Written evidence submitted by Ocean Winds (REM0045)

Ocean Winds is an experienced offshore wind developer with a 6GW portfolio of operational and development projects in the UK. We have a track record of delivering two highly complex large-scale projects in Scotland –our 950MW Moray East Offshore Wind Farm and 882MW Moray West Offshore Wind Farm. In addition, we have two significant Scotwind projects in development – 2GW Caledonia offshore wind farm located in the Moray Firth, and 1800MW Arven floating offshore wind farm in Shetland. With these projects in the pipeline, OW has the potential to contribute significantly to the UK's energy transition and the achievement of Government's net zero ambitions, but we need stable market signals to support that investment.

OW welcomed the Government's summer 2025 decision to reject zonal pricing in favour of a Reformed National Pricing (RNP) package. We consider the RNP approach to be a strongly positive decision that reduces investor uncertainty for the significant new investment required for Clean Power 2030 and beyond. However, RNP must now be delivered with urgency and coherence if it is to translate that confidence into accelerated deployment of clean energy. The RNP process is already running late, creating uncertainty for projects looking to take investment decisions in the next few years. We urge Government to focus on the RNP process to move at pace to unlock the opportunities created by these reforms.

Some priorities require immediate action: transmission charging reform, grid connections, and whole-system coordination. TNUoS charges in Scotland are on course to quadruple between 2016 and 2030, forcing developers to take on additional risk in CfD bids and raising consumer bills. OW calls for immediate action by DESNZ and Ofgem to lock tariffs to those prevailing at the point of investment decision. Grid connection delays leave projects highly exposed to construction costs and losses in planned revenue. DESNZ must provide certainty ahead of AR8, on a grid-delay compensation framework, with active participation from transmission owners and developers. More broadly, strategic energy planning must be sequenced and coordinated to deliver optimal location signals.

Ocean Winds Response to Questions:

> ***Has Government given sufficient thought to what a reformed national pricing model could look like, as compared to the balance of risk and opportunity in a Locational Marginal Pricing model*?**

Yes. OW supports the UK Government's decision to retain a single national GB-wide wholesale electricity market and to reject zonal pricing in favour of a strategically Reformed National Pricing (RNP). However, we consider that RNP delivery requires greater urgency if it is to deliver the investment certainty the offshore wind industry needs to meet clean power targets by 2030 and accelerating net-zero across the economy. We are still waiting for the publication and outcomes of the RNP Delivery Plan, Ofgem's call for input on enduring transmission charging (TNUoS) reform, as well as other strategic energy planning elements including the Strategic Spatial Energy Plan (SSEP).

The UK Government has correctly identified and given sufficient thought to the fact that zonal pricing represented risks to renewable investment that could not be satisfactorily

mitigated. We fully support the Government's protracted decision to rule out zonal pricing and believe that pursuing reforms to the GB-wide energy market is better for providing the investor certainty needed to continue deploying clean power.

Ofgem's subsequent open letter on transmission charging reforms outlined high-level principles for future locational market signals but lacked detail and urgency, leaving investor uncertainty, particularly for Scottish offshore wind projects, unresolved. OW therefore urges DESNZ and Ofgem to deliver a solution in 2026 to lock TNUoS tariffs to the rates that existed at the point of investment decision for operating assets. This would address the immediate problem while the forthcoming RNP Delivery Plan develops an enduring solution for projects following implementation of broader market reform.

1. ***Did Government consider the most useful evidence in assessing the impact of different reform options?***

The Government made its decision on zonal pricing based on a cost-benefit analysis that has not yet been published. OW, as well as many other renewable energy developers and related trade bodies, provided substantial evidence throughout the REMA consultation process demonstrating that zonal pricing would slow investment in renewable energy and exacerbate financing costs, deterring much-needed investment to boost renewable deployment. Such impacts would ultimately harm consumers. This evidence appears to have been given appropriate weight. However, it remains unclear what evidence informed the Government's assessment of specific RNP design options, in particular, how reformed TNUoS charges would achieve locational signalling outcomes.

2. ***How do various options for market reform impact achieving zero carbon electricity generation and wider net zero targets*?**

Government's decision not to proceed with zonal pricing is a positive step, as it better supports investor confidence that is needed to commit capital to new offshore wind projects at the scale and pace the 2030 clean power mission demands. The shift towards strategic coordination of energy infrastructure –through the CSNP and SSEP– is the right approach. By advancing these strategic plans alongside reformed TNUoS charges, the UK can unlock major investment in further renewable energy, deliver low-carbon energy where it's needed most, and enhance grid capacity to meet growing demand. However, the RNP delivery package will only support clean power and just transition ambitions with further market reforms which capture impacts to existing assets to ensure investments made in good faith are not unfairly impact by changing policy. Priorities include:

Network charging and access: Recent forecasts indicate that some Scottish TNUoS charges are set to more than double between 2025 and 2030–a level of increase not anticipated when most of today's generation fleet made their original investments. To address the impact of rising TNUoS charges, immediate steps include resetting and fixing charges for existing renewable projects at the levels expected at the time of investment, specifically at the CfD bid stage.

