

FAO: Energy Bill Report Committee

By email: scrutiny@parliament.uk

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Written evidence: Energy Bill - Clause 160, Schedule 13 – Onshore Competition

About us

Transmission Investment, as one of the UK's leading independent transmission companies, manages one of the largest offshore electricity transmission portfolios. We are a strong advocate of introducing competition into the delivery of transmission and we continue to support the development of the required arrangements *inter alia* through industry groups, responding to consultations and providing evidence to Parliament.

Three decades and no progress

The lack of sufficient pace in the delivery of network infrastructure is a barrier that continues to grow, year-by-year¹, leading to wasted money and higher costs to deliver Net Zero, because energy projects cannot be used to their full potential. The network monopolies, given three decades head-start to create the nation's infrastructure, have failed to grasp the unique opportunity to step up for the consumer at this key time. This Bill provides the opportunity to apply competition to the fullest extent to reduce monopoly power, increase supply and quality of infrastructure.

Commentators are of the view, and evidence is mounting, that what we have is not fit for the energy transition. The incumbent monopoly businesses have been in the spotlight, whether in the Financial Times² or BBC³ for reportedly holding back economic growth due to connection delays, poor response to storms, or questionable approaches to asset management decisions⁴. It is broadly accepted that by introducing competition, quality will go up and prices down.

Previous examples where there has been a need to accelerate delivery of large infrastructure programmes e.g. the delivery of the Milford Haven project, saw costs escalate substantially by around 25%. Ofgem's review concluded it was due to a range of factors both within and outside of the control of National Grid⁵, but highlighted questionable choices around route, design and contracting strategy, suggesting engaging more organisations would have lowered costs, "*if the workload was spread more widely and delivered by more contractors, then costs may have been lower*". Demonstrating the risk of concentrating delivery in the hands of only a few organisations.

More recently Ofgem identified three important shortcomings of incumbent delivery: how it has managed the asset; in its optioneering (to the point of needing to instruct alternatives to be considered); and in its early decision to close-down alternatives (by appointing a contractor) ahead

¹<https://www.current-news.co.uk/news/current-price-watch-wind-curtailment-reaches-record-highs-as-national-grid-eso-issues-winter-warning>

² <https://www.ft.com/content/519f701f-6a05-4cf4-bc46-22cf10c7c2c0>

³ <https://www.bbc.co.uk/news/science-environment-65500339>

⁴[Dinorwig-Pentir FNC](#)

⁵https://www.ofgem.gov.uk/sites/default/files/docs/151202_-_mh_ex-post_review_decision_letter_03_december_2015_rev._0.pdf

of project confirmation. Ofgem have concluded through the analysis that there is no alternative than to continue with the incumbent delivery and therefore is asking consumers to simply accept these shortcomings. Consumers have also been let down by the slow development of the regulatory system, with Accelerating Onshore Electricity Transmission Investment (“ASTI”) allowing further concentration to the incumbent onshore network of the large-scale infrastructure to 2030 and delaying the use of competition.

Competition must be the default

Competition should be applied to all major network projects by default, because it includes natural features to minimise cost and protect against delay in delivery by directly impacting the returns for the project owner. We would advocate adopting a position similar to Ofwat for Direct Procurement for Customers. There the use of competition is a default and recognises that going through the process itself has significant value to consumers - *“For PR24 DPC will apply by default for all discrete projects above a size threshold... We would not treat a negative VfM [Value for Money] estimate in the early stages as a reason not to proceed with DPC.”*

We support such a ‘reset’ of the philosophy around the use of competition. In this case, moving away from seeking to judge the net-benefit to consumers at the outset (as per the regulations published alongside this Bill) of each project, but to explore through the process how it can be beneficial. Only stopping the process when there is robust evidence of no scenario where there is likely to be a consumer benefit (avoiding using an average over a range of scenarios – the average outcome being something which cannot occur in reality). We would also advocate avoiding distorting the cost-benefit by applying the first-of-a-kind costs of competition to the early first tender(s).

We would highlight the example of the OFTO regime, which is simple and has proved highly effective. It is consistently delivering high availability and has seen significant savings for the consumer as referenced in BEIS economic regulation policy paper: “The regime has proved a success and has brought estimated savings for consumers in excess of £800 million since 2009” - based on CEPA’s 2015 report covering only Tender Rounds one to three⁶.

Using competition effectively has revealed information over time that creates significant consumer benefit directly, and indirectly by providing benchmarks to test non-competed activities, reducing the power of information asymmetry between the regulator and company.

National Grid also highlights, in the recent report⁷ “Delivering for 2035”, introducing competition is a key action and acknowledge that competition will be effective in driving down costs and improving innovation, beyond the level that regulation has, or can.

Summary

In summary the Energy Bill legislation is a critical opportunity to fully unlock the possibilities of competition to broaden the market for delivering our onshore network infrastructure.

We would strongly urge the Committee to reject Amendment 99 (Clause 160, page 136, line 20) proposed by Dr Alan Whitehead, as it provides further opportunities to exempt projects from competition, which will only serve to benefit the incumbent interests and further delay benefits to consumers. **We would also strongly urge the Committee to amend the regulations to apply competition by default**, (seeking to apply the final cost-benefit test later in the process where information is better understood, akin to the Final Business Case step) thereby avoiding missed opportunities to deliver faster and at lower cost infrastructure for the consumer.

⁶ <https://www.ofgem.gov.uk/publications/evaluation-of-to-tender-round-2-and-3-benefits>

⁷ <https://www.nationalgrid.com/document/149496/download>