# Subsidy Advice Unit Report on the proposed subsidy to Great British Energy for its initial operationalisation and capital spend

**Referred by the Department for Energy Security and Net Zero**

**06 June 2025**

Subsidy Advice Unit

Part of the Competition and Markets Authority

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# 1. The Referral

1.1 On 24 April 2025, the Department for Energy Security and Net Zero (DESNZ) requested a report from the Subsidy Advice Unit (the SAU)[1] in relation to a proposed subsidy to Great British Energy (GBE) (the Subsidy) under section 52 of the Subsidy Control Act 2022 (the Act).[2]

1.2 This report evaluates DESNZ's assessment of compliance (the Assessment) of the Subsidy with the requirements of Chapters 1 and 2 of Part 2 of the Act.[3] It is based on the information and evidence included in the Assessment.

1.3 This report is provided as non-binding advice to DESNZ. It does not consider whether the Subsidy should be given or directly assess whether it complies with the subsidy control requirements.

## Summary

1.4 The Assessment uses the four-step structure described in the Statutory Guidance for the United Kingdom Subsidy Control Regime (the Statutory Guidance) and as reflected in the SAU's Guidance on the operation of the subsidy control functions of the Subsidy Advice Unit (the SAU Guidance).

1.5 In our view, DESNZ has considered in detail the compliance of the Subsidy with the subsidy control and energy and environment principles. In particular, the Assessment:

(a) clearly describes and evidences the market failures that the Subsidy seeks to remedy (Principle A);

(b) clearly describes and evidences what would be likely to happen in the absence of the Subsidy, and the changes that would not have occurred without the subsidy (Principles C and D); and

(c) clearly sets out the positive effects of the Subsidy in relation to the policy objectives, as well as potential negative impacts, and conducts a balancing exercise between them in line with the Statutory Guidance (Principle G).

1.6 However, we have identified the following areas for improvement:

[1] The SAU is part of the Competition and Markets Authority.
[2] Referral of the proposed subsidy to Great British Energy by the Department for Energy Security and Net Zero - GOV.UK
[3] Chapter 1 of Part 2 of the Act requires a public authority to consider the subsidy control principles and energy and environment principles before deciding to give a subsidy. The public authority must not award the subsidy unless it is of the view that it is consistent with those principles. Chapter 2 of Part 2 of the Act prohibits the giving of certain kinds of subsidies and, in relation to certain other categories of subsidy, creates a number of requirements with which public authorities must comply.

(a) in our view, the specific policy objectives of the Subsidy could be better described in terms of a single broad objective (see paragraph 2.9). However, should DESNZ wish to continue to rely on six separate policy objectives then they should each be assessed against the principles wherever appropriate; and

(b) in our view, the Assessment should explain and evidence in more detail how the level of the Subsidy was limited to the minimum necessary to achieve the policy objectives.

1.7 We discuss these areas below, along with other issues, for consideration by DESNZ in finalising its assessment.

## The referred subsidy

1.8 DESNZ propose to make a subsidy investment of up to £68 million. The Subsidy will take the form of DESNZ providing funding and ancillary services in exchange for shares issued by GBE.

1.9 The Subsidy is split into £28 million of operationalisation funding (ie initial set-up and operational funding costs), and £40 million to fund the early commercial activities of GBE during the 2025/26 financial year. This is expected to be used for investment activity, particularly to make targeted minority equity investments in clean power projects across the UK that are in the development stage. DESNZ have determined this investment constitutes a subsidy as it is on more favourable terms than might have been available on the market (for example it is without an immediate return requirement).

1.10 The Subsidy is part of a total programme cost of £170.61 million for GBE in the 2025/26 financial year. DESNZ have set out that the rest of the programme funding is outside the scope of the Assessment because it will be used for non-commercial activity and so does not constitute a subsidy to GBE.

1.11 DESNZ said the Subsidy will allow GBE to make early progress towards its overall strategic objectives by creating a publicly owned energy company capable of making strategic investments and delivering new projects in key renewable technologies and sectors (including in nascent technologies). The Subsidy will also increase the level of finance in the clean energy sector and provide clear signals of the government's strategic direction to crowd-in private investment in order to support the government's targets to decarbonise the power sector. DESNZ have confirmed that to the extent that any funds provided by GBE in its commercial investments constitute a subsidy this would be subject to a separate assessment as necessary.

