

ESO RIIO-2 Stakeholder group

Unlocking consumer value through competition in onshore transmission

Agenda item: ERSG- 4.4

Meeting date: 03/04/2019

Our ambition

We want to unlock consumer value through competition in networks. To achieve this we will facilitate competition across all dimensions – enabling all viable options to compete for delivery of solutions to network problems. As part of this we will actively support Ofgem and industry to deliver a model for onshore competition for transmission investment that maximises consumer value, playing our part in setting up, and then operating within, a transparent framework that facilitates competition.

In this paper we want to provide further context on our work to develop an appropriate framework for network competition at a transmission level. We will provide further information on our stakeholder feedback to date, including our reflections from ERSG feedback and seek your views to help inform the next stage of our engagement plan.

We recognise that competition in onshore transmission is just one option in the broader consumer value to be developed through competition in networks. We intend to return to ERSG later in the Spring to discuss our thoughts on how to expand and enhance network planning to facilitate effective competition.

Stakeholder engagement and guidance

In this section we present our initial engagement in competition in transmission. Whilst we have published our views on extending onshore competition in our response to Ofgem’s sector specific consultation we recognise the need for further engagement on this subject. At the end of this section we therefore present our proposed engagement plan to develop our RIIO-2 business plan to unlock consumer value through competition in onshore transmission.

ERSG challenged us to provide more proactive support to Ofgem to find solutions to challenging elements of the process, in particular, who should consent projects under the late model. We listened to your feedback and have undertaken work to begin exploring our potential role under both the early and late models including potential alternative consenting options. We have received little feedback on this area from stakeholders and we will be consulting further, including our views on the late model and consenting, in the coming months.

Our engagement plan to unlock consumer value through competition in onshore transmission

We proposed to engage on our thoughts for competition in onshore transmission testing this thinking with stakeholders using the channels set out in the table below.

Channel	Date	Stakeholder groups	Approach
Bilateral meetings	Various	Existing customers – demand and transmission connected parties and different technology types	Test the detail that we have developed on onshore competition

			models with a broad range of stakeholders.
Bilateral meetings	March	Ofgem and BEIS	Discuss process and our role in facilitating onshore competition.
Bilateral meetings	Various	DNOs and TOs	Continue our discussions with network companies on our role in facilitating onshore competition.
RIIO stakeholder workshop	11 th April	All stakeholder sectors	Targeted round table on the ESO's role in facilitating onshore competition
Network development event (RIIO-2 session as part of a broader network development event)	May	Market participants, DNOs, TOs	Seek input into the development of our approach to competition and feedback to support how we further consider the processes into RIIO2.

Our proposals

In RIIO-2 we will continue to play our part in identifying the need for transmission investment. In the area of onshore competition in transmission we have identified two potential transformational activities for the ESO in RIIO-2. We believe that these activities are critical to delivering our ambition to unlock consumer value through competition in networks. These activities are referenced in our RIIO-2 ambition paper. In this ERSG paper we provide further context including how they add value and where how they have been informed by stakeholder views to date.

Ofgem's work to develop a regime for competition in onshore transmission is at an early stage, and its development will affect the size and shape of the ESO's role. Previously we discussed with ERSG two models for a Competitively Appointed Transmission Owner (CATO) regime; an early model and a late model. The early model would see the appointment of a developer for a transmission project at an early stage, the late model would see its appointment much later in the process.

Mindful of ERSG's feedback to consider these options further we have undertaken further thinking.

ERSG challenged us to provide more proactive support to Ofgem to find solutions to challenging elements of the process, in particular, who should consent projects under the late model. Following this, we undertook work to begin exploring potential alternative consenting options. We believe that it's worth exploring whether an existing, independent, neutral organisation could take on this role (e.g. Gas DNs or Highways England/Scotland) and whether this offers a better value option than the ESO building these skills. We have raised this with Ofgem for their consideration and will further develop thinking and engage with stakeholders.

Whilst our engagement with stakeholders is ongoing, our preferred options remains the early model which we believe delivers the greatest consumer value. Noting the early stage of development in this area, we will build this philosophy and the potential impact on the ESO into our RIIO-2 thinking.

Proposal 1 – Support Ofgem in the development of the Competitively Appointed Transmission Owner (CATO) regime

What is this; We recognize that it is unlikely that the CATO regime will be introduced by the start of RIIO-2/ Hence this proposal is for the ESO to support Ofgem to develop thinking on the approach in advance of the necessary legislation being introduced (which may or may not be in RIIO-2).

How this adds value; Competition to build and own transmission assets should help drive down costs and promote innovation. We believe as a separate, neutral party with appropriate expertise we are well placed to support Ofgem in the development of the regime to deliver this. Development of a well-designed regime will help maximize potential entrants to facilitate competition and ultimately realise consumer value.

Stakeholder views; We have asked stakeholders what they would like to see from us in this space in advance of the CATO regime being put in place. We received little feedback on this, possibly because of limited knowledge and/or interest in the CATO regime at what is still a very conceptual stage. We intend to review any publicly available responses to Ofgem's Sector Specific Consultation and reflect on any views given. We are also discussing with Ofgem how they intend to progress their CATO thinking and the relationship to RIIO2 business plan developments.

Cost of this proposal; We anticipate the support Ofgem will require to set up the new regime will increase as they get closer to finalising their proposals. Therefore, there would be a small additional resource cost to support Ofgem in developing their thinking until the decision is made.

Development timeline position; Ofgem is still considering their preferred approach, which will significantly affect how the ESO might support the development and introduction of the CATO regime. The development timeline position is therefore heavily driven by Ofgem.

Proposal 2 – Support Ofgem with running the tender once the regime is introduced

What is this; We believe it is credible to assume the CATO regime will be introduced during RIIO-T2 and that the ESO will have a role in supporting the tendering process.

How this adds value; Competition to build and own transmission assets should help drive down costs and promote innovation. The ESO is an independent, neutral party with extensive experience in assessing potential solutions to network problems and running compliant tenders in the energy sector. We therefore believe we are well placed to support Ofgem in the delivery of the CATO regime ensuring consumer value is realized.

Stakeholder views; We have asked stakeholders what they would like to see from us when the CATO regime is in place. We received little feedback on this, possibly because of limited knowledge and/or interest in the CATO regime at what is still a very conceptual stage. We intend to review any publicly available responses to Ofgem's Sector Specific Consultation and reflect on any views given. We are also discussing with Ofgem how they intend to progress their CATO thinking and the relationship to RIIO2 business plan developments.

Cost of this proposal; We are still developing thinking in this area as we support Ofgem developing the CATO regime.

Development timeline position; Ofgem is still considering their preferred approach, which will significantly affect the role the ESO might play. The development timeline position is therefore heavily driven by Ofgem.

Next steps

Our proposed next steps are:

- Continue to work with Ofgem to support their development of the CATO regime
- Continue to seek stakeholder feedback on the CATO regime and how the ESO can add value.

Ask of ERSG

- 1) Are you comfortable with the stakeholder engagement that has taken place on this subject and how the feedback has been used?
- 2) Are you comfortable that we have robust stakeholder engagement plans in place as we develop our draft Business Plan for July?
- 3) Do you agree with our proposed activities?
- 4) Do you agree that our proposed activities will realise the consumer benefits articulated in our RIIO Ambition document?

- 5) Who do you believe would be good stakeholders to engage with on CATO and how best can we obtain their feedback?