



Department for
Energy Security
& Net Zero

Offshore Transmission Owner Regime

Call for Evidence

Closing date: 9 February 2024 (extended from 22 January)

November 2023



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Any enquiries regarding this publication should be sent to us at: offshore.coordination@energysecurity.gov.uk

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General information

Why we are calling for evidence

We are seeking evidence to support policy development on how to ensure the Offshore Transmission Owner regime remains fit for purpose in the long-term and to ensure the continued delivery of offshore wind to meet the UK's net zero target.¹

Call for Evidence details

Issued: 13 November 2023

Respond by: 9 February 2024 (extended from 22 January)

Enquiries to:

Email: offshore.coordination@energysecurity.gov.uk

Call for Evidence reference:

Offshore Transmission Owner Regime: Call for Evidence

Audiences:

This Call for Evidence is open to all, but we would like to hear in particular from anyone with an interest in the Offshore Transmission Owner regime. This includes offshore wind generators, offshore transmission owners, renewable energy trade associations and offshore wind industry representatives.

Territorial extent:

England, Scotland, and Wales.

¹ Section 1(1) of the Climate Change Act 2008 as inserted by [The Climate Change Act 2008 \(2050 Target Amendment\) Order 2019 \(S.I. 2019/1056\)](#), arts. 1,2.

How to respond

Email to: ESSupport@energysecurity.gov.uk

When responding, please state whether you are responding as an individual or representing the views of an organisation.

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome.

Confidentiality and data protection

Information you provide in response to this Call for Evidence, including personal information, may be disclosed in accordance with UK legislation (the Freedom of Information Act 2000, the Data Protection Act 2018, and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential please tell us, but be aware that we cannot guarantee confidentiality in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not be regarded by us as a confidentiality request.

We will process your personal data in accordance with all applicable data protection laws. See our [privacy policy](#).

We will summarise all responses and publish this summary on [GOV.UK](#). The summary will include a list of names or organisations that responded, but not people's personal names, addresses or other contact details.

Quality assurance

This Call for Evidence has been carried out in accordance with the government's [consultation principles](#).

If you have any complaints about the way this Call for Evidence has been conducted, please email: bru@energysecurity.gov.uk.

The Offshore Transmission Owner regime

Summary

We are seeking evidence to support policy development on issues with current arrangements for the Offshore Transmission Owner (OFTO) regime and views on its suitability for the future to ensure the continued delivery of offshore wind to meet the UK's net zero target. If, following this Call for Evidence and further policy development, appropriate changes to the OFTO regime are identified and deemed more effective than other potential policy levers, then the Government will consult on these, where appropriate.

Legislative background

The relevant legislation is contained within the Electricity Act 1989 ("the Act"):

[Section 4](#) of the Act sets out the activities for which licences are required. This includes the transmission of electricity. It specifies that an offence is committed if these activities are carried out without a licence. A transmission licence is granted by the Authority (the Gas and Electricity Markets Authority) under section 6(1)(b) of the Act.

Section 4 (1)(b) states that unlicensed transmission by an offshore generator after the end of the commissioning period is an offence, unless an exemption from the requirement to be licensed is granted.

Section 4(4) defines the term "transmission" in relation to electricity, as transmission by means of a transmission system. "Transmission system" in turn is defined as a system which consists (wholly or mainly) of high voltage lines and electrical plant, and is used for conveying electricity from a generating station to a substation, from one generating station to another or from one substation to another.

[Section 5](#) of the Act grants the Secretary of State powers to grant exemptions from the requirement to hold various types of licences, including a transmission licence.

Section 5(1)(c) allows the SoS to specify conditions that apply to exemptions. The exemption can be revoked if it appears to the SoS inappropriate that the exemption should continue to have effect, as set out in section 5(8).

[Sections 6F and 6G](#) of the Act allow offshore generators to transmit electricity without an offshore transmission licence subject to certain conditions, including the condition that the transmission takes place during the 'commissioning period'. The commissioning period is defined as the period before and during the 18 months beginning on the day the Electricity System Operator (ESO) gives a completion notice to Ofgem.

The Secretary of State's Principal Objective

Section 3A of the Act sets out the Secretary of State's principal objective:

"The principal objective of the Secretary of State and the Gas and Electricity Markets Authority (in this Act referred to as "the Authority") in carrying out their respective functions under this Part is to protect the interests of existing and future consumers in relation to electricity conveyed by distribution systems or transmission systems.

