

August 2024



By Email: riioelectricitytransmission@ofgem.gov.uk

Office of Gas and Electricity Markets
10 South Colonnade, Canary Wharf
London E14 4PU
30th August 2024

Dear Jon Sharvill,

Re: Consultation on the proposed regulatory funding and approval framework for onshore tCSNP2 projects

About RWE

RWE is the leading power generator in the UK, with a diverse operational portfolio of onshore wind, offshore wind, hydro, biomass and gas. We produce enough energy to power the equivalent of around 12 million UK homes.

RWE intends to maintain the pace of investment with the ambition to invest around €8 billion net in the years 2024 to 2030 in developing clean energy projects in the UK to support the energy transition, creating high quality jobs across the length and breadth of the country. We have ambitious plans to expand our UK footprint even further, with over 17GW of renewables at various stages of development. This includes ten new offshore wind farms totalling over 11GW, c.2GW of onshore wind and 4.4GW of solar. Complementing our renewables pipeline, we have over 3.7GW of battery storage under development, and we are in the early stages of developing four gas carbon capture and storage (CCS) projects across the UK, totalling up to 4.6GW. In addition, RWE is developing ~500GWe green hydrogen opportunities across the UK.

We directly employ over 3,100 people across the UK and our planned investment will continue to create green jobs, developing green skills up and down the country.

RWE welcomes the opportunity to respond to this consultation on a proposed regulatory funding and approval framework for onshore transitional centralised strategic network plan 2 (tCSNP2) projects.

The electricity grid in Great Britain requires both upgrading and expanding in order to facilitate the Government's ambitious targets of clean power by 2030, and net zero by 2050. As a renewable energy developer which requires timely access to the grid, we fully support bringing forward funding for onshore electricity transmission projects. Allowing TOs to start planning as early as possible is helpful, as it can inform whole-system planning, and provide clear signals to the supply chain. We support a uniform and transparent approach to earliest in-service dates (EISD) and early delivery of projects.

RWE acknowledges that there is uncertainty about exactly how the energy system and electricity grid will develop over the years, and that as the energy regulator, Ofgem must be mindful of upfront costs; however, Ofgem's role as an economic regulator means that this must be balanced against the *long-term* economic benefits to the electricity system as whole. Ofgem has shown positive commitment to this balance in in other areas, for instance the development of anticipatory investment for major grid infrastructure.

With this in mind, while there is a degree of uncertainty surrounding the Clean Power Plan¹ (CPP2030), we do not consider it a reason to materially delay any progress.

We are concerned that Ofgem's ask for a 'refreshed tCSNP2' in early 2026 implies a significant degree of re-working of the existing proposals. If works are shown to be critical for delivery of CPP2030, we are keen to understand how waiting until early 2026 to receive sign-off is consistent with ensuring timely delivery of crucial network infrastructure, and we seek clarity regarding the risks of delay. To delay links which are highly likely to be necessary (irrespective of the market framework) is entirely unjustifiable.

On a similar note, waiting for the outcome of the review of electricity market arrangements (REMA) to conclude (on the basis it could lead to lower constraint costs) is unacceptable and completely inconsistent with anticipatory investment. We do not consider that *all* links in the tCSNP could be rendered financially inefficient by the introduction of zonal markets. Ultimately, the right thing to do is to build more grid - to delay crucial investment decisions on the basis of possible policy change (which may yet not come to pass) creates significant additional delivery risk.

To summarise, there are numerous different ways in which the regulatory landscape could change over the lifetime of network projects, therefore altering the CBA; waiting for them to happen would only serve to guarantee we continue to deliver network too late.

Regarding resourcing for the tCSNP: considerable work is undertaken to develop the network recommendations. Ofgem and DESNZ have commissioned the new National Energy System Operator (NESO) to produce not just the CSNP, but also the CPP2030 and Strategic Spatial Energy Plan (SSEP) – even with the addition of new members of staff, this is a lot of extra work for the new organisation.

