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Dear Thomas,

I am responding on behalf of the Scottish Government and ministers to the Ofgem consultation on early competition in onshore electricity transmission networks.

The economic and environmental landscape has changed significantly since Ofgem published its emerging thinking paper on competition through RiIO in 2012 and the Integrated Transmission Planning and Regulation (ITPR) work programme that followed. The need to ensure that competition serves to accelerate investment in transmission infrastructure and bear down on system costs is more important than ever.

The Scottish Government is focused on delivering a green recovery and just transition to net zero by 2045, as set out in our recent update to the Climate Change Plan<sup>1</sup>. Our legally binding targets and the policies that underpin them prioritise economic, social and environmental wellbeing. In meeting them, we will keep Scotland on track to achieve net zero by 2045, as well as contribute to the wider GB pathway to net zero by 2050.

Delivering this transition will depend upon the timely development and evolution of resilient and efficient networks. NGESO's recent Network Options Assessment<sup>2</sup> (NOA) is the first that is designed to meet the UK's net zero target in 2050, and has signalled the need for an unprecedented level of investment in major electricity transmission developments within Scotland over the coming decade.

Ensuring that competition acts as an enabler for net zero and interim targets must be a priority for Ofgem, BEIS and the ESO. However, there is no analysis in the current consultation of the extent to which competition will deliver these outcomes. We would encourage Ofgem to set out clearly and openly the ways in which the proposed

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<sup>1</sup> [update-climate-change-plan-2018-2032-securing-green-recovery-path-net zero \(13\).pdf](#)

<sup>2</sup> [Network Options Assessment \(NOA\) | National Grid ESO](#)

introduction of competition will support the delivery of net zero without delaying infrastructure required and signalled to proceed through NOA.

While there remain strong justifications for increasing competition, regulatory reform of this nature is not without its risks. It is therefore essential that there is evidence which demonstrates that the benefits of competition outweigh those secured through the existing regulatory mechanisms. We have already seen that the RII framework is a strong regulatory tool, driving down network costs as well as rates of return, while the Scottish network companies' RII 2 business plans contain a commitment to keep both Scotland and the UK on track to meet net zero ambitions, strengthening communities, improving the environment and supporting vulnerable consumers.

The proposed model represents a narrow approach to competition that delivers on price and innovation, but ignores these wider values and benefits – the failure to capture which, under the proposed model of competition, risks triggering a race to the bottom, and poorer outcomes for consumers, communities and our ability to achieve net zero. We would strongly encourage Ofgem to review the tendering framework to address these concerns.

Finally, we are concerned that, as Ofgem considers whether to introduce early competition under RII T2, many of the risks raised by Scottish Government through the ITPR consultation in 2016 (Annex B) have yet to be addressed and remain equally valid today. This includes, but is not limited to, the following;

- **Economic impacts in Scotland:** “Electricity generation and associated transmission investment also makes a significant contribution to growth and employment in Scotland – particularly in many remote and less heavily populated parts. Scottish Ministers require assurance from Ofgem that Scotland will suffer no adverse effects from the introduction of competition. How Ofgem decides to phase and manage its approach is critical to ensure that benefits are realised for Scotland's economy and all GB consumers.”
- **Success criteria:** “To be judged successful over the long-term, competition needs to accelerate investment and connections; reduce whole system costs; enable wider market participation; release new resources for system planning; enhance relationships with communities and promote a level playing field across the GB market. The consultation document and supporting material do not offer the necessary degree of assurance that these success criteria will be met”
- **System fragmentation – complexity, increased cost and risk:** “The Scottish Government is concerned that there may be additional costs associated with increasing system fragmentation and the number of interfaces on the transmission system that has not been accounted for appropriately within the impact assessment. These additional costs may be significant over the lifetime of the assets and must be better understood in weighing costs and benefits. Additional interfaces would complicate transmission owner's/system operator processes adding both additional time and risk as well as cost”

- **Planning and consenting differences:** “At present, consenting and delivery processes for transmission are highly inter-dependent and successful delivery has been achieved to date through close coordination and dialogue with all stakeholders. The proposed changes will introduce new participants and change the dynamics around the SO / TO / and CATO roles and if the added complexity and engagement processes is not to introduce consenting risk, formal protocols for stakeholder engagement will need to be established and managed.”

