



To: Thomas Johns, Head of Onshore Competition, Ofgem  
By email: [Onshorecompetitionteam@ofgem.gov.uk](mailto:Onshorecompetitionteam@ofgem.gov.uk)

20<sup>th</sup> March 2024

Dear Thomas Johns,

## **Consultation on policy updates to Early Competition in onshore electricity transmission networks – RWE response**

### **About RWE**

RWE is the largest power producer in the UK, and a leading renewable generator supplying around 15% of UK electricity with a diverse operational portfolio of onshore wind, offshore wind, hydro, biomass, and gas, amounting to over 10 GW pro rata - enough to power over 14 million UK homes.

Overall, and including its committed investments in projects already under construction, RWE is maintaining the pace of its investments in the UK, with ambitions to invest €8 billion net between 2024 and 2030. This includes nine new offshore wind farms with a combined potential installed capacity of c.11GW, c.2GW of onshore wind and 4.5GW of solar. Complementing our renewables pipeline, we have more than 4GW of battery storage under development, and we are in the early stages of developing three gas carbon capture and storage (CCS) projects across the UK, totalling up to 4.5GW.

At our recent Capital Markets Day, we confirmed that we will be maintaining the pace of our investment into the UK, with over £1 billion net on average set to be invested by RWE for every year between 2024 and 2030. This was followed in December by our acquisition of Vattenfall's Norfolk Offshore Wind Zone portfolio, comprising the Norfolk Vanguard West, Norfolk Vanguard East and Norfolk Boreas projects, adding 4.2GW of offshore wind to our project pipeline. All three Norfolk projects are expected to be commissioned in this decade, helping to meet the Government's 50GW target for offshore wind by 2030. We directly employ over 3,000 people across the UK and our planned investments will continue to create green jobs and develop green skills throughout the country.

RWE welcomes the opportunity to respond to this consultation. It is essential that the early competition model for onshore network development learns lessons from the shortcomings of the Offshore Transmission Operator (OFTO) regime, which is now in need of fundamental reforms. RWE responded to DESNZ's recent call for evidence on the OFTO regime, and a copy of our response was shared with the OFTO team at Ofgem.

### **Entry requirements for the Competitively Appointed Transmission Operator (CATO) regime**

CATOs will be delivering infrastructure of national importance, fundamental to the energy security of the country. It is essential therefore that the companies that are awarded CATO contracts have both:

- i) The expertise, capacity, and necessary capital to deliver the construction of a robust asset

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ii) The ability – both technically and financially - to operate and maintain the asset over the long term to the same Good Industry Practice standards as the incumbent TOs.

The OFTO regime is dominated by companies which are thinly capitalised special purpose vehicles; which can be therefore either slow to effect a repair in the event of an outage, or in extreme cases entirely unable to meet the costs of cable repairs – leaving the generator either partially or entirely unable to export power. In the case of OFTO assets, this has significant negative implications for the generator which is connected to the OFTO asset, however the wider system impacts are limited. In the event that a CATO was unable to fund the repairs to a critical piece of infrastructure e.g. a 2GW HVDC cable, this could lead to significant reductions in system security, or in extremis, to system outage. We therefore believe that a feature of the CATO regime must be rigorous financial viability, and extensive evidence of relevant expertise and capacity to deliver. To ensure the ongoing viability of the CATO, such tests should take place ahead of the bidding process, and be revisited throughout the operating life of the asset.

### **CATO of last resort**

RWE agrees that successful bidders must have intervention plans to address any performance issues and financial concerns. We are concerned that Ofgem are minded to make the CATO of last resort (CATO OLR) process competitive “where [Ofgem] consider that it is in the interest of consumers to do so”.

Competitive processes take time and money to run, and if an existing CATO is not fulfilling its obligations and requirements, then a replacement must be appointed urgently to ensure that the inevitable system impacts are resolved as quickly as possible. Depending on the network assets in question, the impact could range from the delayed connection of a generator, to significant reductions in system security, or a rapid increase in constraint costs.

### **CATO lifetime and end-of-life processes**

The National Grid ESO early competition implementation update assumes a fixed-term revenue period of 35 years for CATO assets. This could lead to the possibility that crucial pieces of transmission infrastructure are built to a standard where they are only designed and maintained to last for 35 years.

