

Subsidy Advice Unit Report on the Great British Energy Multi-Year Capitalisation Scheme

Referred by the Department for Energy Security
and Net Zero

4 March 2026

Subsidy Advice Unit

Part of the Competition and Markets Authority



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1. The Referral

- 1.1 On 23 January 2026, the Department for Energy Security and Net Zero (DESNZ) requested a report from the Subsidy Advice Unit (the SAU)¹ in relation to its Great British Energy Multi-Year Capitalisation Scheme (the Scheme) 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 Scheme 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 Scheme should be implemented 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 Scheme with the subsidy control and energy and environment principles. In particular, the Assessment:
 - (a) clearly describes and evidences the specific policy objective of the Scheme (Principle A);
 - (b) clearly describes why subsidy is the most appropriate means of achieving the policy objective (Principle E); and
 - (c) clearly describes and evidences what would be likely to happen in the absence of the Scheme, and that it brings about changes that would not otherwise have occurred absent it (Principles C and D).

¹ The SAU is part of the Competition and Markets Authority.

² [Referral of the proposed Great British Energy Multi-Year Capitalisation Scheme 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.

- 1.6 However, in relation to Principle B, the Assessment should explain how DESNZ will ensure the setting of GBE's target IRR will keep the subsidy to the minimum necessary, including through comparison to industry benchmarks.
- 1.7 We discuss these areas below, along with other issues, for consideration by DESNZ in finalising its assessment.

The referred scheme

- 1.8 DESNZ propose to make a Scheme that will provide up to £5.3 billion⁴ of investment into Great British Energy Group Limited (GBE) over a four-year period (Financial Years 2025-26 to 2029-30). DESNZ is the sole shareholder in GBE.
- 1.9 The Scheme will provide funding, ancillary services and related benefits in exchange for shares issued by GBE through a facility agreement between DESNZ and GBE. GBE may draw down funds from a capped allocation over a four-year period, subject to demonstrating financial need.
- 1.10 GBE is the UK's publicly owned energy company whose overall strategic objectives are to drive clean energy deployment across the whole of the UK as a strategic developer, investor, and owner of clean energy projects. Its objective is to support clean energy transition by ensuring 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.
- 1.11 The Scheme will support both aspects of the UK government's clean energy superpower mission – to deliver clean power by 2030 and meet future increases in demand as the UK accelerates to Net Zero.
- 1.12 The investment from DESNZ will be used for:
- (a) Project development and investment: GBE will develop, invest in, build, own, and operate clean energy projects, taking different roles in projects and technologies in line with its Strategic Plan.
 - (b) Supply chain equity investments: GBE will make equity investments in domestic supply chains that are critical to supporting the deployment of clean energy projects by unblocking supply chain constraints.
 - (c) Sub-commercial loans for local and community energy: GBE will deploy a proportion of its capitalisation by providing sub-commercial loans to local

⁴ DESNZ will provide GBE with an additional c£500 million to fund non-commercial activities. According to DESNZ, this funding does not constitute a subsidy and is therefore out of scope of this report.

government and community energy groups to enable them to enter into joint ventures and equity partnerships for relevant projects.

- (d) Ongoing operationalisation of GBE: GBE will be capitalised by DESNZ to facilitate its continued operationalisation and organisational growth.

1.13 DESNZ explained that the Scheme is a Scheme of Particular Interest because it allows for the provision of one or more Subsidies of Particular Interest to be given.⁵

⁵ Within the meaning of regulation 3 of [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) Regulations 2022](#) and [The Subsidy Control \(Subsidies and Schemes of Interest or Particular Interest\) \(Amendment\) Regulations 2025](#) which set out the conditions under which a subsidy or scheme is considered to be of particular interest.

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.⁶

Policy objectives

2.3 The Assessment states that the policy objective of the Scheme is to scale-up GBE as a publicly owned company to become an enduring organisation, enabling it to undertake commercial activities and provide advice and expertise to support UK government's decarbonisation targets, including through direct and indirect means, as well as to continue its operationalisation to achieve this policy objective.

