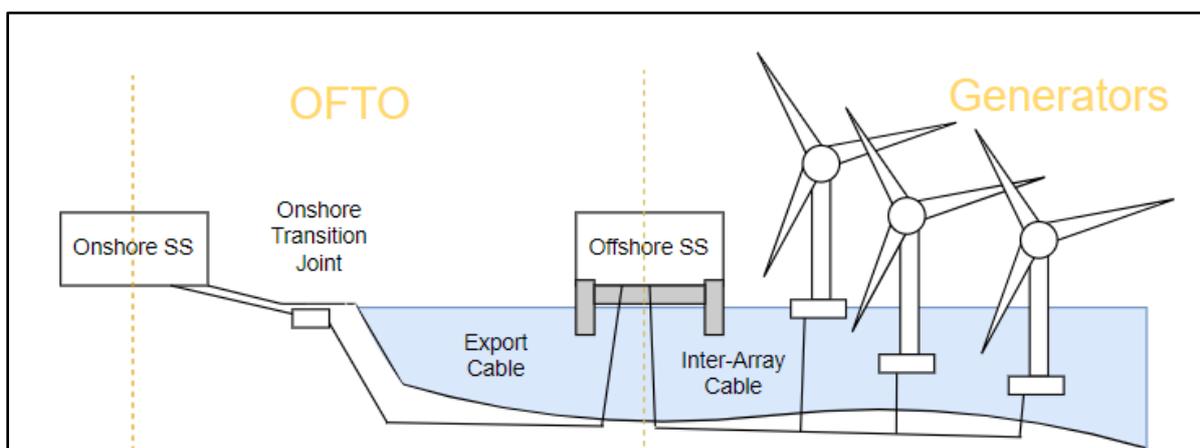


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Proposed OFTO Mutual awarded contract from Innovate UK

Renewable Risk Advisers Ltd (Renewable Risk), with support from the Offshore Renewable Energy (ORE) Catapult and Prospect Law Ltd, has been awarded a 12-month contract by Innovate UK, the UK's innovation agency, to structure a legal entity that will improve the 'insurability' and 'bankability' of UK offshore renewable energy. The project is named '*The Insurance-Debt Nexus: How risk policy keeps renewable energy bankable*'.

This award follows a Feasibility Study also funded by Innovate UK which was recently shared with energy regulator Ofgem and the Energy Networks Association (ENA) OFTO Forum. Letters of support from Ofgem and the Offshore Transmission Owners (OFTOs) were included in the subsequent bid. Subject to satisfactory completion of a finance review by Innovate UK, the new contract will start on 01 February 2023.



How an offshore transmission owner (OFTO) transmits power to shore

The OFTOs are special purpose vehicles (SPVs) established to own and operate the high voltage transmission infrastructure which includes export cables to shore that are by statute 'unbundled' by the developer of an offshore wind farm before it becomes operational. These are often highly geared assets, where project finance is crucial to the 6 OFTO owning companies that are responsible for the 23 live assets that surround the UK.

The offshore renewable energy sector is undergoing rapid expansion and by 2030 it is forecast that up to 40,000km of offshore wind farm export cables will be laid worldwide compared with just over 7,500km at the end of 2020. Currently approximately 80% of the value of offshore wind farm claims have come from OFTO cabling losses.

This escalating cost of damages in the offshore wind subsea cable sector has led to a hardening insurance market, resulting in increased premiums, and more stringent terms. This sellers' market leads in turn to a reduction in 'bankability' which reduces 'investability' since the equity internal rate of return (IRR) is less leveraged by debt.

The current reliance on the need to prove 'physical damage' for the insurance policy to respond means that repair campaigns are often delivered at great expense (i.e. during winter). The ability to intervene at the discretion of a mutual will reduce the cost burden of vessel hire, which alone can amount to 65% of the value of insurance claims, and collective self-insurance will enable electrical fault-finding technologies to enhance preventative maintenance of export cables in offshore wind.

A mutual solution also proposes collective equipment procurement to allow asset managers to stock cost saving equipment such as universal joints that are currently beyond their means. Also information sharing between ordinarily competing organisations will enable the development of risk management best practice that will drive improved asset performance and reduce potential claims.

Only through collective self-insurance can these solutions be delivered. And to do so is in the public interest.



“This project pioneers a new financial architecture around ‘insurability’ and ‘bankability’ for critical national infrastructure. The best risk managers are the asset owners. So rather than try to educate the insurance companies, better to be the insurance company themselves. As well as enhancing energy security, this also saves money for the consumer.”

Joe Hulm, project manager for the proposed OFTO Mutual at Renewable Risk



“Optimising O&M activities through innovation of products and services is a huge opportunity for the UK. This project provides a great opportunity to re-evaluate intervention, early detection of faults and the overall maintenance strategies of transmission systems. Through defining financial incentives, collaboration across stakeholders opens new doors for predictive technologies and improved procedures.”

Charlotte Strang-Moran, Development and Operations Engineer at ORE Catapult



“Collective risk management and retention models provide considerable opportunities – financial and operational – for OFTOs and their stakeholders. We are delighted to be part of this project to develop the appropriate legal and financial framework for OFTOs and to, we hope, pave the way, so that other operators and asset owners in renewables may see the benefits and explore whether it is right for them too.”

Edward de la Billiere, Solicitor and Director at Prospect Law

Notes to Editors

1. Renewable Risk Advisers Ltd (Renewable Risk) is a specialist insurance and risk management consultancy and insurance broker with an unparalleled depth of experience of risk mitigation in the renewable energy and energy efficiency sectors. To augment continued engagement with the OFTOs, we will lead structured engagement with three Advisory Groups drawing on stakeholder expertise in insurance and finance, government policy, and technology development. Website: www.renewablerisk.com
2. An OFTO Mutual will offer the sector:
 - ‘At cost’ insurance - provided by the sector, for the sector. It will be responsive to the sector’s needs when considering underwriting and claims.
 - Greater transparency with control of insurance arrangements and pricing for participating members.
 - Improved OFTO risk management via 1) preventative maintenance, 2) collective procurement, and 3) information sharing which (via Ofgem financial instruments) ultimately saves the energy consumer money.
3. The Offshore Renewable Energy (ORE) Catapult is the UK’s leading technology and research centre for offshore renewable energy. It will collaborate regarding the governance and assistance required for developing risk management operational strategies. Extensive networking will be utilised to support a ‘Technology Development Advisory Group’ developing shared risk management strategies for the mutual. Website: www.ore.catapult.org.uk
4. Prospect Law Ltd is an energy specialist firm which has built a leading reputation for work in the renewable and nuclear energy sector. It will be integral to the structuring of a legal entity that serves the interests of both the individual OFTOs and their wider stakeholders. Transferrable experience from the energy sector would be utilised to support an ‘Insurance and Finance Advisory Group’ developing practical benefits for customers and financial end users. Website: www.prospectlaw.co.uk

5. Innovate UK drives productivity and economic growth by supporting businesses to develop and realise the potential of new ideas. It connects businesses to the partners, customers and investors that can help turn ideas into commercially successful products and services and business growth. Innovate UK also funds business and research collaborations to accelerate innovation and drive business investment into R&D and its support is available to businesses across all economic sectors, value chains and UK regions. Innovate UK is part of UK Research and Innovation. Website: www.innovateuk.ukri.org

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