We urge Ofgem to consider now what would happen at the end of the fixed-term revenue period. In particular, if the licence will be issued also for a period of 35 years, or in perpetuity. If Towards the end of the tendered revenue period, there is little commercial incentive for the CATO to maintain the assets in a way that would render it fit for the long term – just as is the case for OFTOs today. This must be considered in the planning for the end-of-life process. Assuming the asset is not decommissioned, whichever entity takes ownership/operation of the asset after the tendered revenue period ends must have sufficient certainty that it will be able to make a proportionate return on the asset.

Regarding decommissioning of CATO assets, there must be a provision built into the CATO bid price so that money is available to fulfil any decommissioning requirements. The specifics regarding which assets should be decommissioned or maintained at the end of the tendered period are unlikely to be known at the outset, but the governance around how this decisions is arrived at, and any financial implications, must be clearly set out.

At present, the end-of-life processes for OFTOs are not clear or well-developed, which is leading to significant uncertainty for generators and incumbent OFTOs – we would urge Ofgem to ensure that a similar situation does not occur for the future CATO regime.

### **Cost recovery for CATO Assets**

Recovering CATO revenues through TNUoS is logical, however the treatment of CATO assets in TNUoS charging needs careful consideration. Notwithstanding the above concerns regarding allowing thinly-capitalised organisations to operate infrastructure critical to the energy security of Great Britain, if this is to go ahead then ensuring ongoing financial viability of these companies by allowing them to recover their entire annual revenue requirement, irrespective of overall under or over-recovery in TNUoS, is justifiable. However, it would not be appropriate to achieve this by the same means as under the OFTO regime – to do so would result in radically different treatment of CATO assets in charging compared to their TO-owned counterparts. This would likely create a secondary locational signal that would distort the signal achieved through the wider TNUoS charge.

At present, the vast majority of the annuitized cost of an OFTO asset is collected through the local Offshore TNUoS charges from the specific offshore generator that is connected to the asset. Local onshore charges are calculated very differently – set out below.

**Offshore local charges:** Offshore generators pay the majority of the cost of OFTO assets, and these are levied through their offshore local charges. These charges are set in reference to the value of the OFTO's Tendered Revenue Stream (TRS) and designed to recover the total cost of the asset over the lifetime of the TRS with adjustments made for changes in business rates, Income Adjustment Events, Exceptional Events etc. The connecting offshore generator is almost entirely responsible for meeting the costs of the OFTO asset to which they are connected. In short - the offshore generator, as the sole user of the asset, faces charges which are directly related to the construction cost of that specific asset.

**Onshore local charges:** Onshore local circuits are those which transport power from a generator to the Main Integrated Transmission System. The costs assigned to these assets is not linked to the actual cost of their development, but to the value assigned to the relevant asset type (400kV overhead line, 275kV underground cable etc) by the TNUoS charging methodology, set out in the CUSC. These are based on a historical average construction cost of that type of asset. Onshore local circuits can be used by multiple generators, each facing the same cost signal. In short - the generator, who may be a sole user, or share the asset with other generators, faces charges which are based on an average historical construction cost, which is not directly related to the construction cost of the asset in question.

If CATO assets were to be charged on the same basis as OFTO assets – with charges relating to the specific costs of the asset (even though a CATO asset could be identical to a TO asset in every way other than ownership), this would create an uneven playing field whereby CATO assets which cost more to construct than the historical average in the TNUoS model could drive generators away from a location, and where CATO assets were less expensive than the historical average in the TNUoS model could create an incentive for generators to locate there.

A straightforward solution to this issue is to charge network users for use of CATO assets on the same basis as traditional TO assets (set out in the CUSC), and any under/over recovery against the tendered revenue stream can be levied through the demand residual. For CATO assets with costs above the historical average, this would increase the demand residual. For

assets with a cost below the historical average, this would mean the demand residual was reduced. The competitive pressure in the initial bidding process would help to ensure that end consumers received good value for money.

In addition, we do not believe that it would be appropriate for CATOs to be able to make use of Income Adjustment Events as OFTOs do, as CATOs will be fully responsible for design and construction of their own assets.

### **Alignment between CATO regime and the CSNP**

Whilst we believe it is logical that the CSNP and CATO regimes should be aligned, we are unclear how this will be delivered in practice in the immediate term, given the first full CSNP is expected in 2026, but the first CATO auction is intended to take place during 2024. We would welcome clarity on this point.

We hope you find this response helpful. If you have any questions or comments, please do not hesitate to contact us.

Yours Sincerely,

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