2.4 The Assessment describes that GBE's mission is to accelerate clean power deployment to create jobs, boost energy independence, and ensure UK taxpayers, billpayers, and communities reap the benefits of clean, secure, homegrown energy. It further explains that GBE will also support the UK government's mission, through its Industrial Strategy, to kickstart economic growth by investing in clean energy projects and related supply chains, expected to create high-quality jobs in the UK, and provide market confidence in nascent and growth sectors.

2.5 In our view, the Assessment clearly describes and evidences the specific policy objective of the Scheme.

⁶ See [Statutory Guidance](#), paragraphs 3.33–3.59 and the [SAU Guidance](#), paragraphs 3.6–3.10 for further detail.

Market failure

- 2.6 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.⁷
- 2.7 The Assessment describes seven market failures grouped under two headings, externalities and coordination failure/information asymmetry.

Externalities

Negative externalities associated with burning fossil fuels

- 2.8 The Assessment states that there are negative externalities associated with burning fossil fuels, and that a significant increase in low-carbon energy investment is required to meet UK government's decarbonisation targets. It describes how the Scheme will enable GBE to participate in the market as an investor in clean energy projects to address this market failure by undertaking activity which reduces carbon emissions produced by burning fossil fuels.

Externalities related to geographically distributed energy generation assets

- 2.9 The Assessment explains that there are system cost reductions from, and energy security benefits of, geographically distributed energy generation assets. It states that grid costs are socialised across all market participants rather than realised in their entirety by those who caused them, therefore there is reduced incentive for private investment in some geographies. This is a positive externality in that individual firms' investment decisions do not take into account the impact that those decisions will have on the total costs of the energy system nor do they take account of the long-term strategic importance of the development of certain sectors to the UK government's policy objectives. The Assessment states that the Scheme will address this market failure as GBE is legally required to align its activities to DESNZ's strategic priorities which will include a long-term view of the energy technologies and locations needed to meet Net Zero.

Early mover disadvantage

- 2.10 The Assessment explains that early movers bear market discovery risks, which are not borne by companies that follow, leading to below socially optimal investment in the nascent technologies required to decarbonise the power sector. It argues that this can also apply to developed technologies such as onshore wind due to the legacy policy issues and associated perceived regulatory risks. It states that the

⁷ [Statutory Guidance](#), paragraphs 3.57–3.59.

Scheme will address this market failure as GBE's investment will provide precedent, reduce project risk and return requirements which will increase private investment.

Coordination failures and information asymmetry

Imperfect information on the UK government's decarbonisation strategy leading to co-ordination failures.

- 2.11 The Assessment states that DESNZ has received consistent stakeholder feedback that clean power firms and firms in the clean power supply chain are delaying investment decisions until upstream or downstream firms have made an investment decision, which cascades across the supply chain. It explains that in a supply chain with long lead times, where several firms must agree to move simultaneously to make investments viable, policy certainty is integral to creating a conducive investment ecosystem. The Assessment cites analysis by the International Energy Agency which shows that in 2023 and 2024, energy-related venture capital funding declined globally by 20%, which it attributes in part to uncertainties about political commitments to addressing climate change.
- 2.12 The Assessment explains that the Scheme will address this market failure by enabling GBE to operate across the clean energy sector, using its commercial activity and expertise to signal UK government's commitment, reduce investment risk, support domestic supply chains, and boost confidence in the UK's decarbonisation strategy. It states that GBE's enduring institutional role will demonstrate strategic commitment, reduce perceived policy risks across the supply chain, and can unlock coordinated investment at scale.

Barriers to entry

- 2.13 The Assessment states that clean energy projects are characterised by high upfront capital costs which create barriers to entry for new or smaller market participants who lack sufficient capital who have higher technical or policy risk.
- 2.14 The Assessment adds this is particularly the case for nascent technologies which are critical to the UK's future security of supply as they create system diversification and flexibility. It explains the Scheme will address this by enabling GBE to invest in and co-develop higher-risk projects or projects led by participants that would otherwise struggle to secure funding, with GBE's public ownership allowing it to take on risks that private investors typically cannot do due to constraints by commercial returns and shareholder interests.

