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Sent by email to: offshorelicensing@ofgem.gov.uk

Burbo Extension Limited Response to Ofgem's Consultation on proposed modifications to Offshore Transmission licences

9 December 2022

Our ref. Ørsted Response_Ofgem
Proposed OFTO Modifications

Dear Stuart,

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 we are constructing the world's biggest offshore wind farms off the East Coast of the UK. We have wind farms with Offshore Transmission Owners (OFTOs) from the majority of Tender Rounds and currently have ten OFTOs connecting our offshore wind farms, with more to follow.

We welcome Ofgem's consultation and appreciate the opportunity to provide comment on key components of lifetime extension (and future TRS) policy. However, we note that we have provided comment on two recent consultations on End of TRS (EoTRS) policy – in April 2021 and August 2022 – but have received little follow-up from Ofgem by way of response or minded-to position. We are now being asked to review a statutory consultation, which contains limited information on the reasoning behind decisions being made. We therefore have some concern with the process that Ofgem are using and would hope that this does not set a precedent for future decisions on other elements of lifetime extension and EoTRS policy.

We continue to have several concerns with the proposals put forward by Ofgem. These views are set out in our response, below, and we would welcome further engagement with Ofgem on the points raised.

Response

1. Consequential licence modifications due to the end of the transition period

No comment.

2. End of Tender Revenue Stream

A. Proposed Modifications to amended standard condition ASC E12-J3 (Cost of Health Review and Investment Works)

As stated in our response to Ofgem's August 2022 consultation on End of Tender Revenue Streams, Ofgem should consider all options for reform, including assets reverting to Generators. This could potentially be achieved without changes to Primary Legislation through the use of a class exemption to allow radial transmission to be owned by Generators (as has been done for onshore with Private Wires).

The OFTO regime has been in place for over a decade and has been successful in delivering value, however, the arrangements put in place once the initial Tender Revenue Stream (TRS) has concluded should be treated as a separate entity within the broader framework. Ofgem must consider their policy decisions in this context, noting that the justification that applies to the original OFTO regime is unlikely to be relevant when considering lifetime extension. The focus from policymakers must be on enabling offshore wind assets to run for as long as possible, at the best value to the consumer, which will not be achieved through the OFTO regime for lifetime extension.

In Ørsted's view, Generators are best positioned to determine the case for extending the life of an asset. Having the option for assets to revert to a Generator at the end of the initial TRS period is both the most efficient solution, as well as the solution that comes with the least economic risk to consumers. As the sole user of the offshore transmission network, it is in the interest of the connected Generator to maintain the highest level of asset health for the transmission assets they are connecting into. This solution would simplify the process of compensating for the cost of health reviews and investment works, which Generators will perform at their own cost without pass-through to consumers.

Ørsted's view is that providing Generators with the option to take on transmission assets at the commencement of the initial TRS period would be the most efficient solution. However, in the absence of such an arrangement, our view is that the OFTO should bear the costs of conducting health reviews. An extended revenue stream represents continued value for the OFTO, and it is therefore unnecessary to pass the costs of carrying out health reviews onto consumers.

We accept that there may be concern from incumbent OFTOs that they would be required to pay for a health review for assets that they would subsequently not wish to operate. With that in mind, we suggest that costs associated with health reviews should be included within the EoTRS, or be accounted for within any transfer value of assets from one OFTO to another, meaning that the costs would be covered by the future OFTO.

We also note that under the current framework, costs passed through to consumers will be reflected in the TNUoS charges paid by Generators. This in

effect means that the Generator would be paying for works carried out by the OFTO. In this scenario, the Generator should be entitled to a say in the process for approving works which it will ultimately pay for.

Therefore, there needs to be room for Generator scrutiny in the process of approving costs of health reviews. According to the proposed modifications, the decision to conduct health reviews rests solely with the OFTO and Ofgem. Ørsted are concerned that the Generator has no opportunity to input into this decision in this case. OFTOs would have complete control over the proposed costs of the health review without the corresponding incentive to make this process as efficient and low-cost as possible. This is not in the best interests of consumers or the industry generally.

Alternatively, we previously outlined the benefits of an independent body for conducting engineering reviews in our response dated 27 April 2021. This body would ensure that any investment that is brought into scope as a result of a health review is appropriate. Establishing the costs of health reviews should be a transparent process and it is therefore essential that either the Generator or a third party is included as part of the decision-making process.

B. Proposed Modifications to ASC E12-J4 (Availability Lost During Health Reviews And Investment Works)

We are generally aligned with Ofgem's assessment of the availability loss of 4 to 7 days during health reviews. As we have set out above in 2(a), decisions related to end of tender revenue streams must include all parties, including Generators. Our view is that the decision to approve adjustments for health reviews must be coordinated with the Generator so that such requests are only approved if the timeframe is mutually agreed. This represents a more transparent approach which takes into account the views of all relevant stakeholders, though this would require greater coordination from all parties, as well as an increased level of notice.

We are also concerned by the potential frequency of outages. While the proposal indicates that outages will be up to 7 days *in each case*, we are concerned that this does not give sufficient clarity about limiting outages. We propose that outages for health reviews – which determine the viability of lifetime extension of the transmission assets – are capped to up to *cumulative* 7 days without approval from Ofgem. This would ensure that disruption is minimised, and that renewable electricity can be exported at its maximum potential.

As outlined in our answer above, these concerns would also be alleviated by an independent body in conducting engineering reviews.

3. Changes to decommissioning costs

No comment.

4. Incremental capacity arrangements

We have no specific objections to the proposal here but would be happy to engage with Ofgem further on this to explore the proposal in more detail.

Please do not hesitate to reach out to HUYEN@orsted.com or at +447532489348.

Yours sincerely

Hugh Yendole

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