Ofgem's proposal for NESO to publish a refreshed tCSNP in just six months (between June 2025 and January 2026) is an ambitious timeframe to recalibrate additional proposals with existing ones. Furthermore, if the refreshed tCSNP is delayed, its publication date would end up very close to the full CSNP, which is also expected in 2026. It is unclear how the two plans will avoid duplication and confusion if published close together; Ofgem should consider if this refresh has value, and ensure that TOs have clarity before the full CSNP is published in 2026. The path forward should avoid layered regulation that industry must navigate and provide a clear pathways for TOs so they can progress grid developments as smoothly as possible.

Responses to the consultation questions are detailed below. If you have any questions or comments, please do not hesitate to contact us.

Kind Regards,

Daniel de Wijze

Regulatory Affairs Manager

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Provisional assessment of the ESO's tCSNP2 recommendations

Q1. Do you agree with our assessment of the tCSNP2 and the risks that we have identified?

¹ We also note that an update publication is expected by the end of August 2024.

As mentioned above, Ofgem is mindful about upfront costs; however, this must be balanced against the long-term benefits to the electricity system as whole. There is urgent need to accelerate grid development and avoid delaying new low carbon energy projects.

In the consultation document, Ofgem acknowledges that:

“[the] framework is highly likely to be needed irrespective of a 2030 decarbonisation target... there is no reason to delay that work until the updated network plan is available.”

This stands in direct contrast to other comments in the consultation document (paragraphs 3.14-3.17) regarding the risk that assumptions in the FES do not materialise (and the uncertainty posed by the CPP2030) as well as the need for a tCSNP2 refresh in early 2026. We have significant concerns relating to Ofgem’s comments in relation to the FES scenarios assumed deployment of offshore wind in 2035:

- The role of the FES as the foundation for network planning is well established – indeed, Ofgem recently reconfirmed that role in its consultations on the development of the CSNP. The move to energy ‘pathways’ instead of forecasts implies a greater level of similarity of options, particularly in the short/medium term. Any concerns about impact on reliability of outputs was presumably foreseen and considered justifiable.
- Ofgem has indicated it will be taking a more anticipatory approach to investments. Anticipatory investment by its nature implies accepting a higher degree of uncertainty of future generation mix in order to ensure network is delivered in a timely fashion. Rejecting modelling on the basis that it fails to consider a reduced level of generation build, but does not also sufficiently consider greater levels of generation build, implies that Ofgem continues to have an imbalanced view of risk of stranded assets vs. risk of delayed deployment of zero carbon generation. We would welcome clarity on how this approach is considered consistent with the below extract from the Strategy and Policy Statement (page 18):

*“In undertaking its statutory duty to protect consumers, Ofgem should **consider the cost to consumers of delays to infrastructure delivery and the impact of disruption by multiple increases in network capacity over time**, as opposed to a single significant strategic upgrade”*

We have concerns that retesting against FES24 merely continues the repeated annual revisiting of evidence cases for network investments. A perpetuation of the stop-start cycle of investments that has led to the significant network delays the country is facing today would result in no improvements whatsoever. In addition, it is inconsistent with recommendation SS4 in the Winsor Review:

“Projects identified in the shorter-term Centralised Strategic Network Plan (CSNP) should become the baseline and the need for them should not be revisited in the next shorter-term CSNP”

We urge Ofgem to publicly adopt the Winsor Review recommendation above to provide much-needed clarity and certainty. This is entirely in-keeping with Ofgem’s previous assertions that anticipatory investment is good for billpayers.

Proposed regulatory framework

Q2. Do you agree with our proposals for the “Development track”?

Q3. Do you agree with our proposals for the “Delivery track”?

Q4. Do you agree with our proposals for the “Small / Medium Sized Project Delivery track”?

Ofgem's decision to grant early construction funding (ECF) is very welcome in enabling projects to undertake a wide range of construction activities, including strategic land acquisition, early supply chain commitment and early enabling works. RWE welcomes the outlined multi-track approach for administering ECF based on the maturity of the project. The flexibility to spend the initial development funding (IDF) across a portfolio of projects is also a welcome feature.