Imperfect information leading to a mispricing of risk

- 2.15 The Assessment explains that investors face significant uncertainty when assessing the long-term performance, revenue stability, and technology risks associated with projects across the clean energy market, especially with nascent technologies who have limited performance data. This uncertainty results in a mispricing of risk and reduced investment.
- 2.16 The Assessment explains that GBE will take a long-term view of the clean energy market, enabling it to price some of these risks more accurately and that over time GBE's participation may help to generate market benchmarks and performance data that reduce information asymmetries across the sector.

Information asymmetry between energy development companies and the public sector

- 2.17 The Assessment explains that UK government knows less about the conditions of the clean power market than private companies do, particularly in the nascent technology space, which can reduce the effectiveness of policymaking, regulatory design, and subsidy provision. It explains that GBE will play a market coordination role, helping to coordinate government policy with public and private investment.
- 2.18 The Assessment also argues 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.
- 2.19 In our view, the Assessment clearly describes and evidences how the investments made by GBE can address market failures including externalities and early mover disadvantage. This helps the Assessment demonstrate how, by capitalising GBE, the Scheme will remedy market failures. However, the Assessment could more clearly explain why barriers to entry, as well as information asymmetry between energy development companies and the public sector constitute market failures.

Appropriateness

- 2.20 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.⁸
- 2.21 The Assessment explains that DESNZ has considered the following means to achieve the policy objective:

⁸ [Statutory Guidance](#), paragraphs 3.57–3.59.

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

2.22 Each option was discounted on the grounds that it could not deliver the policy objective, or would do so less effectively. In addition, the Assessment includes a longlist of additional options for delivering the policy objective, along with the rationale for why each was discounted. DESNZ conclude that supporting GBE via the Scheme is the most suitable and appropriate means of delivering the policy objective.

2.23 In our view, the Assessment demonstrates that DESNZ has considered other ways of achieving its policy objective and clearly explains and evidences why the Scheme was the most appropriate option.

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

2.24 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.⁹

⁹ See [Statutory Guidance](#), paragraphs 3.60–3.74 and the [SAU Guidance](#), paragraphs 3.11–3.13 for further detail.

Counterfactual

- 2.25 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).¹⁰
- 2.26 The Assessment sets out a counterfactual scenario in which GBE would not be capable of operating beyond financial year 2025/26 and therefore would be unable to address the market failures targeted by the policy objective.
- 2.27 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. It further explains that, in any event, such funding from the market would also be difficult for GBE to acquire due to its indicative classification as a central government body, making it subject to Managing Public Money guidance.
- 2.28 In our view, the Assessment clearly describes and evidences what would be likely to happen in the absence of the Scheme, and that the policy objectives would not be achieved.

Changes in economic behaviour of the beneficiary and additionality

- 2.29 Subsidies must bring about something that would not have occurred without the subsidy.¹¹ 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’).¹² For schemes, this means that public authorities should, where possible and reasonable, ensure the scheme’s design can identify in advance and exclude those beneficiaries for which it can be reasonably determined would likely proceed without subsidy).¹³
- 2.30 The Assessment explains that the Scheme will influence the economic behaviour of GBE and bring about change that would not have otherwise occurred. It states that, in its absence, GBE will be unable to continue operating as a publicly owned clean energy company and therefore be unable to undertake commercial investments and support its continued operationalisation as a publicly owned company in support of the policy objective.

¹⁰ [Statutory Guidance](#), paragraphs 3.63–3.65.

¹¹ [Statutory Guidance](#), paragraph 3.67.

¹² [Statutory Guidance](#), paragraphs 3.66–3.70.

¹³ [Statutory Guidance](#), paragraphs 3.71–3.73.