1.12 DESNZ explained that the Subsidy is a Subsidy of Particular Interest because it exceeds £10 million in value.

# 2. The SAU's Evaluation

2.1 This section sets out our evaluation of the Assessment, following the four-step structure used by DESNZ.

## Step 1: Identifying the policy objective, ensuring it addresses a market failure or equity concern, and determining whether a subsidy is the right tool to use

2.2 Under Step 1, public authorities should consider compliance of a subsidy with:

(a) Principle A: Subsidies should pursue a specific policy objective in order to remedy an identified market failure or address an equity rationale (such as local or regional disadvantage, social difficulties or distributional concerns); and

(b) Principle E: Subsidies should be an appropriate policy instrument for achieving their specific policy objective and that objective cannot be achieved through other, less distortive, means.[4]

### Policy objectives

2.3 The Assessment splits the policy objectives of the Subsidy into two groups, those for the operationalisation funding, and those for the commercial activities funding.

2.4 For the operationalisation funding, the policy objectives are:

(a) Policy Objective 1: to create a publicly owned energy company capable of delivering investment activities (including the activities envisaged in relation to the commercial activities policy objectives);

(b) Policy Objective 2: to create a publicly owned company well placed to make strategic investments and deliver new projects in key renewable technologies and sectors; and

(c) Policy Objective 3: to create a publicly owned company to be a centre of expertise for energy sector development and investment.

2.5 For the commercial activities funding, the policy objectives are:

(a) Policy Objective 4: to directly and indirectly (eg through market signals) increase the level of finance in the clean energy sector (ie through mobilising

[4] See Statutory Guidance, paragraphs 3.33–3.58 and the SAU Guidance, paragraphs 4.7–4.11 for further detail.

additional private finance) to support government's targets to decarbonise the power sector;

(b) Policy Objective 5: to provide clear signals of the government's strategic direction to mobilise additional private investment into the technologies required to decarbonise the power sector; and

(c) Policy Objective 6: to support nascent technologies which will play an important role in delivering on government's targets by reducing the cost of low-carbon power generation (including through encouraging innovation).

2.6 The Assessment also sets out the overall strategic objectives for GBE, which are to:

(a) drive clean energy deployment across the whole of the UK, as a strategic developer, investor, and owner of clean energy projects; and

(b) ensure that UK taxpayers, billpayers and communities benefit from the clean energy transition, by increasing public ownership and community involvement in the development of clean energy projects, and by supporting jobs and economic growth across the UK.

2.7 The Assessment explains that the Subsidy is designed to allow GBE to make early progress towards achieving these overall strategic objectives in the 2025-26 financial year. It explains that DESNZ will seek subsequent funding to cover future years, which will address further policy objectives for GBE in addition to those set out above, but that the Assessment is focused solely on the policy objectives described at paragraphs 2.4 and 2.5.

2.8 We note that the Assessment outlines six distinct policy objectives, spilt across two groups. However, having done so these are not consistently assessed against each of the principles throughout and the remainder of the Assessment broadly treats the policy objectives as a single objective.

2.9 In our view, the specific policy objective of the Subsidy could be better described as a single broad objective 'to establish a publicly owned company (GBE) which will be capable of making strategic investments, delivering projects, as well as providing advice and expertise, in renewable technologies and sectors as well as to provide it with initial funding for its commercial activities'. However, should DESNZ wish to continue to rely on six separate objectives then they should each be assessed against the principles wherever appropriate.

**Market failure**

2.10 Market failures arise where market forces alone do not produce an efficient outcome. When this arises, businesses may make investments that are financially rational for themselves, but not socially desirable.[5]

2.11 The Assessment describes two groups of market failures corresponding to the two groups of policy objectives.

**Market failures relevant to the policy objectives for the operationalisation funding**

2.12 The Assessment sets out that the policy objectives for the operationalisation funding address the following three market failures.

*Negative externalities associated with burning fossil fuels*

2.13 The Assessment explains that there are negative externalities associated with burning fossil fuels, and that current investment in low-carbon energy is insufficient to meet government decarbonisation targets, which were set by Parliament based on expert advice on the socially optimal level of decarbonisation. It describes that Policy Objective 1 will address this market failure by enabling GBE to be established and make investments in renewable energy projects.

*Externalities (both positive and negative) to system costs from investment in the clean power market*

2.14 The Assessment explains that individual firms' investment decisions do not account for the impact those decisions will have on the total costs of the energy system (defined as the costs of building and operating both the generation assets and the electricity grid), nor do they take account of the long-term strategic importance of the development of certain sectors to the government's policy objectives. It describes how Policy Objective 2 will address this market failure as GBE will be required to align its activities to DESNZ's strategic priorities.