Those interests of existing and future consumers are their interests taken as a whole, including:

- their interests in the reduction of electricity-supply emissions of targeted greenhouse gases;*
- their interests in the security of the supply of electricity to them;*
- their interests in the fulfilment by the Authority, when carrying out its designated regulatory functions, of the designated regulatory objectives.*

The Secretary of State and the Authority shall carry out their respective functions under this Part in the manner which the Secretary of State or the Authority (as the case may be) considers is best calculated to further the principal objective, wherever appropriate by promoting effective competition between persons engaged in, or in commercial activities connected with, the generation, transmission, distribution or supply of electricity or the provision or use of electricity interconnectors."

Policy background

Net Zero and the Offshore Transmission Network Review

The UK is one of the most attractive places in the world to invest in offshore wind due to significant natural resources, a clear ambition and a stable and supportive regulatory framework. This has led to the UK having 24% of total global installed capacity in 2022², including the four largest offshore windfarms in the world. We intend to build on this with offshore wind being a key component in delivering net zero by 2050, which could see installation of more than 100GW in total³. This level of offshore wind will require significant investment in transmission.

Following the Offshore Transmission Network Review (OTNR), the Government is taking the next steps in utilising the enormous power and potential of offshore wind. The OTNR was set up in 2020 to coordinate this transformation by ensuring impacts on communities and the environment were minimised and network efficiency is considered whilst building a cheaper, greener, and more secure energy system for Britain. The OTNR recently concluded and is now implementing its findings to deliver a coordinated offshore transmission regime⁴. Alongside, this, the government is considering the independent recommendations from the UK's Electricity Networks Commissioner, on how to accelerate the deployment of electricity transmission infrastructure⁵.

Offshore Transmission Owner Regime

The Offshore Transmission Owner (OFTO) regime was launched in 2009 and was designed to introduce competition to the sector, delivering efficiencies and thereby reducing costs for consumers. Under the OFTO regime, a new 'offshore transmission' licence was created. Notably, this licence cannot be granted to an offshore windfarm owner under the pre-existing 'unbundling' rules, which ensure fair access to the transmission network for all generators. To allow generators to retain the option of delivering the transmission connection as part of the same project as the construction of the array, and hence to de-risk delivery of the project as a whole, the Act allowed generators to operate the associated transmission asset without a transmission licence for 18 months. This period is intended to allow sufficient time for the generator to commission and demonstrate the asset before transfer to an OFTO for the ongoing period of operation. This is set out in sections 6F and 6G of the Act and commonly referred to as the 'Generator Commissioning Clause'.

During this 18-month window, Ofgem runs a competitive tender process to appoint a successful bidder (Preferred Bidder) for the ongoing operation of the transmission asset to whom Ofgem will grant an offshore transmission licence; the generator and preferred bidder finalise and conclude the transfer. The offshore transmission licence enables the OFTO to own, operate and maintain the offshore transmission assets. Beyond the 18-month

² The Crown Estate (2022) Offshore Wind Report 2022 <https://www.thecrownestate.co.uk/en-gb/what-we-do/on-the-seabed/energy/offshore-wind-report-2022/#:~:text=In%202022%2C%20UK%20offshore%20wind,These%20are%20remarkable%20numbers.>

³ Climate Change Committee (2020), Sixth Carbon Budget, www.theccc.org.uk/publication/sixth-carbon-budget/

⁴ UK Government (2023) Offshore Transmission Network Review <https://www.gov.uk/government/groups/offshore-transmission-network-review>

⁵ UK Government (2023) Electricity Networks Commissioner's principle areas of recommendation https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1175649/electricity-networks-commissioner-letter-to-desnz-secretary.pdf

commissioning window, if the transfer has not been completed, continuing to transmit electricity would constitute an offence of transmitting electricity without a licence.

Competition models

Generators have the choice of either a very late competition generator-build model or a late competition OFTO-build model for delivery of offshore transmission assets. As part of the competitive tender process in the 'generator-build' approach, Ofgem carries out an 'OFTO Cost Assessment' to determine the transfer value of the transmission asset. This is the amount that the OFTO will pay to the generator in return for ownership of the asset up to a 25-year regulated revenue stream, which is made up of a management fee and any allowable adjustments. Prospective OFTOs who have passed the qualifying criteria and have the lowest revenue stream are selected as the preferred bidder. The OFTO revenue is recovered through transmission charges (TNUoS – Transmission Network Use of System charges) which are levied on all users of the transmission system. Offshore generators pay two components of TNUoS – an offshore component and an onshore component. The onshore component is the same as for any similar generator connecting in the region, while the offshore component is determined by the costs of the offshore circuit.

