

FAO: Steve McMahon

By email: RIIO3@ofgem.gov.uk

6 March 2024

Dear Steve,

RIIO-3 Sector Specific Methodology Consultation – Electricity Transmission

Transmission Investment (TI) is a leading independent electricity transmission business in the UK, with over ten years of experience developing, acquiring and managing large complex infrastructure projects. TI manages one of the largest offshore electricity transmission portfolios in Great Britain (GB), in total we currently manage approximately 4GW of transmission and £3billion in capital employed. TI is also leading the development of two electricity interconnector projects in support of the UK's Net Zero ambition. This includes a proposed 700MW link between Northern Ireland and Scotland known as "LirIC", as well as the FAB interconnector between GB and France. We are a strong advocate of introducing competition to deliver electricity transmission faster and cheaper.

We welcome the acknowledgement of the future role of competition in the delivery of transmission infrastructure in future price control periods, and how the FSO's Centralised Strategic Network Plan (CSNP) will support this. The scale of new transmission investment required to support the delivery of Net Zero by 2050 is substantial. There are significant potential savings to be achieved through the sustained and frequent use of competition. TI commissioned CEPA to produce an independent report seeking to understand the potential benefits of competition in onshore electricity transmission. The report identified maintaining a sustainable pipeline of projects being competed would be beneficial compared to solely relying entirely on incumbent monopolies to deliver grid infrastructure. The full report is attached as an annex to our response, however we summarise some of the key points in our response below.

Competition encourages innovation and the delivery of benefits to consumers more quickly and cheaply, with strong incentives to deliver on time and on budget. These benefits are best realised when there is large and stable pipeline of projects to be competed, where learnings and efficiencies can be rapidly built on by all involved in the competition processes.¹ We therefore believe Ofgem should adopt a policy that competition processes should be used for all projects (aligned to the recently laid Criteria Regulation) unless there is no realistic scenario where consumers can benefit. This would ensure a sufficient pipeline for competition as an additional and alternative pathway to delivering timely transmission network infrastructure.

We note that Ofgem in its Framework Decision, and in the RIIO-3 Methodology Consultation, suggests that competition should be focussed on large new infrastructure and that a large majority of projects will continue to be designed and procured by the existing TOs during RIIO-ET3. It would be mistaken to assume that prioritising incumbent delivery of transmission infrastructure is the fail-safe approach to ensure projects get delivered² and this does not necessarily align with the recently published Criteria Regulations. Competition should be seen as an additional pathway to delivering timely transmission

¹ CEPA report, Benefits of competition in onshore electricity transmission, page 4, page 14-19

² CEPA report, Benefits of competition in onshore electricity transmission, page 24

infrastructure, utilised in parallel to incumbent delivery, to ensure there is resilience in delivering the scale of infrastructure programme needed for the energy transition.

We note the apparent concern that introducing competition may result in delays to delivery, again this assumption lacks evidence. It would be misguided to assume that competition will inevitably cause delays versus incumbent delivery.³ A tender process, if designed effectively, may take a period of months to complete, however, the winning bidder is then heavily incentivised to deliver because they do not receive revenue until the project is commissioned. Incumbent TOs do not face this same incentive, being more certain of revenues via the price control, and in the case of ASTI delivery, are able to deliver up to 12 months late with no penalty.

The consultation is also lacking in detail on the treatment of Medium Sized Investment Projects (MSIPs) which are used to fund the TO for projects won in competitions – only referencing a review of the need for this re-opener beyond RIIO-ET2. The use of the RIIO MSIP mechanism to adjust for competed projects (e.g. Pathfinder voltage projects) appears to expose the consumer (through the totex sharing incentive) to the TO's actual cost of delivery, which at best provides a lack of transparency as to whether there is a level-playing field, and at worst appears to distort competition. The simplest approach to providing a level playing field would be to require bidders to establish an SPV and this would provide the transparency and confidence for parties to compete in the future pipeline of such projects.

We are also concerned with the minimal consideration as to how the RIIO-ET3 framework is being prepared taking into account the expected wider application of competition. For example, a late-competition model is anticipated in the Criteria Regulation, but there appears to be no consideration of how this model could work within the RIIO-ET3 framework, and what would be needed for an effective transfer process. The consultation is also silent on how the RIIO companies are to be monitored, incentivised and funded to support competition processes. We see a risk that failing to consider these elements when setting out in the new framework may delay the application of competition in the future.

It is evident that delivering this large capital programme will be challenging for all, but preparing for a combined approach of competition and incumbent delivery will increase resilience and secure benefits for consumers now and in the long-term.

We hope the contents of the letter are helpful and we would be pleased discuss any points raised.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Mark', with a long, sweeping horizontal line extending to the right.

Mark Fitch
Corporate Development Director

³ CEPA report, Benefits of competition in onshore electricity transmission, page 31 and 32