*Co-ordination failures and information asymmetry*

2.15 The Assessment explains that imperfect information on the government's decarbonisation strategy can lead to co-ordination failures, where different clean power firms, or firms in the clean power supply chain, delay investment decisions until upstream or downstream firms have made an investment decision. This leads to delays, for example, as firm A waits for firm B, and firm B waits for firm A. This is a particular issue when looking across the supply chain, which has long lead

[5] Statutory Guidance, paragraphs 3.36–3.50.

times, and where several firms must move simultaneously to make investments viable.

2.16 The Assessment also describes information asymmetries between energy development companies and the public sector. The government knows less about the conditions of the clean power market than private companies do, which reduces the effectiveness of policy making and regulatory design.

2.17 The Assessment argues that Policy Objectives 2 and 3 will address the co-ordination and information asymmetry market failures as GBE will operate across the entirety of the clean energy sector and will be incentivised to be aware of and responsive to these market failures. It states that GBE can provide a trusted industry voice within government, helping to reduce asymmetries and improve the efficiency of regulation by connecting government and industry more closely.

**Market failures relevant to the policy objectives for the commercial activities funding**

2.18 The Assessment sets out that the policy objectives for the commercial activities funding address the following market failures.

*Negative externalities associated with burning fossil fuels*

2.19 The Assessment explains that Policy Objectives 4 and 5 will address this market failure (which is the same as that in paragraph 2.13) as the Subsidy will provide GBE with capital to invest in renewable energy projects.

*Early mover disadvantages*

2.20 The Assessment explains that there are positive externalities to moving early in a market. Early movers bear market discovery risks, which are not borne by companies that follow, leading to below socially optimal investment in the new technologies required to decarbonise the power sector. It explains that Policy Objectives 5 and 6 will address this market failure as GBE would take on or share market discovery and other risks which are now borne solely by the private sector, as well as providing a clear signal of the government's strategic direction.

*Under-investment in nascent technologies*

2.21 The Assessment explains that risk-adjusted returns for nascent technologies are generally lower than for established technologies, which leads to underinvestment relative to what internal and external modelling suggests is required. In addition, there are positive externalities associated with investment in nascent technologies. Innovative and nascent technologies can decrease the total social costs of a decarbonised power system, a benefit that is not fully reflected in returns to the innovating company. It explains that Policy Objective 6 addresses this market failure directly, as GBE will be incentivised to invest in nascent technologies.

2.22 In our view, the Assessment clearly describes and evidences several market failures that the Subsidy seeks to remedy. In particular, the Assessment explains well how the Subsidy will help overcome negative externalities arising from the use of fossil fuels and increase investment in nascent technologies, decreasing the cost of a decarbonised power system.

**Appropriateness**

2.23 Public authorities must determine whether a subsidy is the most appropriate instrument for achieving the policy objective. As part of this, they should consider other ways of addressing the market failure or equity issue.[6]

2.24 The Assessment explains that DESNZ has considered the following means to achieve the policy objective(s):

(a) Regulation (compelling economic actors or others to take action to remedy the market failure and/or inequality).

(b) Direct provision by DESNZ or other existing arm’s-length bodies. For example, DESNZ or another arm’s-length body delivering GBE’s activities and objectives, including making commercial investments.

(c) Provision by alternative delivery bodies (including the National Wealth Fund, the Crown Estate, Great British Nuclear, Ofgem, the British Business Bank, and UK Export Finance).

(d) Provision of a loan or equity investment on commercial (non-subsidised) terms.

(e) DESNZ providing finance or capital (on market terms or sub-market terms) to existing market players.

2.25 Each option was discounted as being unable, or a less effective way, to deliver the policy objectives. For example, the Assessment sets out that direct provision was discounted as GBE’s activities and objectives need to be delivered by a specialist company with the right skills and capabilities to deliver them. The desired blend of skills and capabilities are not available within the Civil Service, and if DESNZ were to make the investments it could risk distorting the market or discouraging private investors who would likely be hesitant to co-invest with DESNZ but be more

[6] Statutory Guidance, paragraphs 3.56–3.58.

confident investing alongside GBE as a long-term stable partner. Similarly, alternative delivery bodies were not considered to have the appropriate expertise.

