

Mattias Schain

Från: Chris Gent <Chris.Gent@thecrownestate.co.uk>
Skickat: den 6 november 2024 17:00
Till: Mattias Schain
Kopia: Jonny Boston
Ämne: RE: OFTO question

Hello Mattias,

Nice to meet you virtually.

The OFTO model has two options for progression – an ‘OFTO build model – where the OFTO builds the asset and operates it’ and a ‘Generator build model – where the generator builds the transmission asset and it is tendered to an OFTO to operate’

To date, only the Generator Build Model has been exercised.

An overview of the OFTO model, including the cashflows, regulatory requirements and safeguards are outlined in this helpful document [offshore_transmission_-_an_investor_perspective_-_update_report_1.pdf](#)

It is a little dated (2014) but the underlying models and principles still remain true. Figure 3.1 is particularly intuitive.

The windfarm pays the National Electricity Transmission System Operator (NESO) a fixed fee to use the transmission asset – this is the [Transmission Network Use of System](#) fees – a portion of which is then paid as part of the agreed 25-year Tender Revenue Stream (the parameters of which are agreed on bid award to run the OFTO asset) – the Tender Revenue Stream includes consideration for Asset Repayment, O&M, Decommissioning fund, performance incentives/obligations, and fixed return to the asset owners.

The generators have to pay the TNUoS fees in order to access and use the transmission assets, and the obligations for each party are set out in the licence agreements. The OFTO framework provides an appropriate risk allocation between parties for example in periods of low/no generation – the Tender Revenue Stream still pays a fixed fee to the asset owners.

The premise of the OFTO system is that the transmission owners are incentivised to maintain an accessible asset for an agreed regulated rate of return. These are unbundled from generators owning the assets due to legislative restrictions on generators owning transmission assets. In the UK it is also not allowed for onshore transmission network operators to own offshore transmission assets (transmitting from renewable generation offshore, to the onshore).

As you have noted [Ofgem regulate the OFTOs](#), and the regulatory frameworks therein.

I hope the above gives you some further clarity, and the links to the resources are helpful.

Happy to pick up any further questions,
Thanks
Chris

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From: Jonny Boston <Jonny.Boston@thecrownestate.co.uk>

Sent: 05 November 2024 13:57

To: Mattias Schain <mattias.schain@regeringskansliet.se>; Chris Gent <Chris.Gent@thecrownestate.co.uk>

Subject: RE: OFTO question

Dear Mattias

Thanks for your email, yes it was great to see you in Hamburg. A shame there wasn't more time to chat!

I suggest @Chris Gent, Energy Policy Manager in our team will be able to answer your questions. Chris – see below – please could you pick this up? Or at least help Mattias with where to find the answers.

Your email was timely Mattias as I have just seen this – this speaks a little to some of the issues you referenced in Hamburg – are you able to share any more context please?

<https://www.theguardian.com/world/2024/nov/04/sweden-scraps-plans-for-13-offshore-windfarms-over-russia-security-fears#:~:text=Sweden%20has%20vetoed%20plans%20for,planned%20along%20the%20east%20coast.>

Best regards

Jonny

Jonny Boston | Leasing & Business Development Director – Offshore Wind

Pronouns: he/him/his

Please note that we are a flexible hours organisation. I am sending this email at a time that works for me but please pick this up at a time that works for you.

From: Mattias Schain <mattias.schain@regeringskansliet.se>

Sent: 05 November 2024 11:36

To: Jonny Boston <Jonny.Boston@thecrownestate.co.uk>

Subject: OFTO question

Dear Johnny,

It was very nice to meet you in Hamburg. I hope you had a nice trip home.

We discussed the OFTO model briefly, and I'm trying to understand that the system actually means financially for the developer and operator of the wind farm.

More specifically, you explained they were guaranteed to have their reasonable costs for constructing the cable reimbursed following the divestment / tendering procedure to a grid operator (ESO?).

However, will the operator / developer then be obliged to pay transmission tariffs to the grid operator? And, are these actually calculated in a way that should nothing unexpected happen, the discounted value of the tariffs and the reimbursed costs should actually even out?

Thus, does this system actually not primarily intend to subsidise offshore wind, but rather to facilitate that grid operators, rather than wind farm operators, operate the offshore grid?

(Sorry, to burden you with this question, but I never really found a good way in at National Grid-ESO, and did not until it was too late realise that OFGEM was an important actor.)

Most kindly,
Mattias

Mattias Schain
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