

SUPPLEMENTARY SUBMISSION FROM OFGEM

Dear Murdo,

Following your correspondence from Fergus Ewing, I am responding to points raised by Joan McAlpine at the meeting of the Economy, Energy and Tourism Committee on 17 June. Ms McAlpine queried whether the proposed Dumfries and Galloway project that Scottish Power is currently developing would be delayed by the Introduction of competitive tendering In onshore electricity transmission.

We do not anticipate tendering any project If we think doing so would lead to detrimental delays as it would not be in the interest of consumers to do so. I have set out some further background on our decision to introduce competitive tendering and the next steps in the development of this new tender process.

Introduction of competitive tendering to onshore transmission projects

Different regulatory approaches are used for the delivery of electricity transmission assets in GB. For the onshore network, investment is currently planned and delivered by monopoly transmission owners, whom we regulate through the RIIO price control framework'. Following a major review of existing arrangements for planning and delivering the onshore, offshore and cross-border electricity transmission networks, we have decided to introduce competitive tendering to some onshore transmission projects. We expect that competitive pressure will lead to better value for consumers through the potential for cost savings and increased innovation.

Once the tendering arrangements are in place, we will apply competition to onshore transmission assets that are new, separable and high value. We consider that assets with these characteristics are where the highest benefits from competition can be achieved. We are in the process of defining these criteria in further detail so that they can be applied to specific projects, and we continue to engage stakeholders in this process.

We will be consulting in the coming months on the arrangements for Introducing competitive tendering, including detail on the criteria that will be applied, and a high level overview of the potential tender process. We anticipate being in a position to run the first tender in 2017.

Dumfries and Galloway project

Under the current price control (2013-2021) we introduced a new mechanism called Strategic Wider Works (SWW) to enable transmission owners, including Scottish Power Transmission, to bring forward new transmission projects for approval as the needs case for these investments became clear. When we set the price controls we specified that projects that are brought forward under the SWW arrangements could be subject to competitive tendering.

We will consult on whether to tender the Dumfries and Galloway project after considering the needs case. One of our considerations will be the effect that tendering would have on the project's delivery timetable. As set out above, we do not

anticipate tendering any project if we thought doing so would lead to detrimental delays as it would not be in the interest of consumers to do so.

Please let me know if you would like any further information on our work to introduce competition to onshore transmission.

Yours sincerely

Kersti Berge

Partner, Electricity Transmission and

Head of Ofgem in Scotland