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12<sup>th</sup> January 2016

Dear James

## **Extending Competition in Electricity Transmission – ENA Response**

I am writing on behalf of ENA's electricity members. Many of these companies will be submitting individual responses and answering the specific questions outlined in the consultation. Below are some high level points and suggestions which are common across ENA members.

**Engagement with ENA working group** - ENA members welcome Ofgem's engagement with our transmission members and the offshore Transmission operators through the working group we have established. This has been a useful forum for engagement and has aided understanding of Ofgem's proposals as they have been developed. We welcome the acknowledgement from Ofgem at our last working group that the proposals in the consultation set out a basis on how an onshore tendering regime would work but that further detail is required. Our members would welcome Ofgem to continue to engage with the working group following this consultation and also suggest that consideration be given how Ofgem engages with other stakeholders that are likely to be affected by these proposals, including the Distribution Network Operators, going forward. Our members recognise that there may be a role for them and other stakeholders to help contribute to the work and develop some of the detail around the proposals. Our members are committed to continuing our ongoing work with Ofgem and DECC to ensure that any tendering regime is workable and in customer's interests.

**Getting the regime right** - Our members support the development of onshore competition in electricity transmission, where it can deliver benefits to wider consumers. The design of the regime will have consequences for other network sectors and wider stakeholders. Consequently, it's vital that those stakeholders are fully engaged. While we do think that there is the potential for an onshore competitive model to provide savings to customers, ENA members are not convinced that the customer benefits of the proposed tendering model have been clearly set out in an impact assessment. ENA members have concerns that the proposed tendering model is still high level and there are a number of questions on how the detail will work. The decisions on these details will have a bearing on the benefits to customers. ENA members would ask that Ofgem ensures resources are appropriately deployed to work on this detail, including clearly defined transitional arrangements to ensure a smooth conversion process into the new regime.

**Late v Early Model** – The consultation proposes a late tender model. Our members do not believe that Ofgem has demonstrated the value to be derived for consumers under the 'Late model' as there is limited scope for innovation in design or delivery in this model. ENA members would request that the benefits of such a model are clearly defined, and these need to be fully assessed within a cost benefit analysis that compares both the late and early models against the current regulated regime.

**Interaction with the Network Options Assessment (NOA) process** – ENA members would stress the importance of ensuring joined up thinking between the NOA process and the onshore tendering regime. It would be helpful if Ofgem could provide clarity as to how the two separate policy projects will interact. This will be crucial in developing the detail required on the enduring roles and responsibilities for the System Operator (SO) and the Transmission Operators (TOs). Our members consider that TOs should continue to have a role in defining the scheme, in the same way they are for the strategic wider works in RIIO-T1.

**Different time periods for depreciation and revenue streams** – ENA members are unclear as to how a regulatory regime with a depreciation period which exceeds that of the proposed 25 year revenue stream will work in practice. ENA members would stress that onshore networks are in a different position from offshore ones as there will continue to be value to consumers at the end of the 25 year revenue stream (whereas offshore wind farms often have a turbine life of around 20 years). It is vital that all parties have clarity now on what will happen to any residual asset value at the end of the proposed 25 year revenue stream. The consultation does not provide this clarity. Transmission owners currently build the network with a longer term view in mind, therefore, assets are built to last. As there are no stringent asset quality standards imposed on CATOs, ENA members believe that this is an area which should be looked into further to ensure that GB security of supply is not jeopardised in the future.

**Clarity on how TOs can bid for CATO assets** – ENA members do not consider that the consultation provides sufficient clarity on how existing licensees can bid for tendered assets. The consultation document states that existing licensees can bid where potential conflicts of interest are managed but it is not clear how Ofgem would assess this conflict. ENA members expect that existing licensees would be able to bid for SWW tenders under the late tendering model within RIIO-T1 and both models in subsequent price control periods. It would be helpful if Ofgem could confirm this is the case and whether an existing TO could hold a CATO licence with its existing Transmission licence.

**CATO incentives** – ENA members note that there is a significant difference between the proposed incentives to be placed on CATOs and those in place for TOs and DNOs under the RIIO price controls. CATOs may only be subject to the availability incentive (although we note the reference to other incentives relating to asset condition), compared to the wide range of incentives on existing network operators – reliability, safety, customer engagement, etc. CATO licensees will provide the same service to customers as existing licensees and the consultation is not clear as to why Ofgem has taken a decision to apply a different set of incentives.

**Impact on TO and DNO performance** – Linked to the above, ENA members would highlight the potential for the operation of CATO licensees to impact the performance of both TO and DNO licensees and consequently the revenue earned and service to customers under the RIIO framework. For example if a CATO licensee suffers reliability issues, these can be passed down to the TO and DNO. It isn't clear how this will be taken into account in assessing performance under the RIIO incentives.

I hope that you find the above information of use. If you have any further questions, or would like to discuss these issues further, please contact Mark Askew ([mark.askew@energynetworks.org](mailto:mark.askew@energynetworks.org)).

Yours sincerely,



David Smith

Chief Executive, Energy Networks Association