2.26 Alongside the above, the Assessment also includes a longlist of additional options for delivering the policy objectives, and its reasoning as to why each was discounted. DESNZ conclude that setting up GBE via the Subsidy is the most suitable and appropriate means of delivering the policy objectives.

2.27 In our view, the Assessment demonstrates that DESNZ has considered alternative ways of achieving some of the policy objectives set out in paragraphs 2.3 to 2.5 and explains why it concluded that a subsidy was the most appropriate option. However, to the extent that the Assessment wishes to rely on six separate policy objectives, the alternatives to each should each be assessed.

## Step 2: Ensuring that the subsidy is designed to create the right incentives for the beneficiary and bring about a change

2.28 Under Step 2, public authorities should consider compliance of a subsidy with:

(a) Principle C: Subsidies should be designed to bring about a change of economic behaviour of the beneficiary. That change should be something that would not happen without the subsidy and be conducive to achieving its specific policy objective; and

(b) Principle D: Subsidies should not normally compensate for the costs the beneficiary would have funded in the absence of any subsidy.[7]

### Counterfactual

2.29 In assessing the counterfactual, public authorities should consider what would likely happen in the future – over both the long and short term – if no subsidy were awarded (the 'do nothing' scenario).[8]

2.30 The Assessment sets out a counterfactual scenario in which GBE would not exist, and the policy objective(s) would not be achieved. It explains that it would be unfeasible for GBE to secure support for its operationalisation and early commercial activities from the market, as commercial equity investors would likely expect GBE to maximise financial returns on their investments (ie maximise profits), thereby compromising GBE's ability to pursue its policy objectives.

[7] See Statutory Guidance, paragraphs 3.59–3.73 and the SAU Guidance, paragraphs 4.12–4.14 for further detail.
[8] Statutory Guidance, paragraphs 3.62–3.64.

2.31 The Assessment explains that the counterfactual assumes that other previously announced decarbonisation and energy security policies continue, and that no new policies are implemented.

2.32 In our view, the Assessment clearly describes and evidences what would be likely to happen in the absence of the Subsidy, namely that GBE would not exist and therefore the policy objectives would not be achieved.

**Changes in economic behaviour of the beneficiary and additionality**

2.33 Subsidies must bring about something that would not have occurred without the subsidy.[9] They should not be used to finance a project or activity that the beneficiary would have undertaken in a similar form, manner, and timeframe without the subsidy ('additionality').[10]

2.34 The Assessment explains that the Subsidy will facilitate the establishment of GBE, allowing it to pursue its policy objectives without being constrained by commercial pressures from market investors. It states that GBE is expected to make (individual) investments on commercial terms in conjunction with private sector partners.

2.35 DESNZ provided clarification distinguishing GBE's expected portfolio from that of a typical profit-driven commercial investor, in that by concentrating on particular types of investment, GBE's portfolio could have a lower overall risk-adjusted return.

2.36 In our view, the Assessment clearly explains that the Subsidy brings about changes, namely the establishment of GBE, that would not have occurred without the subsidy. However, to the extent that the Assessment wishes to rely on six separate policy objectives, it could better explain and provide evidence on how the subsidy will change the beneficiary's economic behaviour in a manner that is conducive to each of these policy objectives.

## Step 3: Considering the distortive impacts that the subsidy may have and keeping them as low as possible

2.37 Under Step 3, public authorities should consider compliance of a subsidy with:

(a) Principle B: Subsidies should be proportionate to their specific policy objective and limited to what is necessary to achieve it; and

[9] Statutory Guidance, paragraph 3.66.
[10] Statutory Guidance, paragraphs 3.65–3.69.

(b) Principle F: Subsidies should be designed to achieve their specific policy objective while minimising any negative effects on competition or investment within the United Kingdom.[11]

**Proportionality**

2.38 The Assessment outlines several features that it states contribute to keeping the Subsidy to the minimum necessary and proportionate to the policy objectives, including the following.

(a) Governance – a number of governance arrangements will be in place to ensure GBE's activities are limited to those that support the policy objectives. For example, GBE's Articles of Association and Statement of Strategic Priorities will define the scope of GBE's activities in line with the policy objectives, the Secretary of State will appoint at least one member of the Board, and some of GBE's operations will be reserved for approval by the Secretary of State as shareholder. The arrangements have legal force and GBE's directors will be required to act in accordance with its Articles of Association.

