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Sent by email to: Stephen.Taylor@ofgem.gov.uk

Ørsted Response to Ofgem's Consultation on proposed modifications to Offshore Transmission Licences

24 September 2020

Our ref. Ofgem OFTO Licence
Consultation Response

Dear Stephen,

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 have wind farms with Offshore Transmission Owners (OFTOs) from every Tender Round and currently have 10 OFTOs connecting our offshore wind farms, with 1 further offshore wind farm going through the upcoming OFTO tender rounds.

Response

We welcome Ofgem's consultation and are appreciative of the policy clarity that it brings to offshore wind farm developers, existing offshore wind farm generators, as well as existing and prospective OFTOs.

We are broadly in favour of Ofgem's proposals, whilst recognising that the primary purpose of the consultation is to implement the results of previous decisions on Income Adjusting Events (IAEs). In our role as a generator, we are supportive of the outlined changes to Force Majeure and believe the new definition is both simpler and more appropriate. Similarly, formally including policy recommendations relating to deductibles for uninsurable claims into the licence provides additional certainty and avoids the need to make financial decisions based on assumptions.

We have no further comments on the proposed amendments within sections B and C of the consultation, as these appear to be administrative.

However, we would like to highlight one area that has not been dealt with in this statutory consultation, which we believe to be of relevance in the context of IAEs.

As stated in our response¹ to Ofgem's 2018 consultation on Income Adjusting Event Policy, the impact and risks of OFTO failures is highly asymmetric between the OFTO and the connecting offshore wind generator. The OFTO availability incentive strictly limits their exposure to any events, can be adjusted in the case of an exceptional event, and can also potentially be offset by performance during other periods. The offshore wind generator has none of these protections and is fully exposed to the costs of any outages. As a result, the OFTO regime places significant risks on the offshore wind generator, which also leads to offshore wind developers being strongly incentivised to ensure the OFTO does not have any failures on their assets after they have been transferred.

In this context – and noting that this falls beyond the scope of this consultation – we ultimately view that the costs, and therefore associated risk of unexpected, uninsurable events on regulated assets should be socialised. This ensures that offshore wind farm generators are not required to cover the risks of an asset they have no control over, and do not own or maintain.

Furthermore, examination of the interplay between IAEs and the availability incentive suggests no clear linkage between the two, whereas the relationship between the incentive and exceptional events is dealt with extensively within the incentive calculation.

Though we believe the licence is lacking in the context of income adjustments, we note that some sections of the licence are of relevance. For example, Section E12-J3 (Paragraph 21, point (c)) states that revenue adjustments will ensure that the financial position and performance of the OFTO are the same as if the IAE had not taken place.

This suggests that the incentive would be protected, even if the OFTO is failing to deliver availability as a result of an IAE. It should not be the case that licensees are able to extract value from a service that is not being provided and we would appreciate additional guidance from Ofgem to this effect.

Please do not hesitate to reach out (07768 288836, jamjc@orsted.co.uk) should you have further questions about our response.

Yours sincerely,

James Jackson
Regulatory Affairs Advisor

¹ Please see our response – submitted 9 March 2018