- 2.31 The Assessment further argues that the Scheme has been designed to continue to incentivise GBE to deliver the commercial investments across financial years 2026/27 to 2029/30 required to address the policy objective, in particular, by focusing on achieving both profitability and additionality.
- 2.32 The Assessment explains that the Scheme has been designed to ensure that the coverage of both operational costs and capitalisation to support commercial activity incentivises GBE to act in a way that is additional to existing market players or new market players supported by private capital. For example, a key feature of the Scheme's incentive structure is to encourage GBE to make longer-term investments in clean energy projects, alongside private investors, critical to meeting government decarbonisation objectives and that GBE's internal rate of return (IRR) target will be calibrated to support the delivery of the policy objective, rather than purely commercial considerations.
- 2.33 The Assessment sets out that GBE is required to make a portfolio-level return on its commercial investments and have a plan in place for becoming financially sustainable and self-financing. The IRR target is therefore designed to strike a balance between ensuring delivery of the policy objective whilst enabling GBE to build a commercially viable portfolio over time and is justified and appropriate as it will remain in its scaling phase throughout the subsidy period and that the Scheme will allow it to undertake commercial activity in pursuit of the policy objective.
- 2.34 In our view, the Assessment clearly explains how the Scheme will change the economic behaviour of GBE and that it brings about changes that would not otherwise occur absent the subsidy.

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

- 2.35 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
 - (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.¹⁴

¹⁴ See [Statutory Guidance](#) paragraphs 3.75–3.112 and the [SAU Guidance](#), paragraphs 3.14–3.18 for further detail.

Proportionality

2.36 The Assessment sets out several features that it states are intended to keep Scheme funding to the minimum necessary and proportionate to the policy objectives:

- (a) Investment portfolio returns requirement: DESNZ will fund GBE during the Scheme term through equity investments on sub-market terms, with an expectation that GBE will begin delivering a portfolio-level return by 2030. GBE will be required to meet a target IRR for its portfolio of investments in the clean energy sector to ensure that GBE is incentivised to pursue efficiency whilst also attaining the policy objective (see paragraph 2.33).

The Assessment acknowledges that the final IRR has not yet been set, however it states it will be set in line with the principles of HMT's Financial Transactions Control Framework and calibrated (i) to support the delivery of the policy objective rather than purely commercial consideration; (ii) to strike a balance between supporting the policy objective and ensuring that GBE builds a commercially viable portfolio over time to enable it to be less reliant on future subsidies for funding.

- (b) Governance controls: DESNZ will ensure that GBE's activities remain focussed on delivering the policy objectives including through its Articles of Association and its Statement of Strategic Priorities, which together define the scope of GBE's activities. In addition, GBE's financial controls will ensure that all spending is aligned with the Strategic Plan and supports the policy objectives.
- (c) Investment project planning: GBE spend of the Scheme budget will be determined by annual business planning and the opportunities identified in the market.
- (d) Value for money: GBE's monitoring and evaluation framework will include an early impact and economic evaluation that will determine the value of social and economic effects of investment projects and compare these to the public cost. The evaluation is expected to be commissioned by the end of financial year 2028/29 to help inform the statutory review of GBE and ahead of future Spending Reviews.

2.37 In our view, the Assessment demonstrates some features that ensure the Scheme is proportionate and limited to the minimum necessary to achieve its specific policy objective, in line with the Statutory Guidance.

2.38 However, while the Assessment sets out the broad principle for the portfolio-level IRR, it should explain how, in practice, DESNZ will ensure the setting of GBE's

target IRR will keep the subsidy to the minimum necessary, including through comparison to industry benchmarks.

