

RE Ofgem – 2022/23 Forward Work Programme (FWP)

25th February 2022

Context

Sembcorp Energy UK (SEUK), a wholly owned subsidiary of Sembcorp Industries, is a leading provider of sustainable solutions supporting the UK's transition to Net Zero. With an energy generation and battery storage portfolio of nearly 1GW in operation, our expertise helps major energy users and suppliers improve their efficiency, profitability, and sustainability, while supporting the growth of renewables and strengthening the UK's electricity system.

Our Wilton International site on Teesside sits within a hub of decarbonisation innovation. At the site, we provide energy-intensive industrial businesses with combined heat and power (CHP) via our private wire network that supplies electricity generated by gas and biomass. These services are complemented by our fleet of fast-acting, decentralised power stations and battery storage sites situated throughout England and Wales. Monitored and controlled from our central operations facility in Solihull, these flexible assets deliver electricity to the national grid, helping to balance the UK energy system and ensure reliable power for homes and businesses.

SEUK Response

SEUK is pleased to respond to the Ofgem consultation regarding The Forward Work Programme (FWP) dated 17th January 2022. Our response is not confidential.

General comments

Whilst SEUK generally supports Ofgem's views as to what needs to be considered as part of its FWP and acknowledges the ambition that these proposals aim to achieve, we would ask that the wider implications of the volume of work and the scale of change required are also considered at this stage. There is a significant amount of change, both in progress and planned, that is impacting (and will continue to impact) the energy industry. Overly ambitious timescales can result in delays, increasing costs to end consumers, delaying benefits and eroding trust in the industry. The wholesale market is undergoing fundamental change (e.g., the changing generation mix and pressures on domestic suppliers affecting hedging strategies) and will need to change further to accommodate net zero. It is, therefore, imperative that Ofgem and BEIS deliver clear and consistent messaging to effectively guide these large-scale programmes of work and ensure that they are progressed comprehensively and at sufficient pace. Consideration is, therefore, needed as to the resources required from not only an Ofgem perspective, but also the wider industry, if these aggressive and far-reaching proposals are to be met.

We appreciate that a great deal of change is required to protect consumers and meet future targets. We also remain mindful that large-scale and persistent change, particularly in areas of governance, will create immense investor uncertainty if not appropriately managed - and that these aspects must also continually be monitored. This is of particular

importance now, at a time where investment in large-scale projects is essential if industry is to meet the challenge of Net Zero with appropriate timescales at least cost to consumers.

Due to the depth and breadth of change that is required, we believe that consideration should be given, wherever possible, to joint projects between Ofgem and BEIS, as this has been proven to be the best way to link policy with practice. This approach would be further enhanced by making full use of industry resources. For example, establishing Task Forces and facilitating secondments etc. to deliver the most effective programmes. We note that the two Balancing Services Task Forces were able to make transparent and widely accepted recommendations, resulting in relatively fast Code Modification development.

Core Regulatory Functions

We support the need to ensure transparency and integrity of the wholesale energy markets and would ask that Ofgem ensures that any changes to these markets and reporting requirements are appropriately consulted on and that associated timescales, regulatory regimes and frameworks are ultimately implemented with realistic expectations for those impacted parties.

Future of Retail

It can be argued that the energy industry has suffered over recent decades, due to its inability to optimise the use of the vast stores of data that it collectively holds. For this reason, we generally support the digitalisation of the industry. However, moving from where the industry currently sits to where it needs to be is not a trivial task and that the time required to achieve this should not be underestimated.

Further, the provision of potentially commercially sensitive information will need to be considered carefully with robust and agreed 'checks and balances' being put in place to protect not only consumers, but also the industry parties that provide the underlying services. We also recognise that the provision of any dataset will first need to be assessed for quality. The services and technologies that may emerge following a programme of digitalisation will be dependent on the quality of that 'foundation' data. Data cleansing activities will need to be established and agreed by all parties in advance of any provision. Historically, this has not been an easy task. Ofgem and BEIS must also carefully consider the development of any new reporting regimes and take account of the time that may be required to embed these for all industry parties.

Low Carbon Infrastructures

We ask that Ofgem continue to work closely with BEIS and the wider industry and report frequently around aspects of the Regulatory Model(s) being developed for Carbon Capture, Usage and Storage (CCUS). This is not only important for the investment in and development of the Transport and Storage Company's (T&SCo's) and their associated networks but also for industry parties who will be expected to provide support for these new services.

