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ESO Response to Offshore Transmission Owner Regime: Call for Evidence

Dear Sir/Madam,

Thank you for the opportunity to respond to your Call for Evidence on the Offshore Transmission Owner Regime.

Who we are

As the Electricity System Operator (ESO) for Great Britain, we are at the heart of the energy system, balancing electricity supply and demand second by second.

Our mission, as the UK moves towards its 2050 net zero target, is to drive the transformation to a fully decarbonised electricity system by 2035, one which is reliable, affordable, and fair for all. We play a central role in driving Great Britain's path to net zero and use our unique perspective and independent position to facilitate network and market-based solutions to the challenges posed by the trilemma.

Our transformation to the National Energy System Operator (NESO) is set to build on the ESO's position at the heart of the energy industry, acting as an enabler for greater industry collaboration and alignment. This will unlock value for current and future consumers through more effective strategic planning, management, and coordination across the whole energy system.

Our key points

It would be beneficial for any changes to the OFTO regime to reflect the desire to make GB an attractive proposition for offshore wind deployment, whilst facilitating the delivery of coordinated network designs.

We support the OFTO regime but acknowledge that, as technical design solutions become more complex, work is required to ensure that the regime remains attractive and that the frameworks for delivery are amended to facilitate this.

It may be appropriate to consider whether incentives for OFTOs are still correct, or whether there is benefit in harmonising some of the divergences between the OFTO regime and the requirements for onshore TOs.

We look forward to engaging with you further. Should you require further information on any of the points raised in our response please contact Rhiannon Marsh, Delivery Facilitation Manager, at Rhiannon.marsh@nationalgrideso.com.

Yours sincerely

Julian Leslie

Strategic Energy Planning Director

Appendix 1 Consultation Question Responses

Question 1: Have you experienced any issues or challenges with the OFTO regime and what can we learn about these for the future?

We defer to those parties who have direct interaction with the OFTO regime to provide specific detail based on their experience. ESO's experiences and suggested considerations are reflected in the responses to subsequent questions.

Question 2: To what extent is the OFTO regime meeting its objectives to introduce competition to the sector, deliver efficiencies and reduce costs for consumers?

Based on our role and interaction with the OFTO regime, we do not believe ESO is best placed to provide a view on this question.

Question 3. To what extent is the OFTO-build model a viable and fit for purpose option to respond to future offshore wind project requirements?

As stated in the Call for Evidence document, we note that all offshore transmission has followed the generator-build model to date. This has offered generators greater control over managing delivery timelines and risk, however there may be value in considering any obstacles to OFTO-build. We also acknowledge that whilst generator-build has been appropriate for radial offshore wind connections, coordinated network designs introduce the possibility of additional interfaces and complexities when one generator builds an asset that will become an offshore transmission asset and that is a key component for a competing generator's connection.

One such complication is that, when a primary generator builds the offshore asset to which a subsequent generator(s) connects, the subsequent generator is not considered to be connected directly to the National Electricity Transmission System (NETS) until the asset is transferred to an OFTO. This is related to restrictions in the Third Energy Package. The rights and obligations of both primary and subsequent generator(s) are not always clear. This is further expanded upon in ESO's "Pathway to 2030 – The Industry Code, Standard and Licence Recommendation Report"¹ (page 6, Generator Commissioning Clause).

It would be beneficial for any OFTO regime changes to be mindful of this and reflect the desire to make GB an attractive proposition for offshore wind deployment, whilst facilitating the delivery of coordinated network designs.

The "Pathway to 2030 – The Industry Code, Standard and Licence Recommendation Report" also highlights commercial code considerations related to access rights, restrictions on availability, and loss of access as we transition to a more coordinated offshore network. We suggest any changes to the OFTO regime are consistent with the relevant recommendations within this report and with subsequent industry activity that has commenced to address the recommendations presented in the report.

Question 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?

Based on our role and interaction with the OFTO regime, we do not believe ESO is best placed to provide a view on this question.

Question 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?

It is a logical assumption that, as network designs become more coordinated and complex, a longer commissioning window may be needed for the generator-build model. However, as stated in our response to question 3, whilst a network asset is owned and operated by a generator, it is not part of the NETS and nor is

¹ [737773_NGESO_HND-Report_Covers.indd \(nationalgrideso.com\)](#)

any other generator connected to this asset, meaning the rights and obligations of both primary and subsequent generators are not always clear.

The OFTO-build model is not subject to this specific challenge and offers an opportunity for a third party to manage the interfaces between competing developers (although there is still uncertainty amongst generators in relation to preliminary works prior to the appointment of the OFTO). However, it is important to be mindful of the number and timing of handovers between responsible parties as we move towards greater coordination.

