parent) has incurred on the funds provided. Generally the funds will have come from providers of both equity and debt. The rate we will allow is the rate that an efficient and economic transmission company engaged in this type of activity has or ought to have incurred. It is not necessarily the rate that has been incurred by a developer on the generation element of the project.

2.77. The developer needs to substantiate its claim with relevant documentation, for example evidence of the target discount rate approved for such projects, or the expected return if lower. Such rates should include the quantum and rate from lower cost debt funding where obtainable. If we consider the rate proposed by the developer to be excessive relative to its funding sources, we will assess the rate that should apply based on the weighted average of its funding sources.

2.78. We published a decision¹⁶ in May 2017 on an appropriate rate to allow offshore wind farm developers for the cost of financing transmission asset construction. The outcome of the decision was that the IDC cap rate for 2017/18 is 6.83% (pre-tax, nominal). The IDC cap will be fixed at Financial Investment Decision (FID) for a project until its construction is complete. However, if we determine that a developer makes FID

¹⁶

https://www.ofgem.gov.uk/system/files/docs/2017/05/decison_on_idc_for_ic_and_ofto_260517.pdf

to lock in a favourable IDC rate and is not progressing a project at a sufficient pace beyond that point, we may adjust both the rate and the period of applicability to reflect those that would have applied if FID had been taken at the most appropriate point in time.

2.79. We will conduct an annual review of the cap to ensure that it remains responsive to market movements. It is important to note that changes arising from such reviews will not affect projects that have already reached FID. A decision to change the cap will be communicated prior to coming into force, following a consultation where appropriate.

Duration of the financing

2.80. Each developer will have a project specific commissioning programme for the assets that it is constructing. For the purpose of the period during which IDC is payable, it is important to differentiate between commissioning activities that are associated with the transmission assets and those for the wind farm generation assets. Before generation assets can be fully commissioned, the transmission assets will need to be able to transport electricity on a commercial basis (even if not evidenced at full load). There may be occasions where transmission asset and generation asset commissioning activities occur in parallel.

2.81. With these distinctions in mind, we have determined that IDC should be allowed up to the point where the transmission assets are available for use for the transmission of electricity, i.e. they have been commissioned and safely energised. Where projects are phased, IDC will cease at the completion of each individual phase in accordance with the same principles. If we consider there is evidence of inefficient and uneconomic delays during the construction or commissioning programme for the transmission assets, the period of applicability may be adjusted to reflect this.

2.82. Where projects have been purchased from other developers, we consider that the IDC should commence on the date of the acquisition. IDC is not applied to the period over which the previous developer incurred costs because the purchase cost should already reflect suitable remuneration for financing costs over that earlier development period.

Transaction costs

What do we mean by transaction costs?

2.83. Transaction costs relate to costs that a developer has incurred during and as a consequence of the tender process and are generally reviewed at the FTV stage of the cost assessment process. The costs in question relate to tender fees payable to Ofgem and a developer's internal and external costs.

Assessment of transaction costs

Costs incurred by Ofgem's cost estimate exercise

2.84. Fees payable by the developer to Ofgem under the Regulations¹⁷ to cover Ofgem's costs in conducting the cost assessment process are recoverable as transaction costs.

Developer's internal and external costs

2.85. To support their activities in the tender process developers may have had to utilise a range of resources or services including, for example, producing legal documents in connection with asset transfer or taking financial advice to support the cost assessment process. The developer's internal and external costs should not include activities that relate to generation activities.

2.86. We require developers to submit evidence to support the level of external and internal costs that they have submitted. These costs may be reviewed as part of the forensic accounting investigation.

2.87. For internal costs, developers are required to submit the names of personnel involved, the activities that they worked on, their day rates and the number of days spent on tender activities versus the number of days spent on the total project (non-tender related activities) in order to substantiate any claims for such costs. Any mark-up or margin on such internal resources would not be accepted into the transfer value.

2.88. There may also be internal specialised staff charged directly to the project for undertaking work directly related to the tender process, for example this could include engineers, accountants, etc. Where this is the case we would similarly require the appropriate evidence of this.

Taxation

Value added tax (VAT)

2.89. HMRC have provided guidance in relation to whether the transfer of transmission assets can be viewed as a transfer of a business as a going concern (TOGC). HMRC have indicated that they would expect (subject to exceptional circumstances) that any transmission assets that are currently operational or fully constructed up to the point of operation at transfer would meet the TOGC conditions. Should any circumstances occur in which the transfer does not meet TOGC conditions and therefore is not free of VAT (e.g. as a result of further discussions between the developer, preferred bidder and HMRC), then the parties should seek arrangements with HMRC to minimise the working capital consequences of such a situation. This will have no impact on the assessment of costs or assessed transfer value.

Capital allowances

2.90. Each transfer of assets from a developer to an OFTO under a generator build tender exercise is for a set of assets on an as-built basis, based on actual expenditure. We therefore assume for the cost assessment process that the purchaser will obtain the full benefit of all available capital allowances.

2.91. Where benefits do not fully pass across and any such tax benefit is retained by the developer (e.g. as a result of agreement reached between the developer and

¹⁷ Regulation 5 (Payment of costs)

preferred bidder), which results in the purchaser not being able to obtain the full benefit of all available capital allowances, we will reduce the assessment of costs. This reduction will be for an amount that reflects the value of the tax benefit retained by the developer.

