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for energy consumers

All interested parties

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Dear Colleagues

Update on Extending Competition in Transmission

This letter provides an update on our plans to introduce competitive tendering into onshore electricity transmission. It sets context for the work we have done to date and our plans for the future given that it currently looks unlikely that CATO legislation will be introduced in the immediate future.

Context

We decided early in 2015 to introduce competition for who builds, finances, owns and operates parts of GB's onshore electricity transmission system, building upon the recommendations from our Integrated Transmission Planning and Regulation (ITPR) project.¹ We have published various consultation documents since then, including:

- our initial policy proposals for implementing competition;
- further proposals and decisions on the criteria we intend to use to identify projects for tendering, and pre-tender and conflict mitigation arrangements for projects tendered during the RIIO-T1 period; and
- proposals for how we might run tenders and regulate Competitively Appointed Transmission Owners (CATOs).

Development of the CATO regime has also been informed by input from industry, through consultation responses, bilateral meetings and via an industry steering group and working groups established by the Energy Networks Association.

Alongside development of our policy on competition, we have continued to monitor and assess Strategic Wider Works (SWW) projects for their suitability for competition, with a focus to date on the Hinkley to Seabank (HSB) and North West Coast Connections (NWCC) projects. For a list of potential projects to be considered for competition please refer to page 101 of the System Operator's 2017 Network Options Assessment (NOA) report² or the SWW page on our website.³

¹ <https://www.ofgem.gov.uk/publications-and-updates/integrated-transmission-planning-and-regulation-itpr-project-final-conclusions>

² <http://www2.nationalgrid.com/UK/Industry-information/Future-of-Energy/Network-Options-Assessment>

³ <https://www.ofgem.gov.uk/electricity/transmission-networks/critical-investments/strategic-wider-works>

What happens next

Our work to introduce competition into onshore electricity transmission is linked to both the introduction of legislation underpinning the CATO regime and the timing of suitable projects coming forward for tendering.

We have been working with Government to introduce relevant legislation in order to implement the CATO regime. The necessary primary legislation has been drafted and was subject to pre-legislative scrutiny by the Committee for Energy and Climate Change in 2016.⁴ We remain committed to working with Government to seek an appropriate opportunity to introduce this legislative change. You will have seen from the Queen's Speech that legislation related to EU exit will likely dominate the Parliamentary timetable, so an opportunity to introduce this legislation in the immediate future currently looks unlikely. We will take forward further development of the CATO regime (and the next iteration of CATO policy/documentation) once there is greater clarity on timing of enabling legislation.

In the interim, we continue to consider that there are significant benefits to consumers in introducing competition into the delivery of new, separable and high value electricity transmission projects. We expect to consult on the needs case and our competition assessment for the HSB project later this summer. In that consultation we will set out our thinking around alternatives to CATOs for introducing competition into the delivery of SWW projects during RIIO-T1. We have previously consulted on our assessment of the suitability of the NWCC project for competitive tendering. Given the review of the Moorside nuclear project announced by the project developer and NGET's subsequent announcement to put development of the associated NWCC transmission project on hold, we do not anticipate making a decision on the needs case or the delivery model for the project until the proposed characteristics (eg timing, technology, proposed route) of the project are confirmed. However, for completeness, we intend to set out our current views on the needs case and competition assessment for NWCC in the next few weeks.

The latest NOA report highlighted other potential future projects which could be considered for competition – we anticipate determining our view on the needs case and delivery model for each of these projects when we receive further details from the relevant incumbent Transmission Owners.

Finally, we intend to align development of longer-term arrangements for introducing competition into onshore electricity transmission with our broader work on development of regulatory arrangements for the RIIO-2 period, and will publish further details on this in due course.

Yours sincerely,

James Norman
Head of New Transmission Investment

⁴ <https://www.parliament.uk/business/committees/committees-a-z/commons-select/energy-and-climate-change-committee/inquiries/parliament-2015/pre-legislative-energy-15-16/>