



Lauren Jauss  
Market Development Manager  
RWE Supply & Trading GmbH  
Whitehill Way, Swindon SN5 6PB  
Tel: +44 7825 995497  
[lauren.jauss@rwe.com](mailto:lauren.jauss@rwe.com)

31 October 2022

Akshay Kaul

Interim Director of Infrastructure and Security of Supply, Ofgem  
10 South Colonnade, Canary Wharf, London E14 EPU  
[FutureNetworkRegulation@Ofgem.gov.uk](mailto:FutureNetworkRegulation@Ofgem.gov.uk)

**RWE's Response to Ofgem's Open Letter on the next network price control review process**

Dear Akshay,

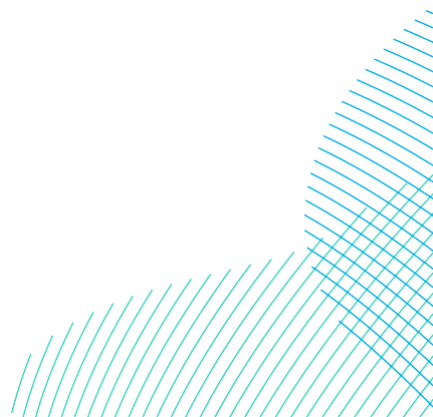
RWE welcomes the opportunity to respond to Ofgem's Open letter on the next network price control review process published on 29 September 2022. I am responding on behalf of RWE Supply & Trading GmbH, RWE Generation UK plc and RWE Renewables GmbH.

Our response can be found in Annex 1 below.

Yours sincerely,

*By email*

Lauren Jauss, Market Development Manager



## Annex 1

### RWE's Response to Ofgem's Open Letter on the next network price control review process

#### **1. Do you have any views on the strategic issues we will face in the development of the next price control review process?**

We think that the price control process is a critical building block to achieve Net Zero because it sets the incentives and time horizon for focussing on its delivery. We agree the process needs to address the challenges of planning a whole system outcome. However, the next price control period is likely to require a strategic transformation of the gas and hydrogen system and major changes in the way the electricity distribution networks are planned and operated in conjunction with the Transmission Network.

There are many major decisions to be made which will not be known for several years. For example, it is not clear to what extent electricity distribution networks could and should manage local system constraints in real time to speed up connections and optimise network usage. We also think it will be very difficult to design the next price control framework whilst it is not clear to what degree gas and hydrogen operation, regulation and commercial arrangements will be combined, both legally and technically or in practice. We think that the next price control framework needs to be able to accommodate a possible requirement to separate not just planning but also ownership and operation of the gas and/or hydrogen network(s).

#### **2. Do you have any views on the case for change we have outlined?**

We are very concerned that the electricity Network Options Assessment process still appears to be designed to deliver an outcome which in practice appears to be resulting in minimum electricity network build that does not deliver anticipatory investment. We think this approach needs to be amended so that it is much less conservative and focuses on "least worst regrets" for achieving an economically efficient net zero. The next price control period needs to include a stronger focus and consideration on measures to reduce total system cost of constraints – both through traditional infrastructure investment and "non-build" solutions. It is clear that the current methodology used by the ESO to assess which infrastructure projects should go ahead is not keeping pace with deployment of renewable generation. To this end, we believe greater ex-post monitoring of timely delivery of transmission infrastructure projects, with appropriate use of penalties for late delivery would also be of value. We think this conservative network build approach and short term time horizon set out in the price control framework is one of the root causes for the high volume of constraints we now see on the electricity transmission network, and getting this right could be a much more effective, low cost, easier and faster solution to implement than locational marginal pricing for instance.

A focus on minimising cost is obviously important, but not to the point where it endangers or delays Net Zero. The price control process needs to accommodate anticipatory investment in the electricity network with an understanding that during the next period, the risk of stranded assets

is low. Whilst there is a network cost associated with delivering assets slightly ahead of when they are needed, there is also a significant cost to network users and consumers delivering them late.

3. **Do you have views on whether the changes to the electricity or gas sectors mean we should consider alternatives to the approach taken in the RIIO-2 price control?**

It is critical that the network companies and FSO are correctly incentivised in order to deliver Net Zero. We think the features of the next price control process should include a less conservative planning approach and longer term goals in order to extend the network companies' planning horizons. For example, it may be appropriate to have some long term targets or performance indicators.

It is clear that in practice the period during the next price control will be very different to this one. There will need to be amendments to the price control process, but we are not yet sure how it should be amended and to what degree. We do think this needs careful consideration, with strong stakeholder engagement and sufficient time for consideration and comment, including events to coincide with consultations.