(b) Operations – DESNZ has determined the size, function and capability of the workforce required to achieve the policy objectives through planning activities, and it has sought advice on operational requirements for setting up a new enterprise including digital, legal, HR, project initiation and development capabilities. It states that the £28 million Subsidy for operationalisation is broadly comparable to other similar public bodies which have recently been established, such as the National Wealth Fund.

(c) Projects - there is a large pipeline of suitable projects meaning GBE is unlikely to not spend the full funding allocation in 2025-26 to achieve the policy objectives. The monitoring framework will measure the cumulative impacts of activities across the GBE portfolio for 2025-26 (primarily an evaluation of expenditure and process, although an early impact evaluation will be commissioned to evaluate early impact and value for money). Regarding the £40m funding for projects, the governance controls set out in (a) will limit activities to those that achieve the policy objectives in paragraph 2.5.

(d) Delegation limits – GBE will be subject to financial delegation limits and transactions above the limit will face increased business case scrutiny and require specific approval by DESNZ and/or HMT to proceed.

[11] See Statutory Guidance paragraphs 3.74–3.110 and the SAU Guidance, paragraphs 4.15–4.19 for further detail.

2.39 In our view, the Assessment demonstrates some features that ensure the Subsidy is proportionate in line with the Statutory Guidance. However, the Assessment should explain in more detail, using the available evidence, how the level of the Subsidy (operationalisation funding) was limited to the minimum necessary. This could include, for example, explicitly showing how benchmarking with comparable organisations has contributed to decision making on the level of the Subsidy, illustrating this with reference to information on operational costs, and headcounts at comparable organisations.

**Design of subsidy to minimise negative effects on competition and investment**

2.40 The Assessment sets out several aspects of the Subsidy which it states are relevant to minimising distortive impacts, in line with the Statutory Guidance, including: the nature of the instrument, breadth of beneficiaries and selection process, size of the subsidy, timespan over which the subsidy is given, nature of the costs covered, ringfencing, performance criteria and monitoring and evaluation.

2.41 The Assessment further explains that DESNZ has satisfied itself that the Subsidy could not be redesigned to further minimise distortions without impacting the achievement of the policy objectives. It sets out explanations in support of this conclusion including the following.

(a) Regarding the nature of the instrument, the Assessment considers several alternative options to explain how the chosen instrument best minimises potential distortions while still achieving the policy objective, building on the information provided under Step 1. For example, it states that GBE's investment decisions would be closer to that of a private investor if DESNZ provides the funding in exchange for a share issue (with a potential requirement for returns at a later stage) compared to a grant which has no expectation of return.

(b) Regarding the selection of beneficiaries, the Assessment acknowledges that subsidies that are available to a broad set of recipients are less likely to be distortive than subsidies only available to a single enterprise. However, to achieve the policy objective, the Assessment states that the breadth of the beneficiary is necessarily narrow, ie the Subsidy establishes a specific organisation capable of delivering the required investment activities in clean energy to resolve market failures and mobilise additional private finance.

(c) Elsewhere, the Assessment considers the option of acquiring an existing market participant. It explains there would be a need to impose substantially similar terms on the acquired company as DESNZ is imposing on GBE to resolve the market failures set out in Step 1 (see paragraphs 2.11 to 2.21). However, it states there is a risk of achieving a less successful (and more costly) outcome than establishing a new enterprise given the potential influence of the existing enterprise's (profit-maximising) corporate history on achieving outcomes.

(d) Regarding the size of the Subsidy, the Assessment evaluates factors that affect the likelihood of the Subsidy having distortive impacts on competition and investment. For example, it provides information on the size of the subsidy relative to the affected market(s). It finds that the relative size of the Subsidy is low compared to the required annual clean energy investment for the UK (see paragraph 2.45(b)).

(e) Regarding performance and monitoring and evaluation, DESNZ plans to track the performance of GBE (by reference to a set of metrics and criteria) to ensure it is meeting the policy objectives for the Subsidy. Specific performance indicators are to be designed in discussion with GBE and will be included in relevant documents such as GBE's Strategic Plan and/or Business Plan.

(f) Regarding the potential returns requirement (returns to the Secretary of State from GBE), the Assessment states there is no immediate return requirement for the Subsidy as this would not allow GBE to act in a way that meets the policy objectives. The Assessment explains the considerations which informed this decision including: (i) the aim is for GBE to become self-financing over time; (ii) GBE's ability to receive (and retain) returns from its portfolio will enable it to become self-financing; and (iii) the level of further government funding GBE requires (beyond the Subsidy term) will tend to decrease over time as GBE moves towards self-financing. The Assessment explains that DESNZ will monitor the potential to impose a return on all or part of the Subsidy, taking these considerations into account, alongside the need to achieve the policy objectives (to invest in clean energy, including nascent technologies).

