

Electricity Network Charging
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Our ref.: CHINW/Ofgem
CMP308

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Ørsted response to Ofgem's Minded-To Consultation on CMP308

The Ørsted vision is a world that runs entirely on green energy. Ørsted develops, constructs and operates offshore and onshore wind farms, solar farms and energy storage facilities, bioenergy plants, and provides energy products to its customers. Headquartered in Denmark, Ørsted employs 6,500 people including over 1,000 in the UK. Globally, Ørsted is the market leader in offshore wind and it is constructing the world's biggest offshore wind farms off the East Coast of the UK. Its UK offshore wind farms generate enough clean electricity for over three million UK homes.

We welcome the opportunity to respond to Ofgem's minded-to consultation on proposals to change the way that the Balancing Services Use of System (BSUoS) charges are collected from electricity network users – CMP308.

We support the minded-to consultation and the rationale behind it and highlight the importance of reaching a final decision imminently. The Regulator's final decision will remove the prolonged distortions that exist in the wholesale markets amongst GB generators, and the disadvantage such generators face compared with continental generators in other markets. A timely decision will also provide a level-playing field between generators who compete in different markets. For example, this will improve competition between generators participating in future Contracts for Difference (CfD) Auctions, irrespective of connection type.

Therefore, we would urge there are no further delays, so that a more efficient and competitive market is timely established, resulting in a better value for consumers and increased opportunities for the deployment of more renewable projects, to aid the net zero agenda.

We have outlined our support on 3 key areas highlighted in the consultation which we believe are fundamental in progressing with the removal of BSUoS charges from generation.

These are set out below –

1. The minded-to decision better facilitates the Applicable CUSC Objectives A, B, C & E.

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The Applicable CUSC Objectives (ACO) include -

- **ACO (A) - Facilitating effective competition**

With generation not liable for BSUoS charges, a level-playing field amongst transmission-connected generation, distributed generation, and interconnection is established, which in turn encourages effective competition, resulting in overall system benefits. Distortions in wholesale market prices caused by the current BSUoS charging arrangements will be addressed as a result.

GB generators currently face a disproportionate level of charges as compared with EU generators, resulting in a competitive disadvantage in cross-border trades and EU trading platforms. Removing BSUoS from generation creates better alignment in market arrangements between GB and interconnected markets where most balancing service charges are levied on final demand.

- **ACO (B) – Cost reflective charging**

The Second BSUoS Task Force established the BSUoS charge to be a non-cost reflective charge, in other words, a cost recovery charge which provides limited forward-looking signals. Removing such a charge from generation allows for increased focus on more cost reflective signals, which in turn, lead to more efficient outcomes.

Additionally, generators will no longer need to price in risk premia and other pass-through transaction costs via the multiple market mechanisms in order to manage the unpredictability and volatility associated with the BSUoS. In so doing, this enables a more cost-reflective market, lower/competitive prices, and better value for consumers.

- **ACO (C) - Taking account of the developments of transmission licensees' businesses**

The rationale for meeting this objective closely aligns with the reason given in CUSC Objective A - *Facilitating Competition*. With increasing interconnection anticipated in the near future, the market distortion between GB and continental generators will exacerbate under the current BSUoS charging arrangement. GB generators will face increased competitive disadvantage. CMP308 will indeed address this existing distortion and allow for increased harmonisation and competitiveness of UK generators with interconnectors/EU generators. Subsequently, this will aid the development of transmission licensees' businesses i.e., large generators, given the increasing contribution of these generation types to GB energy system and market.

- **ACO (E) - Promoting efficiency in the implementation and administration of the charging methodology**

We agree that CMP308 which will see the BSUoS costs recovered from final demand only, allows for a more simplified and efficient charging methodology. We also agree it will simplify the charging and billing arrangement of the use of system charges, as a result, facilitating efficiency of its implementation and administration.

2. Removal of BSUoS from the Contract for Difference (CfD) payments should be addressed efficiently to ensure benefit to consumers and impacted parties

We agree with the assumption that CfD adjustment payments designed to compensate contract holders for their BSUoS charges will no longer be paid, in the event generation is not liable for BSUoS charges. With the removal of BSUoS from all generation, low carbon support payments, both in the form of Renewable Obligation Certificates and CfDs, will reduce substantially.

Furthermore, in relation to GB's decarbonisation goals, with BSUoS costs set to zero in the CfD Allocation Rounds, participants will gain clarity on their cost exposures on future Allocation Rounds. It will provide a level-playing field amongst generators participating in the Auctions, improve competition and elevate the opportunity to bring forward more renewable projects, to meet the net zero agenda.

It is important to note that there are complexities associated with the way BSUoS is treated in the CfD contracts that will need to be robustly addressed, to ensure that the contract holders are not exposed to significant commercial risks. BEIS has made provisions for future contract term amendments to prevent an overpayment to CfD holders when Ofgem finalises its decision on this modification.

Nevertheless, considering the significant commercial risks that can occur in the event of misaligned or erroneous timelines between implementation and removal of BSUoS from CfD contracts, we would expect both BEIS and the Low Carbon Contract Company (LCCC) to also have a robust mechanism in place to ensure current CfD contracts are made whole - either to provide recompense, or indeed to recharge if the contract holder has gained.

3. An aligned implementation with CMP 360/361 can address supplier risks

Market participants are unable to accurately forecast the BSUoS charge due to its volatile nature, which they seek to account for through a risk premium in tariffs. CMP361/2 – '*BSUoS Reform: Introduction of an ex-ante fixed BSUoS tariff & Consequential Definition Updates*' seeks to introduce an ex-ante fixed volumetric BSUoS charging tariff, which can address this risk.

A fixed charge provides an element of de-risking to demand users by providing a more stable, predictable element to their network charges. An ex-ante fixed charge can provide a level of certainty to users and mitigates suppliers' commercial risks of correctly pricing BSUoS into competitive tariffs, which ultimately benefits consumers.

To effectively address increased exposure of suppliers to volatile BSUoS charges, we would urge the Regulator to ensure that CMP360/361 is implemented in tandem with CMP308, at the 1st April 2023 implementation date.

Conclusion

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We agree and support the minded-to decision and rationale behind the decision.

Considering the significant impact of this modification on industry, we would urge Ofgem to reach a final decision urgently. This will enable businesses to start making the necessary changes in a timely manner, in preparation for implementation. It will end the prolonged distortions that exists in wholesale markets, alleviate the disadvantage GB generators face domestically and across interconnectors, and improve competition in markets.

In addition, it will allow for more accurate reflection of costs in business cases and levelized competition between technologies in future Contract for Difference (CfD) Auctions. We caution against further delays which could impact future Allocation Rounds.

A final decision delivered promptly, will trigger proactive actions by industry which facilitates an efficient implementation and market outcomes, ultimately benefitting the final consumer.

Yours sincerely
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