

Ofgem
10 South Colonnade
Canary Wharf
London
E14 4PU

Sent via email to FWP@Ofgem.gov.uk

Ørsted response to Ofgem Draft Forward Work Programme 2019-2021

15 February 2019

Our ref. ANDMH/OfgemFWP

The Ørsted vision is a world that runs entirely on green energy. Ørsted develops, constructs and operates offshore wind farms, bioenergy plants and innovative waste-to-energy solutions and provides smart energy products to its customers. Headquartered in Denmark, Ørsted employs 5,600 people, including almost 1,000 in the UK. Ørsted is the largest offshore wind farm developer, generator and owner in the UK, and the world. We have wind farms with Offshore Transmission Owners (OFTOs) from every Tender Round, including currently the world's largest offshore wind farm, Walney Extension.

We welcome the opportunity to comment on Ofgem's Draft Forward Work Programme. The programme provides a good overview into the key priorities for Ofgem. The upcoming period will see a lot of significant changes to the way the energy system will evolve, and the way that generators and customers alike will need to respond to that change. This response focuses on the key areas of importance for Ørsted, and also builds upon our response to Ofgem under the Targeted Charging Review¹.

Support for decarbonisation in all sectors

In line with our vision of a world that runs entirely on green energy, we are strong supporters of decarbonisation and the evolution of a low-carbon economy that works for everyone. We have seen a good pace of decarbonisation in the energy sector, which has reduced its emissions by 60% in the period 1990-2017². This is a trajectory that must continue to meet the challenges of climate change.

As the decarbonisation of the energy sector continues, it is increasingly important to decarbonise other sectors such as heating and transport to ensure that we are able to meet objectives under the Climate Change Act and a challenging fourth and fifth Carbon Budget. We are therefore pleased to see references by Ofgem to these sectors under the action to work 'with innovators and stakeholders to develop sustainable energy solutions and systems for future consumers' and develop regulation that enables innovation, promotes investment and ensures fair cost allocation³.

¹Please see our response to the Ofgem Targeted Charging Review consultation, dated 4 February 2019

²According to BEIS – Final UK greenhouse gas emissions national statistics 1990-2017, published 5 February 2019

³Ofgem Forward Work Programme 2019-2021, p11

The low-carbon transition of all sectors will see substantial changes and challenges to energy that Ofgem has also identified within the work items under this priority. The resulting changes in the way we produce and consume energy will require a flexible system to support continued change and improve system operation. We expect the pace of change to be rapid, given the rapid lowering of costs in renewable energy and storage technologies on the generation side that needs to be complemented by effective system operation and smart consumption of energy.

A flexible energy system benefits the consumer and ensures optionality in a fast-changing sector

At Ørsted, we view Ofgem's priority in 'enabling future markets and system arrangements' as a priority, not only for the period 2019-2021, but as a long-term objective. We believe that future markets and system arrangements need to closely consider not only the further decarbonisation of the economy and energy sector, but also the need to create a sustainable flexibility market that supports the needs and challenges of system operation.

A flexible system offers benefits to the consumer by lowering costs of operating the system through increasing user participation and sophistication to provide flexibility services. These services, such as demand side response and offering a wide range of ancillary services increase competition, aids system operation and can avoid costly network reinforcements.

In this respect, we believe our offshore wind farms can offer ancillary services such as frequency response and system restoration under the right market framework. Our recently commissioned 20MW battery storage project at Carnegie Road, Liverpool is operating within the Balancing Mechanism to support the system. Our supply business has been helping customers to become flexible through our Renewable Balancing Reserve product and schedule optimisation service, both of which enable customers offer system benefits and take part in the energy transition.

We believe the key activity identified in the work programme under 'System operation reforms'⁴ to consider whether further reforms are necessary to support developing markets such as flexibility markets should be taken further. The action should be to not only consider whether additional support is necessary, but to actively support the development of flexibility markets. The creation of the necessary market signals to incentivise investment and bring providers of flexibility services into what is still a nascent market is vital to ensure that investors can be confident of the regulator's support for these services which are essential for efficient system operation.