2.42 In summary**,** the Assessment demonstrates how the design features of the Subsidy contribute to minimising negative effects of the Subsidy on competition and investment within the United Kingdom.

**Assessment of effects on competition or investment**

2.43 The Assessment sets out two broad markets potentially impacted by the Subsidy: the clean energy investment market and the clean energy generation market in the UK. It describes potential competitive alternatives to GBE's services, being financing from existing clean energy providers and the green finance sector. DESNZ clarified that the most likely alternative source of investment in clean power projects is existing energy generators which both develop and operate clean energy assets. It also identifies some related markets including UK wholesale power generation and input markets (particularly the labour market).

2.44 DESNZ further explained that the Subsidy will likely have some distortive effects on investment in clean energy in the UK. It notes that the Subsidy enables GBE's initial activities for the year 2025-2026 only. In the longer term and subject to future post-2025-2026 funding allocations, GBE's continued activities are expected to make a material impact on the clean energy market (with future funding subject to further subsidy assessment as relevant).

2.45 However, for the Subsidy, the Assessment considers that any adverse impacts on the clean energy market are unlikely to be significant for the following reasons.

(a) GBE aims to lower barriers to entry and expansion to the clean energy market that will benefit businesses considering entering or expanding. GBE's activities to reduce barriers include reducing planning uncertainty by moving first, financing nascent technologies, diversifying the routes to market and providing development advice.

(b) The relative size of the Subsidy is low (around 0.17%) compared to the required average value of annual clean energy investment across 2025 - 2030 to meet the government's clean energy targets.

(c) The relative size of the Subsidy is low compared to the combined annual turnover of businesses operating within the UK clean energy market in 2022. Furthermore, the Assessment observes that there are a large number of businesses active in the UK clean energy market (35,000 in 2022) and this potential indicator of competition intensity suggests a lower likelihood of significant distortive impact of the Subsidy in this market.

(d) The clean energy market is expected to continue to grow strongly, meaning GBE's competitors face strong general growth in demand. This reduces the likelihood of the Subsidy significantly distorting competition and investment in the UK.[12]

2.46 More generally, the Assessment sets out that the distortive effect on competition and investment in the UK energy generation market (and trade and international investment) is expected to be minimal for the following reasons:

(a) The relative size of the Subsidy, in terms of generation capacity it could purchase, is low compared to the UK energy generation market.

[12] As per Statutory Guidance paragraph 17.60.

(b) The UK energy generation market is reported by Ofgem to have relatively low levels of concentration, limiting the likelihood of significant distortive impact of the Subsidy.[13]

2.47 The Assessment considers the potential impact of the Subsidy on input markets, in particular, the labour market with regard to staffing GBE. It states that the impact of the Subsidy on the labour market will be insignificant on the basis that the planned staffing levels (around 150 FTE by the end of 2025) and £12.5m staffing cost is low compared to the overall labour market.

2.48 In our view, the Assessment considers and evidences some aspects of the effect of the Subsidy on competition and investment, in line with Annex 3 of the Statutory Guidance.

2.49 However, the Assessment could more clearly explain and evidence some of the expected distortive impact of the Subsidy on the clean energy market. For example:

(a) comparing the relative size of the Subsidy with current clean energy investment levels (particularly private investment levels), not just target levels;

(b) using qualitative evidence from third party reports to further evidence the likely nature of impact on third parties (such as clean energy developers and financiers); and

(c) considering potential local labour market impacts given the specialised skills required for GBE and its location in Aberdeen.

## Step 4: Carrying out the balancing exercise

2.50 Under step 4 (Principle G), public authorities should establish that the benefits of the subsidy (in relation to the specific policy objective) outweigh its negative effects, in particular negative effects on competition or investment within the United Kingdom and on international trade or investment.[14]

2.51 The Assessment sets out the benefits of the Subsidy, which include:

(a) environmental benefits, where GBE invests in projects that reduce carbon emissions and improve air quality, as well as where GBE's activities reduce the delivery risk of existing power sector decarbonisation targets by increasing market co-ordination, increasing the level of capital in the market,

[13] Referring to Statutory Guidance paragraphs 17.51–17.53
[14] See Statutory Guidance, paragraphs 3.111–3.119 and the SAU Guidance, paragraphs 4.20–4.22 for further detail.

crowding in capital and improving public attitudes towards the energy transition;

(b) system benefits, where GBE's investment in niche sectors and/or first-of-a-kind technology has the potential (in the long-term) to reduce development, capital or network costs; and

(c) economic benefits, where GBE earns a profit or improves economic outcomes, for example by reducing leakage of profits and investment from the UK and increasing productivity from higher-skilled jobs.

