



Making a positive difference
for energy consumers

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Dear stakeholders,

Update on development of competition in onshore electricity transmission

On 26 October the Energy Act 2023¹ received Royal Assent. This enacted the changes in primary legislation required to allow for the competitive tendering of onshore electricity transmission projects and the appointment and licensing of a Competitively Appointed Transmission Owner (CATO) to construct, own and operate assets on the electricity transmission network.

On 22 November 2023, the Government's Transmission Acceleration Action Plan (TAAP) was published.² The TAAP outlines the Government's commitment to introduce competition as soon as is reasonably possible in order to save consumers up to £1bn by 2050³ and encourage greater levels of inward investment into the energy networks. The TAAP also states the ambition to identify the first eligible project(s) for competition in onshore electricity transmission in summer 2024. This document provides a brief update on the work we will prioritise in the development of onshore competition in the delivery of electricity transmission networks in the year ahead.

¹ [Energy Act 2023 \(legislation.gov.uk\)](https://www.legislation.gov.uk/ukpga/2023/1/section/1)

² [Electricity networks: transmission acceleration action plan - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/transmission-acceleration-action-plan)

³ Energy Security Bill factsheet: Competition in onshore electricity networks (2023) <https://www.gov.uk/government/publications/energy-security-bill-factsheets/energy-security-bill-factsheets/competition-in-onshore-electricity-networks>

What type of competition will we focus on?

We intend to focus our work in 2024 on finalising an “early model” of competition. Early competition refers to a competition that happens before detailed design work has been carried out. For wider reference, “late competition” refers to a tender after planning consents are approved, and “very late” competition refers to an OFTO-type competition for the operation and maintenance of existing assets. We consider that early competition can maximise the level of innovation delivered through the competitive process, whilst also allowing for earlier supply chain engagement from bidders relative to late competition. This is a key consideration in the context of the importance of timely delivery of electricity network upgrades to minimise constraint costs as we transition to Net Zero.

What work has already been done on early competition?

In April 2021, the Electricity Supply Operator (ESO)⁴ published its Early Competition Plan (ECP)⁵, and in March 2022 we published our decision⁶ to continue the development of an early competition model. Our decision confirmed the ESO as the Procurement Body responsible for developing the commercial model and tender process for early competition and established the eligibility criteria for early competition, that projects must be new, separable and likely to provide consumer benefit through being competitively tendered.

Our March 2022 decision sets out the roles and responsibilities of the ESO, Ofgem and the Transmission Owners (TOs), confirming Ofgem as the Approver (responsible for ensuring that the project progressing to early competition is, and remains, in the interest of consumers) and Licence Counterparty (awarding and managing any licence awarded to a successful bidder).

Our March 2022 decision also identified areas where further policy development was required before we could reach a decision, including the Cost Benefit Analysis (CBA) methodology to identify suitable projects for competition, conflict mitigation arrangements to ensure the TOs receive no unfair advantage through their tender support role, and CATO of last resort processes in the event of a competition failure. This summarises the work

⁴ [ESO | ESO \(nationalgrideso.com\)](#) – this document refers to the ESO throughout, however we expect the current ESO roles to fall within the remit of an independent Future System Operator (FSO) once established (Future System Operation (FSO) | Ofgem)

⁵ [download \(nationalgrideso.com\)](#)

⁶ [Decision on the development of early competition in onshore electricity transmission networks \(ofgem.gov.uk\)](#)

required to establish an early competition framework, with a view to commencing a first tender process by the end of 2024.

What work is required before a competition tender can be run?

ESO will publish the second Transitional Centralised Network Plan (tCSNP2) in early 2024,⁷ identifying the reinforcements required on the electricity transmission network. These projects need to be assessed against the early competition eligibility criteria and subject to a competition CBA which will identify the projects that, if tendered, will provide the greatest benefit to consumers. On the basis of this analysis Ofgem intends to identify a suitable project(s) for early competition later in the year.

The ESO is continuing to develop the commercial model and tender process and is engaging regularly with relevant industry stakeholders and Ofgem to ensure the early competition framework is robust and can attract the required investment on the transmission network to deliver the expected benefits for consumers. We intend to consult on the commercial arrangements for early competition in Spring 2024.

We intend to consult with stakeholders on a number of outstanding policy issues, including the competition CBA methodology, the TO conflict mitigation measures, the CATO of last resort arrangements, and cost and revenue recovery processes, in early 2024.

The Energy Act will be underpinned by relevant secondary legislation. We are responsible for the drafting of the relevant secondary legislation to set out the various obligations, roles, and responsibilities of incumbent TOs, potential bidders, the ESO and Ofgem at various stages of the tender process (the Tender Regulations). We intend to engage with the ESO and Government on this ahead of an initial stakeholder consultation in Spring 2024 before finalising the Tender Regulations before the end of 2024.

We also need to modify the TO and ESO licences to incorporate their obligations in support of early competition and create a new licencing framework for successful CATOs. We intend to establish a licence drafting working group throughout 2024 and consult on the necessary licence modifications from Summer 2024.

What are the next steps?

⁷ tCSNP2 is the final transitional network planning exercise before the commencement of the Centralised Strategic Network Plan (CSNP) which will be undertaken by the Future System Operator (FSO)

As stated above, we are continuing to work with the ESO to develop the early competition framework and intend to publish a policy consultation in early 2024 where we will set out our current thinking and further work requirements in more detail.

If any stakeholders would like any further information regarding early competition, please contact RIIOElectricityTransmission@ofgem.gov.uk.

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