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Sent by email to: offshore.coordination@ofgem.gov.uk

Ørsted Response to Ofgem's Revised Minded-to Decision and further consultation on delivery models in Pathway to 2030

26 January 2023

Our ref. OTNR Winter 2022_P2030
Consultation

Dear Cher-Rae and Viljami,

The Ørsted vision is a world that runs entirely on green energy. Ørsted develops, constructs and operates offshore and onshore wind farms, solar farms, energy storage facilities, and bioenergy plants. Headquartered in Denmark, Ørsted employs over 8,000 people including over 1,000 in the UK. Ørsted maintains a keen interest in the Offshore Transmission Network Review (OTNR), having been awarded seabed leasing rights for a 1GW floating project 'Stromar', in partnership with Falck Renewables and BlueFloat Energy, in last year's ScotWind offshore leasing round. Ørsted also continues to actively explore development opportunities that fall within the scope of the OTNR, including the upcoming Celtic Sea leasing round.

We welcome Ofgem's consultation and appreciate the opportunity to comment on key components of the Pathway to 2030 (PT2030) workstream, particularly on business design model options and Anticipatory Investment (AI). Ørsted further welcomes the confirmation that Celtic Sea projects fall under the scope of the PT2030 regime.

Below, we outline our views on the proposed business design models and Anticipatory Investment scheme and would be open to further discussion with Ofgem on the points raised.

Delivery Model Options

Question 1: Do you support the introduction of a late competition OFTO build model for non-radial offshore transmission assets?

Yes, Ørsted supports the introduction of a late competition OFTO build model for non-radial offshore transmission assets as one of a range of options. We welcome

the flexibility in business model design and support Ofgem's assessment that a range of delivery model options may be required to find the optimum solution for delivering coordinated projects.

Ørsted would like to emphasise that keeping both design options open is essential and acknowledge that flexibility will be required in the delivery of coordinated assets. Nevertheless, we maintain that developers are the most logical and efficient party to deliver transmission assets, due to their experience and track record of infrastructure delivery to date. As we have outlined in previous consultations, we hold reservations about the current capability of OFTOs to deliver offshore transmission, whether that be a radial or coordinated system. Therefore, in including this delivery model within the options, Ofgem should assess competencies relating to transmission build at the point a competitive tender is carried out, to ensure that projects are delivered on time and at value to the consumer.

In addition, we foresee several practical considerations which must be addressed if multiple delivery options will be catered for. Firstly, clarity is required on the point in the project development cycle that a decision on the delivery model would need to have taken place. Timing is of particular relevance in the case of an OFTO build transmission asset, which – given a lack of experience in delivery to date – is likely to have a longer lead time.

Further, the mechanism for selecting a delivery model remains ambiguous from a practical perspective, including whether developers would have the responsibility for making the choice or if another body, such as Ofgem, would take on the role.

We note that it may prove challenging for multiple competitors – for whom the HND has recommended a coordinated solution – to agree on a model for transmission delivery, meaning that Ofgem will need to consider a potential scenario in which developers are not able to reach a consensus on the party who would deliver coordinated assets. In implementing these processes, it may be helpful for accompanying guidance documents to be produced to reduce the risk of ambiguity. In addition, there could also be room for a third-party to play a role in guiding the allocation and decision-making process on delivery models in certain cases.

Anticipatory Investment

Question 2: Do you support the extension of AI policy to the projects within scope of the Pathway to 2030 workstream?

Yes, Ørsted agrees with the proposed mechanism for allocating Anticipatory Investment. The risk of development cannot solely be placed on generators, as commercial entities. As the consultation document states, the current framework is not appropriate for compensating developers for taking on additional risk.

There are some questions in principle about the AI regime which we would like to raise. Firstly, as we noted previously in Ofgem's 2022 consultation on AI in the Early Opportunities workstream, we have some concerns regarding potential

unintended consequences of the AI process, most notably in relation to transparency of the CfD bidding process. In our view, there is a potential scenario in which rival bidders in an allocation round would be able to determine the capacity of one (or more) projects that are utilising a shared transmission connection. This is likely to be of greatest risk where projects are in different CfD rounds, as the capacity of the later user could be ascertained by deducting the capacity of the first developer from that of the overall transmission capacity.

Greater clarity around the cost recovery process is also required. Without the confidence that developers will be able to fully recover costs, the risk of project delays increases. We would welcome further details from Ofgem to assure developers that they will not be financially disadvantaged for taking on coordinated projects.

Finally, we are particularly conscious that developers within a coordinated project may have misaligned project lifetimes, as well as misaligned intentions for decommissioning. If projects within an integrated transmission system have the same anticipated project life, then there may be a risk of a “cost gap” at the end of the lifetimes. This could disincentivize later users from entering a coordinated development. We would therefore welcome clarity on whether Ofgem are considering a solution to this [potential] end of life cost gap and the interaction of the proposed AI process with the OFTO licence and Tender Revenue Stream (TRS) duration.

Question 3: Do you agree with the proposed mechanics of charging to take account of coordinated infrastructure?

Yes, the proposed charging mechanics appear to be appropriate. We are not aware of any alternative options and agree that the recovery of charges through demand represents the most efficient solution.

Please do not hesitate to reach out to JACOU@orsted.com or at 07741613307 should you have any further questions about our response.

Yours sincerely,

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