Notably, we feel that reforms being undertaken by the Targeted Charging Review (TCR) have not adequately considered flexibility, a view which we have already stated in our response to the minded-to consultation by Ofgem⁵. Whilst we are aware of the

⁴ *ibid.* p14

⁵ Please see our response to the Ofgem Targeted Charging Review consultation, dated 4 February 2019

work within the Access Rights Significant Code Review (AR SCR) that looks at establishing flexibility within forward-looking charges, we believe that there is a misalignment between the minded-to TCR that removes flexibility signals from customers without a clear, sustainable solution being offered within the currently open-ended AR SCR.

Language in the Forward Work Programme on these two reviews to say that ‘these are not isolated pockets of work’ must be followed through so that Ofgem will be adequately ‘responding to and facilitating the current and future needs of the system’⁶. A failure to reproduce a flexibility price signal within cost-reflective charges will prevent growth and participation of network users who wish to become sophisticated energy users that can bring benefits to system planning and better utilise the network.

We would also like to take the opportunity within this response to remind Ofgem of its Smart Systems and Flexibility Plan⁷ that was published with BEIS alongside a more recent update on the plan⁸. We are supportive of actions undertaken by both parties in ‘making markets work for flexibility’. The plan focuses on action 3.4⁹ to create the right incentives for those connecting to the network. The plan cites the TCR and AR SCR as the method for achieving this, to which we have already pointed out our concerns. However, it is important to achieve this outcome in order to also support the Secretary of State’s ‘insurance principle’ as set out in his recent speech to preserve optionality¹⁰.

An OFTO system fit for the future

We note the references to the OFTO tender regime under the principle of ‘Network preparedness and performance’¹¹. The description of the regime as ‘successful’¹² neglects structural issues with the regime and the misalignment of risks and incentives between generators and OFTOs, as well as issues that were raised in 2018 that have highlighted these challenges with the regime as it currently stands. Given government’s ambition for the growth trajectory of offshore wind¹³, we believe that the timing is right to conduct a review of the OFTO regime to ensure that it can also respond to an evolving industry.

The draft forward work programme currently includes no reference to improving the OFTO regime. In our consultation response to TR6¹⁴ we highlighted many of our concerns that could not only be incrementally improved for TR6, but also pointed to some long-term framework changes that would be helpful for areas such as late-life arrangements and maintenance approaches that improve asset integrity.

⁶ Ofgem Forward Work Programme 2019-2021, p13

⁷ Upgrading Our Energy System: Smart Systems and Flexibility Plan July 2017

⁸ Smart System and Flexibility Plan, published 16 October 2018

⁹ *ibid* p28

¹⁰ Secretary of State Greg Clark MP’s speech ‘After the trilemma – 4 principles for the power sector’ delivered 15 November 2018

¹¹ Ofgem Forward Work Programme 2019-2021, p17

¹² *ibid*

¹³ Energy minister Claire Perry MP’s speech, given 23 July 2018, references 1-2GW of new offshore wind every year in the 2020s

¹⁴ Please see our response to Ofgem, dated 17 May 2018 to the OFTO Tender Process consultation

Work in 2018 on Income Adjusting Events (IAE) further highlighted issues around mis-aligned incentives between the OFTO and generator that should be addressed. Additionally, challenges to Tender Round 5 (TR5) from the way the tender was run also led to the passing of a statutory instrument to extend the transmission exemption to 24 months to allow for the divestments to complete. Whilst we welcomed this action by BEIS, as a one-time instrument specific to TR5, it does not solve the continued unbalanced leverage in future rounds that gives potential OFTOs incentive to draw out proceedings closer to the exemption deadline in order to draw out advantages over the generator who retains all the risk during the bidding process.