2.52 The Assessment identifies two main risks, which are analysed in terms of their likelihood and mitigated through governance mechanisms, subsidy design, and market context. These potential negative impacts on competition and investment include a risk that the Subsidy:

(a) might reduce commercial discipline within GBE - the lack of commercial investment / shareholder expectations may lead to GBE undertaking sub-commercial or commercially inefficient activities that a commercially funded entity would not be incentivised to undertake; and

(b) could distort competition through real or perceived market advantages – it may adversely influence the market, as market participants may perceive that GBE will be able to operate on better terms/be advantaged as a result of its subsidy from DESNZ and/or its relationship with the public sector.

(i) In particular, the Assessment discusses that GBE may, as a result of its lower cost of capital, be in a position to invest on sub-market terms, which could crowd-out private capital. However, the Assessment sets out that the risk of this is minimal, as GBE will undertake its commercial activities funded by the Subsidy on normal market terms.

(ii) The Assessment also considers that market participants may be negatively influenced by a perception that GBE's status as a state-owned enterprise and connection with the public sector could lead to GBE (a) receiving information (on eg policy development, Ministerial decisions) on a preferential basis, enabling GBE to compete more effectively; (b) receiving preferential treatment from public or semi-public entities (as part of eg procurement exercises or when applying for planning permission); and/or (c) receiving opportunities not otherwise available to other market participants (at all or on the same terms). The Assessment considers that this risk is unlikely to materialise, as GBE would be subject to relevant subsidy control, competition law and public procurement regulations.

2.53 The Assessment sets out that it is unlikely that the £68 million investment for GBE's activities in the financial year 2025-26 will have a significant negative impact on competition and investment within the UK, or on international trade and investment due to the comparatively low level of funding (when compared to the size of the market and the market concentration). It states that the Subsidy is not expected to increase barriers to exit and could lower barriers to entry, and that the market is experiencing marked levels of growth.

2.54 When discussing geographic impacts, the Assessment sets out that, as the Subsidy is not expected to be regionally concentrated, there are unlikely to be any significant adverse impacts on a particular group or area. However, we note that this reasoning applies to investments GBE may make as opposed to the Subsidy itself, of which the operationalisation funding may be regionally concentrated.

2.55 The Assessment concludes that the benefits of achieving the policy objectives of the Subsidy outweigh the potential negatives.

2.56 In our view, the Assessment sets out the positive effects and negative impacts of the Subsidy in relation to the policy objectives and conducts a balancing exercise between them in line with the Statutory Guidance.

## Energy and Environment Principles

2.57 This section sets out our evaluation of the Assessment against the energy and environment principles.[15]

2.58 DESNZ has conducted an assessment of the Subsidy against Principles A and B.

### Principle A: Aim of subsidies in relation to energy and environment

2.59 Subsidies in relation to energy or the environment should be aimed at (1) delivering a secure, affordable and sustainable energy system and a well-functioning and competitive energy market, or (2) increasing the level of environmental protection compared to the level that would be achieved in the absence of the subsidy. If a subsidy is in relation to both energy and environment, it should meet both limbs.[16]

2.60 The Assessment states that the Subsidy (and GBE more generally) is designed to crowd-in private capital by derisking early development and nascent technologies thereby contributing to a well-functioning and competitive energy market. It further explains that GBE is incentivised by the design of the Subsidy to act as a strategic

[15] See Schedule 2 to the Act, and Statutory Guidance, Chapter 4.
[16] Statutory Guidance, paragraphs 4.19–4.28.

investor in the clean energy sector to contribute to government's decarbonisation targets.

2.61 In our view, the Assessment states, briefly, how the Subsidy complies with Principle A of the energy and environment principles.

**Principle B: Beneficiary's liabilities as a polluter**

2.62 Subsidies in relation to energy or the environment should not relieve the beneficiary from liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland, or Northern Ireland.[17]

2.63 The Assessment states that the Subsidy does not relieve GBE from any liabilities arising from its responsibilities as a polluter under English and Welsh law. However, DESNZ should consider extending its statement to cover the law of Scotland and Northern Ireland, given the intention that GBE is to be established in Scotland.