Appendix 1: Cost Assessment & Tender Processes in parallel

Tender Process	Cost Assessment Process
<p>Qualifying Projects and Tender Entry Conditions Developer provides Ofgem with information on Qualifying Project. The project must meet certain qualification conditions stated in the Regulations in order to qualify for a tender exercise. The developer must then satisfy Ofgem that it has met certain tender entry conditions in respect of the qualifying project.</p> <p>Tender Commencement Ofgem publishes a Tender Commencement notice including a list of projects that have qualified for tender.</p>	<p>First view on costs – Initial Transfer Value Ofgem request a 'first view' from developers of how much their offshore transmission assets will cost to build. Ofgem sends developers a pro forma 'costs template' which requires them to break down their costs into certain categories, namely: capital expenditure, development costs, interest during construction and transaction costs. Following this, Ofgem publish a Preliminary Information Memorandum (PIM) on the project, which includes an initial transfer value for the project. Ofgem does not substantively analyse these figures at this stage.</p>
<p>Enhanced Pre-Qualification Ofgem publishes an Enhanced Pre-Qualification (EPQ) document which sets out the requirements Bidders need to demonstrate in order to be invited to participate in subsequent stages of the bidding process. After evaluation of EPQ submissions Ofgem publishes a shortlist of Qualifying Bidders who will be invited to participate in the next stage.</p> <p>Invitation to Tender Ofgem publish an Invitation to Tender (ITT) document to the shortlist of bidders. This outlines the final criteria Ofgem will be looking at when selecting a preferred bidder. Qualifying bidders then submit their bids. After evaluating the bids, Ofgem announces a Preferred Bidder (PB) who then moves to the next stage.</p>	<p>Indicative Transfer Value (A cost estimate) In advance of the Invitation To Tender (ITT) stage of the tender process, Ofgem and its consultants carry out a forensic accounting review and a technical analysis of the cost information submitted by developers. This analysis, in combination with the accounting analysis findings, is used to establish the ITV of the project. The ITV is released at or before the start of the ITT stage of the tender process.</p>

Preferred Bidder

Based on the Final Transfer Value from the ex post cost assessment, the preferred bidders 20 year Tender Revenue Stream is incorporated into a 20 year transmission licence. An Offshore transmission licence modified to be specific to the OFTO is then drafted. A 28 day Section 8(A) consultation follows, providing an opportunity for other parties, particularly unsuccessful Qualifying Bidders, to see the TRS value bid by the Preferred Bidder.

Successful Bidder and Licence Grant

This stage starts with a notice from Ofgem of determination to grant a licence to the Successful Bidder. After a 'standstill period', final form commercial documents are transferred and the OFTO licence granted and published. This is followed by Financial Close and Asset Transfer.

Final Transfer Value

During the Preferred Bidder stage of the tender process, Ofgem finalises the cost assessment by undertaking an assessment of the project based on updated information from developers. As with establishing the ITV, Ofgem employs both accounting and technical consultants to carry out a review of all contract expenditure to inform Ofgem's assessment of costs.

Following the assessment, Ofgem sends the developer (and subsequently the preferred bidder) a draft assessment report incorporating a FTV for the transmission assets of the project.

After allowing an appropriate time for review and comment (in practice, normally two weeks), Ofgem may publish the final cost assessment report, which may include redactions to preserve commercial confidentiality, with the section 8A notice.

Appendix 2: Glossary

A

Anticipatory investment (AI)

Investment that goes beyond the needs of immediate generation, reflecting the needs created by a likely future generation project or projects

Authority

The Gas and Electricity Markets Authority

C

Capex

Capital Expenditure – defined as the costs involved in the delivery, construction and installation (including civil works) of offshore transmission assets

D

DECC

Department of Energy and Climate Change

Developer

The Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2010 define 'Developer' as 'any person within section 6D(2)(a) of the Electricity Act 1989' (the 1989 Act). Section 6D(2)(a) of the 1989 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.

E

Electricity Act

The Electricity Act 1989

Enduring regime

The regulatory regime for future offshore transmission licensing

EPQ

Enhanced Pre-Qualification

G

GB

Great Britain

I

IDC

Interest During Construction

IM

Information Memorandum detailing the projects details released to QTT bidders through the tender portal.

[ITT](#)

Invitation to Tender

O

[Ofgem](#)

Office of Gas and Electricity Markets

[OFTO](#)

Offshore Transmission Owner

[OFTO licence](#)

The licence awarded following a tender exercise, allowing an OFTO to own and operate the offshore transmission assets. The licence sets out an OFTO's rights and obligations as the offshore transmission asset owner.

P

[Phase](#)

A grouping of transmission assets to be built out over a period of time, where the grouping is defined by certainty of build out (for example in relation to a Final Investment Decision and/or key contractual commitments). A phase may include stages.

[Project](#)

The development and construction of the offshore transmission assets.

[PTRA](#)

Post Tender Revenue Adjustment

Q

[QTT](#)

Qualification to Tender

S

[Stage](#)

Transmission assets built out incrementally in a discrete group within a phase

T

[Tender regulations](#)

Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2010 (or Draft Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2012). The tender regulations set out the legal framework and powers for the Gas and Electricity Markets Authority to run a competitive tender process for both transitional and future offshore projects.

Tender Revenue Stream (TRS)

The payment an OFTO receives over its revenue to term.

Transmission Network Use of System (TNUoS)

Charging arrangements that reflect the cost of installing, operating and maintaining the transmission system

Transmission owner (TO)

An owner of a high-voltage transmission network or asset.

Transmission assets

Transmission assets are defined in Paragraph 1(3)(a) of Schedule 2A to 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 substation, 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.

Transitional regime

The transitional offshore regulatory regime. Transitional projects were required to meet the qualifying project requirements set out in the Electricity (Competitive Tenders for Offshore Transmission Licences) Regulations 2010 by 31 March 2012.