Similarly, charges for new projects should be fixed at levels reflective of TNUoS at the time of their CfD bid. This will restore value for operational projects, improve the ability to

recycle capital into new projects and build investor confidence. In parallel, a fundamental reform of TNUoS is needed so that transmission charging supports, rather than undermines, a strategically planned electricity system and delivers least-cost outcomes for consumers.

Whole-system coordination: OW urges DESNZ, NESO and Ofgem to design and develop market reforms holistically, including the CfD mechanism, creating a coordination framework to align planning, connections, charging, and contractual mechanisms under a single roadmap.

3. ***Is there still a case for wholesale reforms towards a locational pricing model within the context of the government's 2030 clean electricity mission and energy security aims?***

No, the introduction of a zonal market using a locational pricing model is unsuited for the future of the electricity market arrangements. Locational pricing rests on the assumption that price signals will efficiently guide generation to locate near demand centres. That assumption does not apply to the UK context due to the geographical diversity of resources and to the saturation of available areas near the centres of demand. Locational pricing would not solve the UK's siting problem; it would penalise generators for a geographic reality they cannot change.

The consequences would be severe: higher financing costs for renewables projects, reduced investment and higher costs for consumers during the transition to clean energy, contrary to the UK's clean power targets by 2030 and further net-zero goals. A further consideration is that the UK market already incorporates a form of locational pricing through the zonal transmission losses introduced by P350. That mechanism has not produced any of the efficiency benefits that proponents of locational pricing claim would follow.

4. ***How does the government intend to incentivise the energy sector to accelerate development and generation of clean power within its planned market reforms?***

OW supports the Government's decision not to continue with zonal pricing as the RNP approach increases investor confidence to accelerate development. For years, the Government has incentivised clean power generation through Contract for Difference (CfD) allocation rounds (AR). Before finalising the AR8 Allocation Framework, the Department of Energy Security and Net Zero (DESNZ) should address key issues to protect developers, and therefore consumers, from adverse impacts.

Clarity around strategic energy planning (SSEP, CSNP), market signals, and regulatory processes will help to further increase confidence and accelerate projects and the market conditions that will prevail, thus enabling lowest risk and lowest cost bidding in future CfD allocation rounds. These allocation rounds must be ambitious with sufficient budget available to attract competition from a diverse range of projects GB-wide.

While Government can support renewable generation, it is also essential that grid and networks are able to progress at pace. Delays to the necessary grid build-out will slow new generation projects, expose developers to significant losses from late connection, and pass the cost of delays (and risk thereof) on to consumers.

1. Transmission charging & locational signal uncertainty

For many years OW has been raising concerns about the unpredictable volatility in locational signals (TNUoS and Transmission Loss Multipliers) that projects face when preparing CfD bids. This is compounded by the value erosion to projects from changing locational signals post-investment decision. Solutions to address volatility and unpredictability were developed by industry through the National Energy System Operator (NESO) code modification process–CMP444 and CMP432– in 2025 only to be rejected by the authority days before the sealed bid window for AR7 opened. The lack of decisive action to address this issue at the source represents a fundamental misalignment between government objectives and regulatory requirements.

Necessary next steps:

We strongly urge DESNZ to:

a) assess potential pathways to remedy this barrier through the CfD to ensure viable projects can be competitive while longer-term TNUoS reforms are implemented by the end of the decade.
b) Assess options to lock TNUoS charges for projects that are already beyond investment decision but are experiencing value erosion due to unpredictability and rapid escalation in charges.

2. Grid Delay Compensation for Developers

Another important factor undermining developers' confidence in supporting clean power projects is the frequent delays in grid connections caused by transmission owners' failure to meet contractual deadlines. Ultimately, consumers bear the risks associated with these delays, as a result of higher bid costs by developers to address this risk. Shifting connection delay risk onto developers is inefficient as developers often face higher rates for cost of capital and lack the means to mitigate such delays–results in higher costs for consumers.

Necessary next steps:

DESNZ should look to address grid delay compensation risk in collaboration with Ofgem and look to provide certainty to developers as soon as possible and ahead of AR8.

3. Accelerate grid connections reform

Connection Reform has been a necessary process to better align generation project readiness with grid availability and strategic energy objectives. However, delays to the Gate 2 to Whole Queue process are becoming a significant risk to projects due to uncertainty on connection dates. This impacts projects' ability to lock in critical supply chain contracts and CAPEX cots, presents uncertainty in CfD eligibility, and will results in risk premia being passed on to consumers.

Necessary next steps:

NESO should accelerate the process of issuing grid connection offers to prioritise those projects that are eligible to bid in AR8.

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