These issues and concerns still require to be addressed before the proposed competition model is implemented. We are keen to continue working closely with Ofgem to help improve understanding of the implications of competition for the wider energy system in Scotland.

We would be happy to discuss any aspect of our response with you.

Regards,

Michael Rieley

## Annex A: Table of Scottish Targets and Policies

Statutory target	Legislation
Net Zero by 2045	Climate Change (Emissions Reduction Target) (Scotland) Act (2019) <sup>3</sup>
75% reduction in GHG emissions by 2030 compared with a 1990 baseline	Climate Change (Emissions Reduction Target) (Scotland) Act (2019) <sup>4</sup>
Remove fuel poverty, as far as is reasonably possible by 2040 and, In any case, ensure that by that date no more than 5% of households are in FP	Fuel Poverty (Targets, Definition and Strategy) (Scotland) Act 2019 <sup>5</sup>
Deliver at least 6 TWh of heat demand via heat networks by 2030	Heat Networks (Scotland) Act 2021 <sup>6</sup>

Non – Statutory Targets
Decarbonise almost all off-gas-grid properties, at least 1 million on gas grid domestic properties and at least 50,000 non domestic properties by 2030
Ensure that the equivalent of at least 50% of energy, across heat, transport and electricity comes from renewable sources by 2030
Remove the need for petrol and diesel cars and vans by 2030 + Reduce car kilometers by 20% by 2030
The Climate Change Plan Update lays out a pathway which includes a zero carbon electricity generation sector from 2029.
Ensure that the majority of new buses purchased from 2024 are zero emission
All new homes to use zero emission heating systems from 2024
At least 5 GW of hydrogen production capacity by 2030
All Local Authorities to develop a Local Heat and Energy Efficiency Strategy (LHEES) by 2023.

<sup>3</sup> <https://www.legislation.gov.uk/asp/2019/15/enacted>

<sup>4</sup> <https://www.legislation.gov.uk/asp/2019/15/enacted>

<sup>5</sup> <https://www.legislation.gov.uk/asp/2019/10/enacted>

<sup>6</sup> <https://beta.parliament.scot/bills/heat-networks-scotland-bill>

## Annex B: Ministerial Response ITPR CATO

(Full response is available [here](#))

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11 January 2016

Dear Dermot

### **Extending competition in electricity transmission: proposed arrangements to introduce onshore tenders – Ofgem consultation 19 October 2015**

I enclose the response of the Scottish Government to the above consultation concerning arrangements to extend competition in electricity transmission to onshore networks in Great Britain. We touched on this issue briefly at our last meeting and I welcome the opportunity to respond now in greater detail.

The electricity sector is a major component of the Scottish economy and one in which the Scottish Government takes a keen interest. High-quality investment in energy generation and the transmission system plays a vital role in delivering cost-effective supply for customers, facilitating the transition to a low carbon economy and supporting growth and employment in Scotland.

The potential exists to reduce customer bills by encouraging more cost-effective network development, increasing transparency and incentivising greater innovation in financing and design through competitive tendering of future network developments. Individually and collectively these are commendable objectives, although I would welcome further information on the scale of consumer benefits Ofgem hopes to achieve.

Nonetheless, the introduction of competitive tendering through the proposed early and late Competitively Appointed Transmission Owners (CATO) models represents a major shift in how GB electricity transmission is regulated and operated. It is therefore imperative that the change is designed and implemented in a manner that supports

the attainment of the proposed benefits while mitigating potential drawbacks and risks. This is a pre-eminent concern of the Scottish Government given the likelihood that the geographical impacts of competitive tendering will be concentrated in Scotland at least up until 2021. The concentration of initial impacts in Scotland is not highlighted in the consultation document.

While we are supportive of the principle of increasing competitive pressure on the development of the transmission system, we have some significant concerns about the effects of the proposals and their practicality that need to be worked through. The key points are summarised in the attached response alongside responses to selected questions posed by the consultation.

We look forward to working with Ofgem and our wider stakeholders in the coming year to address these issues and together find workable solutions that will support the development of an efficient, co-ordinated and economical system of electricity transmission while realising the potential benefits of ITPR for consumers.

**FERGUS EWING**