It is crucial for users within the proposed new CCUS sector to fully understand the timescales and costs involved at the earliest opportunity to be able to make informed

decisions regarding their investments, maintain some level of control over their regulated returns and manage costs effectively and efficiently. The provision of clear, transparent, and timely information of a new T&S Network Code and regulatory obligations will therefore be helpful in this regard. To ensure investor certainty and avoid potential market distortions it is important that a consistent framework is established for the operation and regulation of all T&SCos.

Connection regimes and associated charging structures designed to support low carbon networks must be developed to be able to account for aspects of the viability of emerging projects that utilise new low carbon technologies and infrastructures. This should include not only the full evaluation of the deliverability of a particular project, but also fully assess aspects of the 'strength' of developers themselves. Given the potentially varied technologies (and so, energy mix) that are likely to arise it currently seems unlikely that a 'one size fits all' approach to connection charging will provide the correct incentives or pricing signals required for robust investment decisions to be clearly made. Such timely decisions will be required to safeguard the GB energy network and provide the resilience needed to maintain security of supply that is likely to become an increasing focus for the industry during the transition to Net Zero.

In establishing its forward work programme, we ask that Ofgem continue to consider the regulatory stability required for new and emerging technologies such as battery storage and the continued support for transitional low carbon fuels such as biomass.

Biomass for electricity production is already under threat with ROCs ceasing for a number of large biomass plants in 2027. When the RO closed to new entrants, it sent a signal that biomass is not supported in the long-term, it is therefore likely that this will have a negative impact on investor confidence and so biomass capacity will reduce towards the end of the decade. These plants will be unlikely to function economically, and the heat and power deficit that this will create is likely to be sourced from higher carbon alternatives. It is therefore important to consider the transitional period from the end of subsidy support in 2027 to the operational date for BECCS to offset the potential loss of these supply chains. The current sustainability criteria, combined with the eligibility criteria for ROCs and environmental permits, work well and should be extended to all sources and end uses of biomass, to ensure even competition and avoid the possibility of stranding these assets.

We currently have some concerns that Ofgem may not be fully aligned with developing government policy around interconnectors. For example, the obvious 'tension' between recent discussions around the need to reduce GB's exposure to global pricing and increase our own energy generation capabilities and proposals for new interconnectors with a combined capacity of around 9.9GW by 2025. We understand the benefits of increased interconnection but have concerns around the impact upon domestic generation. Disparities between carbon price and charging regimes must be addressed if GB is to remain competitive with interconnected markets. The Cap and Floor mechanism appears to be the default for new interconnectors, and we would suggest that further discussion is required to ensure that all options are fully assessed.



Full Chain Flexibility

We support the need to develop a smart and flexible energy system for the future. Such a flexible approach and taking account of the barriers that may currently be in place should enhance investor confidence and encourage the development of new and improved technologies such as Large-Scale and Long Duration Storage (LLES). Improved storage capacity and deployment will be a fundamental ancillary service as we move to Net Zero.

We understand that market reforms will be required to underpin the strategies and programme of work required to decarbonise the GB energy industry. Changes to the markets and the signals needed to reward flexibility will need to be carefully considered and ensure that the correct balance is struck and maintained between existing and new energy generation as our energy systems develop to guarantee security of supply.

Data and Digitalisation

See comments made in the 'Future of Retail' section above.

Energy System Governance

We have no additional comments to make regarding governance arrangement at this time.

Transforming Ofgem

We ask that the wider industry is fully informed of Ofgem's restructuring proposals to ensure transparency and ongoing effective and efficient lines of communication are always maintained. SEUK welcomes the proposals to improve internal structures and governance arrangements to enhance decision-making. When considering internal restructures, consistency and continuity are of paramount importance if knowledge is not to be diluted or lost and that efficient decision making is to be achieved. Whilst simpler governance structures may provide efficiencies, these developments must also take account of the wider industry and the considerable knowledge base that is collectively held. Industry views will be germane to developing appropriate and optimum processes and solutions for the future. Effective communication here will, undoubtedly, provide additional support for Ofgem's intention to develop its resources and ensure that clear and timely strategic decisions can be made.

Please let me know should you require any further information or clarification on any aspect. Thank You.

Regards,

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