So far, all offshore transmission has followed the 'generator-build' model. The current generator-build approach leaves the risks during the construction process with the generator as they are well able to manage those risks as part of the delivery of the whole project. Including competition at this late stage means that the OFTO is taking on responsibility for a fully operational asset and does not face any of the risks of construction. This attracts investors looking for a stable, low-risk investment in return for lower returns, which reduces the cost of finance for the long-term operation of the transmission asset, delivering significant saving to the consumers.

Potential challenges with the OFTO Regime

Considering the development of the offshore wind industry over the past 14 years and future direction of travel, we are considering potential changes that may be needed to the OFTO regime. The current regulatory regime developed when offshore wind was a nascent sector and industry expectations were as low as 10GW of generation by 2030. The UK's current ambition is to deliver 50GW by 2030, contributing to power sector decarbonisation by 2035 and net zero for 2050.

Technology advancements have led to an increase in size of offshore windfarms to utilise economies of scale and bigger individual turbines. Alongside this, the OTNR looked into the way that the offshore transmission network is designed and delivered. Following the conclusion of the review, the Department and other organisation involved, are now implementing its findings to deliver a coordinated offshore transmission regime for Great Britain. The increase in size and complexity means there is an increasing risk that windfarms are unable to transfer their OFTO assets to the Preferred Bidder (PB) within the commissioning window, due to unforeseen issues like technical faults or other coordinating projects being delayed.

The Secretary of State has powers under the Electricity Act 1989 to grant transmission licence exemptions. This power has been used to grant time-limited exemptions to windfarm generators to allow them to continue generating legally when circumstances outside the generator's control prevented the transfer to the OFTO before the deadline set by the 18-month commissioning window. Eleven transmission licence exemptions have been granted since 2019. Each exemption has been assessed on a case-by-case basis, and subject to a public consultation requiring secondary legislation to be laid in Parliament. Putting an

exemption in place takes around six months, requires significant resource, and creates uncertainty for generators and investors. The Department recognises that transferring the transmission assets within the 18-month commissioning window is becoming more challenging for generators of large radial projects, and for coordinated projects developed in phases as well as potentially more innovative projects. Additional guidance has been published recently to provide more certainty to generators about the kinds of situations when exemptions may be considered⁶.

⁶ UK Government (2023) Guidance Note for Offshore Transmission Licence Exemptions
<https://www.gov.uk/guidance/electricity-licence-exemptions#guidance>

Call for Evidence questions

We invite views from interested parties on the Offshore Transmission Owner regime. Specifically, we would welcome answers to the following questions with supporting evidence where available:

- 1. Have you experienced any issues or challenges with the OFTO regime and what can we learn about these for the future?**
- 2. To what extent is the OFTO regime meeting its objectives to introduce competition to the sector, deliver efficiencies and reduce costs for consumers?**
- 3. To what extent is the OFTO-build model a viable and fit for purpose option to respond to future offshore wind project requirements?**
- 4. Can you provide any evidence on the existing incentives for generators and preferred bidders to delay or expediate the transfer of the transmission assets?**
- 5. The 18-month commissioning window for the generator build model was designed when radial (point-to-point) connections were the presumption. How could the OFTO regime evolve to support delivery of coordinated infrastructure?**
- 6. Do you think extending the 18-month commissioning window, introducing a financial incentive to conclude the transfer quickly, and/or removal of the hard deadline created by the commissioning window would assist in ensuring the OFTO regime remains fit for purpose longer term?**
- 7. How could we ensure the benefits of the OFTO regime are maintained following the end of the Tender Revenue Stream period?**
- 8. To what extent is the OFTO regime impacting on offshore wind transmission supply chains?**
- 9. Is there any other evidence you would like to share on the OFTO regime?**

Next steps

The evidence collected through this Call for Evidence will be used for policy development. We will take the evidence into consideration when developing possible options for the future. If, following this Call for Evidence and further policy development, appropriate changes to the OFTO regime have been identified and deemed more effective than other potential policy levers, then the Government will consult on these, where appropriate.

This Call for Evidence is available from: www.gov.uk/government/calls-for-evidence/offshore-transmission-owner-of-to-regime

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