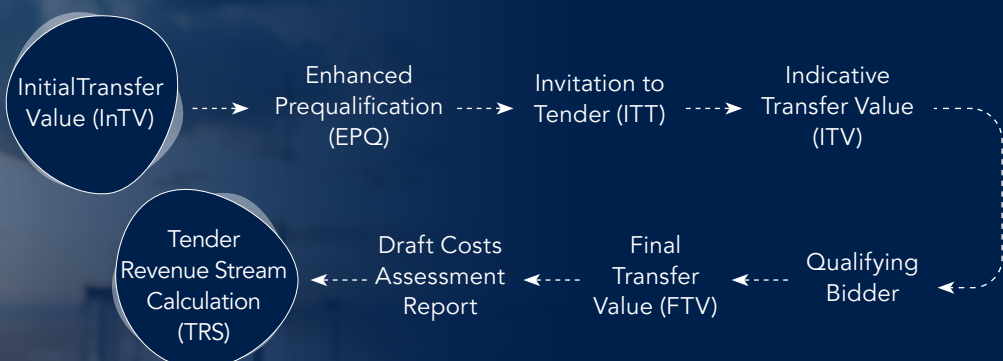


Offshore Wind Transmission

Anticipatory Investment Development: Key Points

- The UK's ambitions in the offshore wind sector have never been greater.
- The Ten Point Plan for a Green Industrial Revolution published in November 2020 set a target of 40GW of offshore wind by 2030. This target was increased in the British Energy Security Strategy published in April 2022 which increased the target to 50GW of offshore wind by 2030.
- Developers of offshore wind generation have the option to either (i) develop and construct the transmission assets themselves and then transfer the completed transmission assets to the OFTO ("**Generator Build Option**") or (ii) undertake high-level design and preliminary works but defer the detailed design, procurement and delivery of the transmission assets to the OFTO ("**OFTO Build Option**").
- To date offshore transmission connections have been predominantly simple radial (point to point) connections.
- Offshore transmission connections are key to delivering on such ambitious targets.
- The Tender Regulations govern the competitive tender process for the appointment of OFTOs and also provide that Ofgem must calculate the economic and efficient costs of developing and constructing the offshore transmission assets. It is these costs that form the basis for the determination of the value of the transmission assets that are to be transferred to the OFTO and the tender revenue stream calculation submitted as part of the bids to own and operate the transmission assets.
- There is a well-established timeline for the assessment of offshore transmission costs (see diagram below).
- The costs and investment required to support the later connection of future offshore development(s) is referred to by Ofgem as "Anticipatory Investment".
- Given the ambitious targets for offshore wind it is recognised that simple radial connections may not be the most efficient way forward and instead more co-ordinated grid connections involving additional capability to connect future offshore generation projects will likely be required.



- Ofgem has recognised that careful consideration needs to be given to the management and allocation of risk in the context of Anticipatory Investment to ensure appropriate investment is forthcoming and to facilitate increased co-ordination of projects. In light of this, Ofgem has realised that the Anticipatory Investment policy may need to be further developed and refined.
- Whilst Ofgem has confirmed that the Anticipatory Investment policy will extend to assets within the Pathway to 2030 workstream it has undertaken a consultation with respect to its approach to Early Stage Assessment.
- The Early Stage Assessment consultation will focus on a number of issues including:
 - » The approach to the ESA, the interchangeability of the initial user and later user and flexibility required in terms of the timings for submission of information;
 - » Proposed ESA output including whether the expenditure is appropriate and efficient and whether in principle it should be recoverable via the final transfer value following the cost assessment process and also what information should remain confidential;
 - » The approach to cost allowances and cost categories including what percentage of over and under spend should be permitted; and
 - » The proposed protocol applicable to “material change” including what should constitute a material change.
- Responses to the consultation submitted before 26 June 2023 are being reviewed and a consultation decision / policy statement is expected to be issued in Q3 2023.
- The approach to Anticipatory Investment and Early Stage Assessment will be of key importance to developers and investors alike as it goes to the heart of the costs incurred and recoverable, risk allocation, the final value of the transmission assets themselves and ultimately transmission revenue streams.



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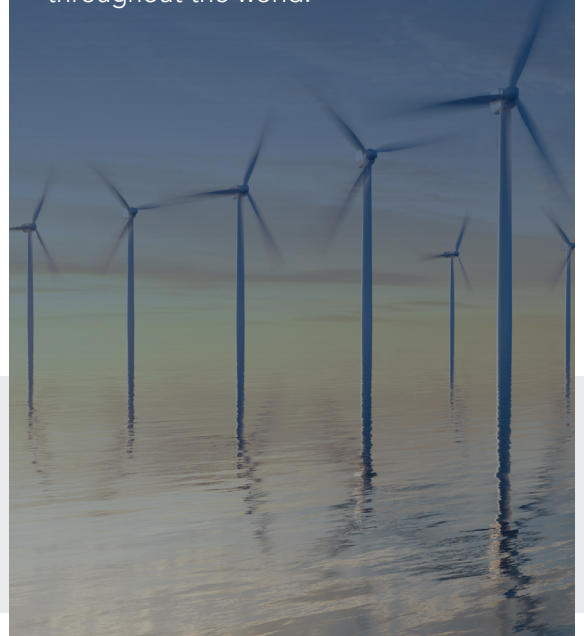
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Want to know more?

If you would like to know more about the changes and opportunities presented by the UK approach to Anticipatory Investment and Early Stage Assessment, please get in touch.

With energy transition matters at the forefront of the global energy conversation, and offshore wind offering tremendous potential, expectations for the sector have never been higher.

It is more important than ever to work with people who understand the commercial, legal and regulatory realities of the industry. At Mayer Brown, our strong knowledge of the sector, combined with our broad geographical coverage, makes us a first-choice law firm for offshore wind projects throughout the world.



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