



*Promoting choice and value for
all gas and electricity customers*

Date: 23 April 2012

Dear colleague

Implementing competition in onshore electricity transmission: update

The next electricity transmission price control, commencing in April 2013, will be the first to reflect the new RIIO (revenue = incentives + innovation + outputs) model of regulation. As part of the RIIO strategy, we stated we would develop a framework to enable third parties to build, own and operate parts of the onshore electricity transmission system. This framework would provide the option to use competition where we felt that consumers would benefit from potential third party involvement in the construction and operation of new onshore electricity transmission assets.

In our consultations in March¹ and December 2011², we set out why we consider electricity transmission to be the priority area in which to develop that greater third party role, and sought stakeholder views on our initial thoughts about how the regime might operate. We were encouraged by the expressions of support for our approach from a large number of stakeholders. We acknowledge that there were requests for more information about the potential benefits of a competitive approach in onshore electricity transmission and how our preferred model compares to other options for introducing competition.

We remain committed to introducing a greater role for third parties in onshore electricity transmission as part of the RIIO model. We recognise the importance of ensuring that the framework chosen has the potential to bring benefits to consumers and therefore wish to build in more time to examine these potential benefits further as part of the timeline for implementing the framework for competition in onshore transmission. At the same time, other areas, such as the development of enduring arrangements for offshore electricity transmission, may influence the development of our policy for competition in onshore electricity transmission.

Taking further time to consider these issues means that the framework to introduce competition in onshore electricity transmission would be put in place after April 2013. However we expect that, once the framework is in place, any project for which construction funding has not been awarded to date and is not in the licensees' RIIO-T1 baseline proposals could be subject to third party delivery. For the avoidance of doubt, projects treated as strategic wider works in our RIIO final proposals could be subject to competition. While the detailed arrangements for the competitive process are still being developed, Transmission Owners should be aware that they could be required to make relevant pre-construction outputs available to third parties as part of a selection process, and that

¹ <http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/thirdpartyrole.pdf>

² http://www.ofgem.gov.uk/Networks/Trans/PriceControls/RIIO-T1/ConRes/Documents1/111216_Consultation_Compensation.pdf

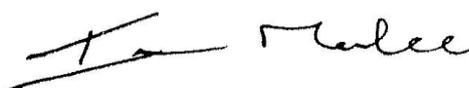
eventually such pre-construction assets might be transferrable to the party selected to construct the assets.

Next Steps

In continuing to develop the framework to allow competition in onshore electricity transmission we intend to prioritise our further work on what benefits such competition could bring. This will help inform the subsequent development of the detailed framework. We intend to publish further work on the benefits of competition later this year, and will provide more information on our timetable for implementation at that time.

Any queries regarding the content of this letter should be made to Angelita Bradney (Angelita.Bradney@ofgem.gov.uk, Telephone 020 7901 1825) in the first instance.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ian Marlee', with a horizontal line drawn through the first few letters.

Ian Marlee

Senior Partner, Smarter Grids and Governance: Transmission