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14<sup>th</sup> June 2022

**Ref: Call for Input: Future of local energy institutions and governance**

Dear Victoria Low,

**About RWE**

RWE is a leading global energy player and is one of the world's leading renewable energy companies, with a 44GW global generating capacity and 20,000 employees worldwide.

RWE is one of the largest power producers in the UK, delivering around 15% of all electricity generated from a total capacity of 9.3GW. We are currently the third largest UK renewable generator with a diverse operational portfolio including onshore wind, offshore wind, hydro and biomass amounting to over 2.1GW. RWE operates the largest, most efficient CCGT fleet in the UK, with 7.2GW of capacity.

Going forward, RWE expects to invest around £15billion in new green technologies and infrastructure in the UK by 2030.

RWE has the second largest offshore wind pipeline in the UK with approximately 6.2GW of offshore capacity under construction or development. We are also aiming to become a market-leading floating wind player in strategic markets around the world and are actively investigating a number of floating wind opportunities in the UK including in the Celtic Sea.

RWE is at the forefront of developing and facilitating the hydrogen economy, and is currently involved in approximately 30 green hydrogen projects across the globe. In the UK, we are participating in the South Wales Industrial Cluster through the development of the Pembroke Net Zero Centre at our Pembroke Power Station site. RWE is therefore uniquely located to support Celtic Sea projects and explore the potential hydrogen opportunities that could follow.

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We welcome the consideration being given to ways in which the governance arrangements at a local level should best be designed to facilitate the cost-efficient transition to a net zero economy.

#### Functions of the future governance arrangements

We agree that these functions (energy system planning, market facilitation of flexible resources and real time operation of local energy networks) are essential to a cost-efficient transition to net-zero and hence are appropriate to focus on. However, we believe that a fourth area of focus is missing.

The document understandably places a great deal of emphasis on flexibility, and although it is essential that flexible sources of demand and generation are well-supported, it is essential too that optimal deployment of low-carbon energy production is also facilitated. We therefore propose 'maximising deployment and use of low-carbon energy' should be considered as a primary focus for the design of future local governance system.

Although offshore wind is likely to form the backbone of the energy mix of the future, smaller-scale technologies such as onshore wind and solar – which often connect at the distribution level – must also be exploited. This is an issue that spans DNOs as responsible for delivering and maintaining connections for new renewable generation sites, DSOs for ensuring maximum usage of the clean power, and Local Authorities who grant planning permission to new developments (and often rely upon such developments to support their own climate commitments).

The value of such a focus is not limited to renewable electricity production however, but could also support greater deployment of hydrogen electrolyzers. These occupy a unique space in the energy system, as producers of low-carbon gas, consumers of electricity, and future providers of electrical flexibility. Deployment of this key technology will be facilitated by greater coordination between LAs, GDNs, DNOs and DSOs, as well as water suppliers.

We believe that including 'maximising deployment and use of low-carbon energy' as a specific function of the local governance structure is essential to facilitating a cost-efficient transition to a net-zero economy.



### Criteria for assessing an appropriate governance structure

We support four out of the five proposed criteria for assessing institutional and governance arrangements (Accountability, Credibility, Competence, Coordination). In particular the recognition of need for coordination, such as between DSO and FSO processes, or between different DSOs, is particularly welcome. However, the requirement for “simplicity” stands out as potentially at odds with the other criteria. The energy sector is a complex environment, and we fear that in seeking to create “simplicity”, opportunities could be missed. For example, there are myriad forms of flexibility service that help to support grid stability. Where it is essential that a flexibility provider should be able to understand how to offer any relevant services, seeking simplicity could imply limiting the number or combinations of options for what could be provided, or how it is provided. Instead, we would support a principle of “transparency”, whereby sufficient information is provided in such a way that arrangements may be understood by those who seek to engage with them, rather than pursuing a principle which could risk excluding opportunities on the basis of their being complex or sophisticated. Indeed, some existing processes would benefit from greater levels of transparency - such as connection queues and management.

Transparency also allows actors to have greater confidence in one another. Currently there is little transparency around the level of progress that has been made by some institutions whose roles are evolving. For example, we are unclear as to the level of progress different DNOs have made in gaining necessary staff and skills to support real-time market design and operation. We would support an independent mapping exercise so core competences may be identified across the governance structure, and should gaps be found, plans to address these may be published.

### Benefits & Risks of change

We agree that there is risk of potential conflicts of interest within the current governance framework whereby DNO and DSO activities are carried out by a single entity. Such a risk was the primary justification for creation of the FSO, which we fully support. As with the FSO, this risk would be resolved by legal separation.

We note the risks identified by the DNOs of such a separation. However, without more information it is hard for us to assess the scale of each of these risks. Any degree of change will be accompanied by cost, and risk of disruption, but these need to be weighed up against the possible system benefit. We suggest that OFGEM should commission independent analysis to assess the full costs and the benefits of full legal separation of DNO and DSO activities.

The document makes mention of introduction of new internal governance changes that could help to remedy the risk of conflict of interest, but little detail is given as to what these internal changes would be. We propose that a low regrets option would be to



deliver separate licencing, systems and staffing of DNO and DSO activities. This represents a minimum standard of internal governance to reduce conflicts of interest, but will also facilitate a swifter move to full separation later if that is shown to be beneficial. Progress on this work should begin immediately.

I hope you find this response useful, and look forward to discussing these issues at future stakeholder engagement events.

Yours sincerely,

**Dr. Tom Steward**

Senior Regulatory Affairs Manager  
RWE Renewables