**Other Energy and Environment Principles**

2.64 The Assessment states that, as the Subsidy is not specifically designed to be granted for the purpose of electricity generation adequacy or for the purpose of cogeneration, it does not, therefore, engage those limbs of Principles C, D or E. It goes on to explain that whilst the Subsidy does relate to renewable energy, the relevant limbs of Principles C and E do not apply because the Subsidy was not specifically designed to be granted for the purpose of renewable energy.

2.65 However, notwithstanding this argument, the Assessment goes on to argue that the Subsidy is consistent with these Principles (where relevant) in respect of renewable energy.

**Principle C: Subsidies for electricity generation adequacy, renewable energy, or cogeneration**

2.66 Subsidies or schemes for electricity generation adequacy, renewable energy, or cogeneration should not undermine the UK's ability to ensure that wholesale electricity and natural gas prices reflect actual supply and demand, and that the wholesale electricity and natural gas market rules will, in general terms, be transparent, encourage free price formation, and operate in an efficient and secure manner.[18] They should also not unnecessarily affect the efficient use of electricity interconnectors between the UK and the European Union. Finally, they should be determined by means of a transparent, non-discriminatory and effective

[17] Statutory Guidance, paragraphs 4.29–4.34.
[18] Article 304 of the Trade and Cooperation Agreement between the United Kingdom of Great Britain and Northern Ireland, of the one part, and the European Union and the European Atomic Energy Community, of the other part.

competitive process, or, alternatively, an explanation should be provided for why a non-competitive process was used.[19]

2.67 The Assessment states that the nature of the Subsidy, being the provision of funding to a new state-owned energy company, means it would fall outside the scope of Article 304 of the Trade and Cooperation Agreement (TCA) and could not, therefore, engage paragraph 1(a) of Principle C which provides that subsidies shall not undermine the ability of the UK to meet its obligations under Article 304 of the TCA.

2.68 It concludes this for the following reasons: in respect of Article 304(1), the Subsidy does not have a bearing on whether wholesale electricity and natural gas prices reflect actual supply and demand; in respect of Article 304(2), it does not have a bearing on the organisation of balancing markets; in respect of Article 304(3), it does not have a bearing on the operation of capacity mechanisms; in respect of Article 304(4), it does not have a bearing on the assessment of actions to facilitate the integration of gas from renewable sources.

2.69 Furthermore, the Assessment reasons that the Subsidy is such that it could not have a bearing on the efficient use of electricity interconnectors as contemplated by Article 311 of the TCA.

2.70 The Assessment also notes that whilst Principle C provides that subsidies shall be determined by means of a transparent, non-discriminatory and effective competitive process, paragraph (2) effectively disapplies this provision in respect of subsidies for renewable energy or cogeneration, provided appropriate measures are put in place to prevent overcompensation and one of the subparagraphs to paragraph (2) applies.

2.71 In the case of the Subsidy, the Assessment argues that there are appropriate measures to prevent overcompensation as described throughout, and that subparagraph (a) of paragraph (2) of Principle C applies. The subparagraph applies where the potential market supply is insufficient to ensure a competitive process, which is the case in respect of the investment because GBE is the only possible recipient of the Subsidy.

2.72 In our view, whilst noting DESNZ's conclusion that Principle C does not apply, the Assessment provides an explanation as to how the Subsidy would otherwise comply with Principle C of the energy and environment principles.

[19] Statutory Guidance, paragraphs 4.36–4.44.

### Principle E: Subsidies for renewable energy or cogeneration

2.73 Subsidies for renewable energy or cogeneration should not affect beneficiaries' obligations or opportunities to participate in electricity markets.[20]

2.74 The Assessment states that the Subsidy does not have any such effects because it does not impose any restrictions or conditions in respect of such obligations and opportunities of GBE.

2.75 In our view, whilst noting DESNZ's conclusion that Principle E does not apply, it is apparent from the Assessment that the Subsidy would otherwise comply with Principle E of the energy and environment principles.

## Other Requirements of the Act

2.76 DESNZ have confirmed that no other requirements or prohibitions set out in Chapter 2 of Part 2 of the Act apply to the Subsidy.

**06 June 2025**

[20] Statutory Guidance, paragraphs 4.48–4.51.