Our other comments on the proposed regulatory framework are:

- Joint ventures: allowances made for JVs must be revised to be reflective of the actual split relative to each TO (not just an assumption of an equal 50/50 split).
- RWE supports the aim to keep regulatory approval off the critical path for network development. Whilst we acknowledge the uncertainty that comes from assessing project that are early in the development pipeline, we would like to understand how Ofgem's considerations meet the requirements of the SSEP to support anticipatory investment.
- Funding gap: we welcome the push to progress projects to June 2025. However, Ofgem should ensure that there is no funding gap for projects on the Development track between June 2024 and the next tCSNP/CSNP in 2026. Although the IDF can be shared between different projects, those that have reached delivery track level (maturity level 3 or above) will not be able to access pre-construction funding (PCF) until at least six months later. In addition, there is no information given around the circumstances if a project reaches maturity level 3 significantly earlier than the June 2025 date.
- Regarding the Delivery track, there is uncertainty around the progression of these projects beyond the tCSNP2 refresh (early 2026). While there is reference to Output Delivery Incentives (ODIs) being set within RIIO-T3, it is unclear how the two funding streams will be streamlined and what this will mean for the projects.

Application of proposed regulatory framework to tCSNP2 projects

Q5. Do you agree with our categorisation of tCSNP2 projects?

Q6. Do you agree with our proposed approach for the tCSNP2 asset classification projects?

Yes, we agree with Ofgem's categorisation of tCSNP2 projects.

Identifying suitable projects for early competition

Q7. Do you agree with our approach to identifying a project for early competition?

Q8. Do you agree with our approach to identifying a first project for early competition?

We understand that Ofgem is keen to introduce competition into onshore transmission, with the legal framework to allow this included in the Energy Act (2023). However, we would caution that as CATOs will be delivering infrastructure of national importance which is fundamental to the energy security of the country, it is essential that successful bidders have both:

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

It is important to draw on the parallels between the CATO regime and the already established OFTO regime, which introduced competition into the offshore transmission space in the

2010s and which has changed very little since. OFTOs which have emerged as key players in the OFTO regime are thinly capitalised special purpose vehicles (SPVs) companies. The OFTO regime rules and licence have elicited incentives for these companies which mean they are often 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 financial implications for the generator which is connected to the OFTO asset, however the wider system impacts are limited. If the rules do not require CATOs to deliver and operate network assets to the same standards as the incumbent TOs, this risks creating a non-level playing field for onshore transmission owners as well as an unintended locational signal – driving developers away from CATO-backed areas of the network.

Other points regarding CATOs:

- 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 a 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.
- Compared to potential CATOs, incumbent TOs can take advantage of economies of scale to save on delivery times and costs. As well as the time and resources needed for Ofgem to run the CATO auction process, there is the risk that process inefficiencies as well as the required interfaces with incumbent TOs could cause delays. For competition to be successful, there needs to be a clear pipeline of projects for learnings and efficiencies to be built on as opposed to isolated and iterative decisions on eligible projects.
- Ofgem has stated that incumbent TOs are eligible to bid into the CATO process, however, their parent companies would need to ringfence a business and create a SPV. TOs are normally funded via the RIIO framework, but the ringfencing process would prevent this for CATOs, creating a barrier to entry. Alternatively, if costs are permitted as part of RIIO funding, the high cost of setting up a separate entity, which has not been included in the CBA, will fall to the consumer.
- Similarly, if the incumbent TO is required to recover a project in the case of CATO failure via a TO-of-last-resort approach, the cost of doing so is not included in the CBA determining the perceived benefits of competition.
- In moving towards a more coordinated grid system which (for example, the introduction of a network-wide approach for calculating EISDs), the decision to fragment the network's delivery seems counterintuitive.
- Finally, whilst we believe 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 at the end of 2024 or early 2025 with the first CATOs being deployed in 2026. We would welcome clarity on this point.

Ofgem's expectations of the TOs and the ESO

Q9. Do you agree with our expectations for the TOs and ESO?

Yes, we agree with the expectations as set out by Ofgem. As mentioned in our general comments, Ofgem must not underestimate the time and resources required for design and development work, and ESO and TOs must be appropriately funded and supported.

August 2024



Scope change governance

Q10. Do you agree with our proposals to introduce a scope change governance process for onshore transmission projects?

We agree with these proposals, no further comments.