



RenewableUK
Chapter House, Chapter Street
London SW1P 4NP, United Kingdom

Tel: +44 (0)20 7901 3000

Web: www.RenewableUK.com
Email: info@RenewableUK.com

Email to: FutureNetworkRegulation@ofgem.gov.uk

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Open letter on future systems and network regulation

About RenewableUK

RenewableUK's members are building our future energy system, powered by clean electricity. We bring them together to deliver that future faster; a future which is better for industry, billpayers, and the environment. We support over 400 member companies to ensure increasing amounts of renewable electricity are deployed across the UK and to access export markets all over the world. Our members are business leaders, technology innovators, and expert thinkers from right across industry.

RenewableUK welcomes the opportunity to comment on the Ofgem's open letter on the future systems and network regulation. The renewables industry will play a key role in the delivery of net zero, and in particular this means higher volumes of low-carbon generation capacity. We therefore strongly support efforts to improve strategic network infrastructure development and the regulatory framework which will underpin this. Investment in both onshore and offshore grid is a key enabler for delivering both UK Government and Scottish Government 2030 offshore wind targets.

We believe Ofgem would benefit from a change to its legal remit to formally include net zero. We propose that Ofgem's primary duty be reformed to include net zero as part of its principal duty – to protect current and future consumers whilst supporting an economically efficient transition to net zero. At present, all the governments of the UK have net zero targets. However, the regulator of the energy sector does not, while it is acknowledged that it will do much of the heavy lifting to deliver net zero. This mismatch of objectives cannot help but hinder a cost effective and timely transition to net zero overall. Ofgem's remit is foundational to enabling the regulator to support network companies to deliver the necessary level of anticipatory investment needed to meet net zero. This change to Ofgem's legal duties will better enable Ofgem to make long-term strategic decisions regarding the delivery of net zero and allow Ofgem to weigh net zero in their decision-making.

Focus on minimising cost to consumers will be important, but not to the extent where it endangers net zero. The future network regulatory framework will need to provide more space for anticipatory investment and a common understanding that during the next price control the risk of stranded assets is low. We believe there is need to update the regulatory

framework to consider strategic anticipatory investment in line with renewables roll out. Although there is a cost associated with delivering assets slightly ahead of need, there is also significant cost to delivery when they are late. The current grid development process set timelines on a P50 basis, which is too risk averse. An updated framework needs to deliver net zero at the best value for customers, with a process that shares the risk with all market participants.

Uncertainty in the supply chain is a fundamental risk to the delivery of network infrastructure at scale in the coming years. To meet the demand for resources and manufacturing that the unprecedented level of investment in infrastructure presents, requires the supply chain to extend their capacity by developing new markets to opening new factories and establishing new mines. The supply chain will need to be supported to allow delivery of the Holistic Network Design. It will be important to design a price control approach that supports accelerated network build post 2026 and gives TOs and DNOs upfront certainty to begin engagement with supply chains early to ensure they deliver the investment and infrastructure on time.

The future energy system needs to become smarter and more flexible, but it also needs to deliver the infrastructure required for the increasing pace of transformational change. We agree with Ofgem about the need for whole-system optimisation and believe that an updated network price control is necessary. The growing proportion of investment activity requires decisions to be made in a faster and more coordinated manner.

Decarbonised technologies that will be used in the coming years will operate across the traditional regulatory and operational boundaries that exist today, as well as with other parts of the energy market (and indeed other utilities). The next price control framework should enable the role of distribution companies in the context of a whole system approach to the design, investment in and operation of the energy system.

As for the alternative options proposed in the open letter – we believe more information is required to provide a meaningful comment and assessment, although we welcome Ofgem’s consideration of alternatives at this early stage in the process. In updating the current RIIO regulatory framework we believe it is important to place a stronger focus on:

- Minimising constraints and strategic anticipatory investment ahead of need
- Speedier and more coordinated process that delivers net zero at best value to consumers
- Framework which allows TOs/DNOs to provide upfront certainty to their supply chain so that projects could be delivered on time
- A whole system approach to the design, investment and operation of the energy system across the traditional role of transmission and distribution networks

We would welcome the opportunity to discuss further with Ofgem or other interested stakeholders any of the comments raised in this letter. If this is of interest, please do not hesitate to get in touch.



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Web: www.RenewableUK.com
Email: info@RenewableUK.com

Yours Sincerely

Yonna Vitanova

Senior Policy Analyst

Email: Yonna.Vitanova@RenewableUK.com

Tel: 020 7901 3000