



BY EMAIL: riio2@ofgem.gov.uk

Contact: nicola.percival@rwe.com

4 September 2020

Dear RIIO Team,

Ref: RIIO-2 Draft Determinations

About RWE

RWE is a leading energy player with four main operating companies, of which three are active in the UK, including the newest subsidiary RWE Renewables, which is one of the world's leading renewable energy companies and the second largest offshore wind developer in the world.

In the UK, RWE employ over 2,600 people and generate enough power for over 10 million homes, with a diverse portfolio of onshore and offshore wind, hydro, biomass and gas across England, Scotland, Wales and Ireland. For a broad picture of the scale of our projects in the UK and Ireland, please see our infographic [here](#).

RWE have made ambitious commitments to increase the generation of clean, reliable and affordable electricity. Alongside the ambition to be carbon neutral by 2040, we continue to invest heavily in wind power and other emerging technologies, such as hydrogen and floating offshore wind. RWE's planned gross growth capex spend 2020-2022 will be €8-9bn globally, of which around 30-35% will be in the UK, mostly on offshore wind, including Triton Knoll and Sofia. We have set our sights high, envisaging RWE will play a key role in developing the energy world of tomorrow and driving progress towards the UK's net-zero ambitions.

Our response

RWE welcomes the opportunity to respond to this consultation. Ofgem's RIIO-T2 Draft Determinations (DDs) have raised concerns across the industry regarding the potential impacts of these decisions on renewable generation businesses, including RWE. The introduction of a net zero re-opener is a positive step; however, we do have concerns over the design of uncertainty mechanisms as long, onerous processes can

RWE Generation UK plc Registered in England and Wales no. 03892782

Registered Office: Windmill Hill Business Park · Whitehill Way · Swindon · Wiltshire · SN5 6PB

RWE Renewables UK Limited: Registered in England and Wales no. 03758404

Registered Office: Greenwood House · Westwood Way · Westwood Business Park · Coventry · United Kingdom · CV4 8TT

seriously risk delays to vital infrastructure needed to support the huge investments planned into renewable generation in the coming years.

RWE is already seeing the impacts of the unsuitable Uncertainty Mechanisms in discussions with TO businesses who are not confident that dates in signed connection agreements/offers can be adhered to with the RIIO-T2 frameworks for funding set out in the DDs. For example, we are aware of National Grid Electricity Transmission initial analysis of the RIIO-T2 DD in which they fear that it could put at risk the Offshore Wind Sector Deal target to deploy 30GW of offshore wind by 2030 – rendering the government target of 40GW by 2030 likely unachievable unless the Final Determinations make RIIO-T2 fit to deliver the volumes needed for this. Approximately 8GW of offshore wind capacity, 40% of the 40GW needed to achieve 2030 target, is contingent on vital network reinforcements that Ofgem has not provided the necessary funding for pre-construction activities. This funding is necessary to allow these reinforcements to proceed with confidence and at a pace necessary to consent and deliver in time for 2030. Other mainstream renewable technologies will also be affected, as the reintroduction of onshore wind and solar into the Contracts for Difference (CfD) mechanism fundamentally requires grid infrastructure to be suitable for the delivery of contracted capacity.

We support the intention set out in Ofgem's Decarbonisation Action Plan to make network price controls flexible and adaptable to deliver the net zero ambition. The net zero re-opener should be utilised in addition to the baseline of RIIO-T2 being ambitious and forward-thinking. Decarbonisation at best value for the GB consumer will only be possible if Ofgem permit the investment required in the right timescales. National Grid ESO's Future Energy Scenarios (FES) 2020¹ show that renewable capacity could more than double by 2030 and will require at least 3 GW of wind to be built every year from now until 2050. The Committee on Climate Change highlighted in its Reducing UK Emissions Progress Report to Parliament² published in June 2020 that choices in the coming months must steer a recovery that drives vital new economic activity, accelerates our transition to Net Zero and strengthens our resilience to the impacts of climate change. At this stage there is little clarity on the design of the specific net zero re-opener and we encourage Ofgem not to over-rely on this instead of signalling commitment to net zero at best value to the consumer over periods longer than RIIO-T2 at the earliest opportunity.

