Via email: FWP@Ofgem.gov.uk

Email : Tom.Steward@RWE.com

2nd February 2023

Ref: Consultation on Ofgem's draft Forward Work Programme for 2023/24

Dear Forward Work Programme Team,

RWE is a leading global energy player, with a 38 GW global generating capacity worldwide, and a clear target: to get to net zero by 2040. With its new strategy 'Growing Green' (announced in November 2021) RWE expects to invest €50 billion gross in its core business globally - an average of €5 billion gross each year for offshore and onshore wind, solar, batteries, flexible generation and hydrogen.

In the UK, RWE is one of the largest power producers, accounting for around 15% of all electricity generated, across a portfolio of onshore wind, offshore wind, hydro, biomass and gas, amounting to over 10 GW pro rata[1] (12 GW installed capacity) - enough to power over 10 million UK homes.

RWE is also one of the largest renewables generators in the UK, with a combined installed capacity of over 2.79 GW (pro rata) (4.8 GW installed capacity.) across our onshore wind, offshore wind, hydro and biomass assets. In addition to its growing renewables portfolio, RWE operates around 7GW of modern and efficient gas-fired capacity in the UK, making us one of the largest providers of firm flexible generation, which is crucial for security of supply.

Overall, and including its committed investments in projects already under construction, RWE expects to invest up to £15 billion in new green technologies and infrastructure in the UK by 2030.

Thank you for the opportunity to respond to OFGEM's forward work programme – we believe this is a useful process allowing industry to input into OFGEM's priorities over the coming 12 months.

[1] Pro-rata – based on equity share

Summary

- RWE strongly support activities to speed up connections and necessary expansion of the electricity grid. However, we believe further work to establish the efficacy of current grid development process is essential.

- We have concerns regarding the current levels of resourcing within some parts of OFGEM, and believe that these must be expanded in order to support a cost-efficient transition to net-zero, for example with regard to network charging reform.

- We are supportive of activity on development of the FSO and RO ringfencing, however we believe activity around code governance reform could be focussed more closely on "low-hanging fruit".

In order to avoid commenting on every single aspect of the work program, we have divided our response into themes.

Electricity Grids

We strongly support measures to speed up connections for new generators – the excessive timelines for connecting new plant create a significant barrier to the timely delivery of a number of targets – notable 50GW offshore wind by 2030, and a zero-carbon electricity system by 2035.

We agree too, that increased strategic investment in the electricity network is absolutely central to delivery of a timely and cost-efficient transition to Net Zero, and agree with the recent proposal to extend AI policy to the Pathways to 2030 workstream, as opposed to introducing a new AI policy in this space. However, we note the absence from the work program of any review of the processes relating to grid development, which we believe should be a natural progression from the Electricity Transmission Network Planning Review.

By way of explanation – under the current process, ESO gives its support for particular grid expansion projects in the NOA based on a cost-benefit assessment between forecast cost of constraints and cost of the grid reinforcement. However, to the best of our knowledge, no exercise has been carried out to assess the accuracy of these decisions – it is not clear if different decisions had been made regarding grid expansion, if this would have had more economically efficient outcomes. This means it is not possible to assess if the current level of constraints is efficient, or inefficiently high or low. Appropriate grid development is a crucial requirement of reform of locational signals (be they through network charging or the wholesale market).

The arguments for Locational Marginal Pricing (LMP) are heavily reliant upon underinvestment in the electricity grid. Transmission cost signals, if cost reflective, provide the most cost efficient means to reaching net zero. LMP is a constraint cost

signal and is therefore only stronger when transmission build is slower than the economic optimum.

Alongside commitments to examine the role of locational charging within wholesale markets, it is essential too, that the incremental improvements to TNUoS are able to continue. The *suggested* case for LMP as the most cost-efficient means to reaching net zero has yet to be proven. It is important that consideration of LMP does not lead to a hiatus on progress on TNUoS reform. The proposed reforms to TNUoS must form the foundation of an appropriate counterfactual to assessing the costs and benefits to implementation of locational marginal pricing.

Resourcing

A number of areas within OFGEM appear, from an external perspective, to be struggling with insufficient resourcing at present. Most notable, the TNUoS taskforce has been put on hold due to insufficient resources. Code modification decisions are also often very lengthy, for example the typical timescale for approval / rejection of a non-urgent UNC modification is currently in the order of 9-12 months. Without the resource to engage with the large programs of potentially fundamental change in the industry, and significant time taken to enact incremental change, we fear a lack of resource within OFGEM is slowing innovation. We would welcome in the work program actions either to grow resource or target existing resource more efficiently.

Code governance reform

We believe seeking quick wins in code governance reform, that avoid significant disruption, could be beneficial. We strongly support activities to make the codes fit for net zero. However, we believe many of the goals of the code governance workstream could be achieved through a much smaller package of work.

For example, including a net zero objective in all codes would be swift to implement and allow OFGEM to more easily assess the impact of code modifications on the path to 2050 (particularly in light of the anticipated introduction of the SPS). This could be accompanied by a requirement for code bodies to proactively identify opportunities to align codes more closely with delivery of Net Zero. Mandating improved standards for code bodies, and requiring greater cross-code coordination by progressing cross-code modifications together (as occurred under the TCR) could form a faster and more effective alternative to code consolidation. Code consolidation is likely to require significant resource to deliver. Timing of any consolidation of codes is also critical. - The outcomes of REMA could necessitate route-and-branch reforms to the content of the codes, so it is not clear that the optimum form of consolidation will be the same post-REMA as pre-REMA.

Resilience

We support OFGEM's focus on ensuring the resilience of actors within the energy system, however propose that reforms to data collection could help to alleviate resource constraints both for OFGEM, and for licensees. We propose that where generators have demonstrated a high level of financial resilience, that a lighter-touch

approach to monitoring could be taken until such point that OFGEM begins to have cause for concern.

We support the ringfencing of suppliers' RO payments to prevent suppliers using them as a source of working capital, and welcome the introduction of this from April 2023.

We fully agree with the need to ensure that "GB remains a competitive destination for gas… to keep downward pressure on costs for consumers". We believe that the summer 2022 restrictions put in place at Milford Haven were sub-optimal and in future a thorough and transparent impact assessment would ensure future arrangements lead to optimum costs for consumers.

Future System Operator
We welcome further activity on the development of the Future System Operator. We believe that an important part of the transition would be a thorough resource assessment of the ESO to identify gaps in capability and ensure they can be adequately addressed ahead of the transition taking place. For example, OFGEM's ESO Business Plan 2 Draft Determinations reported on the IT capabilities of the ESO and raised significant concerns regarding high-cost spending, lack of substantive investment plans, and poor-quality risk management practices. We believe IT capability will be a key part of the design, implementation, operations and development of the FSO's core activities.

Strategy and Policy Statement
We anticipate that the Government's updated Strategy and Policy Statement is due to be published in the coming months, and that it might require a review of Ofgem's current workstreams to ensure they are in line with its direction. However, we note that no such activity is mentioned in the Forward Work Programme. It would be beneficial to understand how OFGEM will be considering its activities in light of the SPS when published.

I hope you find this response useful, if you have any questions or would like to discuss any of our response further, please do not hesitate to contact me.

Yours sincerely,

Dr Tom Steward

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RWE