As the system continues to evolve, developers of offshore wind farms will require an OFTO framework that not only apportions risks appropriately, but also addresses asset integrity in the long term and flexibility to innovate and deploy new solutions. We are happy to speak to Ofgem about these proposals in more detail.

We have further views on specific work items identified by the Forward Work Programme, which we have included in the appendix of this response. Please do not hesitate to reach out to me (07827 283123, andmh@orsted.co.uk) should you have any questions about our response.

Yours sincerely,

Andrew Ho

Senior Regulatory Affairs Advisor
Ørsted

Appendix – Further commentary on individual work items

We have identified some additional views for work items which were highlighted in the Forward Work Programme under the principle of enabling future markets and system arrangements.

Reviews of energy code and code governance

We welcome the recent announcement of the undertaking by BEIS and Ofgem to review the code modification process. At the same time as the high-level reforms undertaken within the TCR, AR SCR and RIIO-2, the codes have seen an unprecedented level of modifications being entered by industry participants who are also seeking to create a suitable framework that is fit for a smart and flexible energy future.

This has resulted in a high number of significant modifications, some of which have been condensed into the significant code reviews or into task forces such as the ESO-led BSUoS task force. We welcome ways in which the code modification system can still deliver the change required whilst keeping participation levels high, as the current volume of modifications has placed a significant strain on network users who may not have the resources to follow and respond to all developments.

Secure and Promote

We see this activity as tied in with the priority to provide ‘excellence in statutory and core functions’ for Ofgem to play a core role in the stability and effectiveness of wholesale market arrangements.

Whilst there are structural changes to the largest companies that provide the Market Making Obligation (MMO), we have been concerned by actions in 2018 which would have suspended the licence condition without due consideration of the negative consequences to the performance of the wholesale market and to consumers. We welcome the review that is now taking place whilst the MMO is still in place to allow for an effective solution to be delivered without creating undue market turbulence.

Black Start

We are pleased to see a work item that indicates the development of a Black Start restoration standard and are hopeful that this can be considered alongside National Grid ESO’s work on opening up contracting and procurement of system restoration services. With the changing physical characteristics of grid users, we view it as necessary to open up provision of this service to more market participants. We hope that an open standard can be created that can serve as an entry point for potential participants with additional technologies that can provide optionality to the ESO.

Smart meter compliance

We are currently preparing our response to the BEIS consultation on the proposal to begin the New and Replacement Obligation (NRO) from 31 March 2019.

As we form our response, we bring to attention to both Ofgem and BEIS the present lack of access to SMETS2 meters to suppliers. We agree about the overall benefits that smart metering will eventually provide in lowering bills and allowing more sophisticated flexibility services to be provided. However, there is a current lack of lack of stocks of SMETS2 meters that currently makes it exceptionally difficult for smaller suppliers to offer them our customers in a timely manner without incurring high procurement costs. In considering how to deploy meters effectively, it would be prudent to consider the limited supply of meters at present and strike a balance between delivering the programme and maximising value.

NIS Regulation

As part of our day-to-day business practice we have made preparations against security threats to our company. The introduction of the NIS Regulations¹⁵ has meant that many companies are now also undertaking assessment of the cyber-security provisions under the Cyber Assessment Framework, a broad, non-sector specific framework that many in the industry have found difficult to assess against in a sufficiently uniform and sound manner.

However, we understand that the regulations are in their first year of implantation. The role assigned to Ofgem as the Competent Authority for cyber-security in the energy sector is a new competency that the regulator has had to develop in response to the regulation. With the industry looking towards Ofgem to deliver the sector-specific guidance and to provide clarity on how best to submit the relevant documentation for self-assessment, there have been instances where extra clarity may have been helpful. Through our participation in E3CC, we would like to see further cooperation between the industry and Ofgem on how the energy sector can best demonstrate the high security standards that we wish to uphold.

¹⁵ NIS Regulations came into effect as of May 2018, with a self-assessment deadline for OES providers set to 15 February by Ofgem