Question 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?

Whilst we do not have a preference on the duration of the commissioning window, on a topic related to commissioning and compliance, we see that there would be benefit in aligning clauses in the System Operator Transmission Owner Code (STC) with those in the Grid Code, to give ESO a mechanism for resolving faults once an asset has transferred to an OFTO.

To elaborate, Grid Code applies to the transmission asset when owned by a generator and gives the generator a clear route to resolving an issue. As part of the Operational Notification and Compliance Process (ONCP) facilitated by ESO², ESO issues an Interim Operational Notification ((ION) for first export of active or reactive power, including a schedule to resolve outstanding issues) and Final Operational Notification ((FON) when all issues identified within the ION have been satisfactorily addressed). A Limited Operational Notification (LON) can also be issued if non-compliance remains unresolved or emerges at the end of the 56-day period stated in the ION.

The STC applies to the asset once transferred to and owned by an OFTO and is currently lacking such mechanism for resolution of an issue. As set out in the STC, an Interim Section K Notification (ISKN) is issued by ESO to the appointed OFTO, listing the parts of the Compliance process requiring completion (the elements outstanding on the ION Part A). A Final Section K Notification (FSKN) is issued by ESO to the appointed OFTO following successful completion of the Compliance process i.e. there are no outstanding items on the ION Part A. There is no equivalent of a LON for OFTOs within the STC, to aid the resolution of a compliance issue following the FSKN. We acknowledge that this is also currently not the case for incumbent onshore TOs and, whilst this may need to be considered, the existing approach for onshore TOs is well established and sees compliance issues resolved effectively.

Question 7: How could we ensure the benefits of the OFTO regime are maintained following the end of the Tender Revenue Stream period?

Based on our role and interaction with the OFTO regime, we do not believe ESO is best placed to provide a view on this question.

Question 8: To what extent is the OFTO regime impacting on offshore wind transmission supply chains?

Whilst this results more from the global increase in offshore wind deployment, than from the design of the current OFTO regime, through our HND engagement we hear frequently about the supply chain challenges that offshore wind developers and TOs face. There is global competition for the technology required, meaning lead times can increase dramatically and at short notice depending on procurement activities internationally. A more holistic approach to securing commitments from the supply chain may be beneficial to the timely and economic deployment of offshore wind in Great Britain.

Question 9: Is there any other evidence you would like to share on the OFTO regime?

There are several additional points we would welcome the opportunity to raise.

Firstly, we believe Offshore Hybrid Assets (OHAs), specifically Multi-Purpose Interconnectors (MPIs), should be considered when developing any new OFTO regime. ESO are currently developing contracting options for

² [Compliance Process | ESO \(nationalgrideso.com\)](https://www.eso.co.uk/Compliance-Process)

MPIs based on the existing OFTO regime – any significant regime changes would need to be factored into this work to ensure alignment.

Secondly, regardless of build-model, ownership or location offshore, it is key that OFTOs act as transmission assets. For example, ESO's ability to access reactive power from transmission assets is important for system stability, and this should be possible from both onshore and offshore assets. As a further example, if an offshore generator connects to an OFTO asset, the OFTO should have the same obligations and ability to recover costs as onshore TOs.

Building on the latter example, practical experience would suggest that existing licence conditions appear to be unclear on recovery of costs for connection works when an OFTO facilitates a new connection to their asset and do not sufficiently capture the scenario where an OFTO must interrupt the supply of an already connected generator to facilitate a new connection. We suggest it would be helpful to build on work already done to review the OFTO licence to resolve such issues.

Thirdly, it may be appropriate to consider whether incentives for OFTOs are still correct, or whether there is benefit in harmonising some of the divergences between the OFTO regime and the requirements for onshore TOs. For example, the tender revenue stream model vs price control and differences in availability incentives, obligations to deliver and fund additional works, and end of asset life obligations. As part of this, it could be appropriate to consider the Competitively Appointed Onshore Transmission (CATO) regime that is currently being introduced, to provide consistency where appropriate.

Finally, as a general observation – not directly related to the OFTO regime itself – there is a risk that, as more parties become involved in the design and delivery of offshore assets, multiple organisations need to engage with communities in certain regions. Anecdotal evidence suggests this engagement is not always coordinated and could lead to confusion, repetition and disruption. With an increasing number of stakeholders involved in these activities, it may be necessary to introduce additional measures to unlock the benefits of coordinated network designs and increased competition. Collaboration between project developers, where it is necessary and appropriate to do so, presents an opportunity to maximise the benefits and to mitigate the risk and impacts where multiple parties are engaging in the same region.