¹ <https://www.nationalgrideso.com/future-energy/future-energy-scenarios>

² <https://www.theccc.org.uk/wp-content/uploads/2020/06/Reducing-UK-emissions-Progress-Report-to-Parliament-Committee-on-Climate-Change-002-1.pdf>

We recognise that there are three cost thresholds of investment projects referenced in the DDs. Low cost projects (sub-£25m), Medium Sized Investment Projects (£25-£100m), and Large Onshore Transmission Projects (greater than £100m):

Low cost projects (sub £25m)

Where projects in this category have been rejected from the TOs baseline, or where they are currently recommended in ESO's Network Options Assessment (NOA) we understand that the only reopener for TOs to seek funding for proceeding such projects is in 2024. It is critical to note that such projects form part of connection agreements as enabling works, and delays will ultimately compromise generators' ability to secure routes to market in a timely manner and will, at a minimum, delay those connections.

Medium Sized Investment Projects (£25-£100m) and Large Onshore Transmission Projects (greater than £100m)

Projects in these categories require more certainty from Ofgem on the ability of TOs to recover pre-construction costs because of their scale. We have similar concerns where projects form part of a signed connection agreement which would be impacted by delays if not being progressed in a timely manner.

The rejection of funding for works which are classed as Enabling Works in signed connection agreements is extremely concerning for the affected connecting parties. Funding for these projects has been pushed toward the operators' 'Uncertainty Mechanism' for which the current design and suggested timings could delay decision making up to 30 months, and longer if competition is pursued. This could have a negative impact on delivery of government targets and decarbonisation at best value to the GB consumer by damaging cost reduction and therefore competition.

Delays of up to 30 months are also incompatible with Ofgem's Decarbonisation Action Plan commitment to make network price controls flexible and adaptable to deliver the net zero ambition.

We note that under Strategic Wider Works arrangements TOs can apply at any time, while a decision could be reached within 6 months.

Pre-construction funding

RWE understands that the majority of revenue requested by TOs for pre-construction works has been disallowed by Ofgem, which we consider to be contradictory to how Uncertainty Mechanisms are intended to work. We would expect pre-construction

work to be a fundamental requirement for the TO if it is to provide the evidence and certainty that Ofgem will look for in order to approve a scheme.

40GW of offshore wind by 2030

The net zero re-opener signals a mechanism by which Ofgem would consider additional works to allow network companies to bring forward proposals for green investment. There is no read through on how this would relate to BEIS' Offshore Transmission Network Review³ or to ESO's strategic planning work via the Offshore Coordination Project⁴. Ofgem is also involved in this work via their joint open letter with BEIS⁵. All of these projects launched in 2020 and seek to enable the government target of 40GW by 2030, which as NGET's quote above states is under threat from the current RIIO-T2 DDs. With no TO responsible for offshore strategic wider works there seems no route for the RIIO-T2 net zero re-opener to apply offshore.

The RIIO-2 publications do allow some strategic wider works for onshore but there is no reference to the wider works needed for offshore projects (be that either the on or offshore requirements).

We encourage Ofgem to engage with these project teams and deliver processes within the scope of RIIO-T2 which link the need to deliver government targets for offshore wind into these business plans that cover the period 2021- 26.

Yours Faithfully,

(by email)

Nicola Percival
Senior Regulatory Affairs Manager
RWE Renewables

³ <https://www.gov.uk/government/publications/offshore-transmission-network-review/offshore-transmission-network-review-terms-of-reference>

⁴ <https://www.nationalgrideso.com/future-energy/projects/offshore-coordination-project>

⁵ <https://www.ofgem.gov.uk/publications-and-updates/increasing-level-coordination-offshore-electricity-infrastructure-beis-and-ofgem-open-letter-developers-offshore-wind-generation-electricity-transmission-licensees-and-other-interested-parties>