Design of subsidy to minimise negative effects on competition and investment

- 2.39 The Assessment considers whether the Scheme possesses features which may make it more likely to have a distortive impact on competition or investment within the UK, in line with the Statutory Guidance. It assesses Scheme features including: (i) the nature of the instrument, (ii) breadth of beneficiaries and selection process, (iii) size of the subsidy, (iv) the timespan over which the subsidy is given, (v) nature of the costs covered, (vi) ringfencing, (vii) performance criteria and (viii) monitoring and evaluation.
- 2.40 In particular, in relation to the nature of the instrument, the Assessment sets out several alternative options it considered and explains the basis on which these options were rejected, building on the information provided under Step 1. For example, it states that providing funding through a share issue (with a requirement for return at a later stage) will encourage GBE's investment decisions to be closer to that of a private investor compared to a (non-repayable) grant (with no expectation of return).
- 2.41 On 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, it states that the breadth of the beneficiary is necessarily narrow to establish a specific organisation capable of delivering the required investment activities in clean energy to resolve market failures and mobilise additional private finance.
- 2.42 Regarding the size of the Scheme, the Assessment evaluates factors that affect the likelihood of subsidy having distortive impacts on competition and investment. For example, it finds that the relative size of the Scheme is low compared to the required annual clean energy investment for the UK (£5.3 billion value of the Scheme for 2026/27 to 2029/30 is roughly 3.3% of the total investment needed to reach the Clean Power 2030 target).
- 2.43 The Assessment considers how the Scheme's funding profile contributes to reducing the likelihood of GBE activities negatively distorting private investment in clean energy projects. It explains that GBE funding is capped by expenditure type and it states that this contributes to disincentivising GBE from taking on majority ownership or risk positions in projects (for which there is a limited budget of up to £1.3 billion spending compared to the larger - up to £4 billion - budget permitted for GBE minority investments in projects co-funded alongside the private sector¹⁵).

¹⁵ includes concessional and commercial loans

It states this approach is expected to reduce distortions whereby GBE funding catalyses additional private finance to accelerate investment in the clean energy market (rather than crowd it out).

- 2.44 In our view, the Assessment demonstrates and evidences how design features of the Scheme contribute to minimising any negative effects of the Scheme on competition and investment within the United Kingdom.
- 2.45 However, while the Assessment explains how the £1.3 billion funding cap for majority-owned projects limits the risk of crowding out clean energy development by third parties, it could go further by outlining how the cap level was determined and how this design choice helps ensure that any potential negative distortions on investment (such as crowding out private investment) are reduced to the minimum necessary.
- 2.46 In addition, DESNZ could more fully explain, in line with the Statutory Guidance, how GBE's financial control framework will help ensure GBE's project identification and selection processes are transparent and minimise competitive distortions.

Assessment of effects on competition or investment

- 2.47 The Assessment identified the UK clean energy market as the key market that the Scheme will affect. It describes potential competitive alternatives to GBE's services. These include:
- (a) renewable energy project development activities undertaken by existing energy companies;
 - (b) project financing from existing clean energy providers and the green finance sector; and
 - (c) operation of renewable energy assets from existing energy companies who manage projects through construction, commissioning and ongoing operations including the generation and sale of electricity in the wholesale market.
- 2.48 The Assessment states 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).
- 2.49 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 into

that market. 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 Scheme is low relative to the required annual investment levels for clean energy set out in the 2030 Clean Power target see paragraph 2.42.
- (c) The amount of energy generation by GBE is expected to be small relative to total UK power generation (up to 3.5% of the total energy generated in the UK in 2030, the final year of the Scheme).
- (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 Scheme significantly distorting competition and investment in the UK.¹⁶

2.50 The Assessment considers the potential impact of the Scheme on input markets, in particular, the labour market and on supply chains. It recognises that, in the short term, the Scheme's funding of GBE to enter the market could exacerbate labour shortages by increasing demand for scarce skills, particularly in project development and engineering roles. However, it argues that these effects are mitigated by the fact that the majority of GBE's capitalisation will be provided as financial transactions capital, enabling GBE to make minority investments in clean energy projects rather than acting as a sole developer.

2.51 DESNZ also considered the potential impact of the Scheme on supply chains, which it concludes is unlikely to create bottlenecks or negatively impact competition in these markets.

2.52 The Assessment also considers the potential impact of the Scheme on markets not directly targeted by the Scheme, including downstream markets that may be affected by upstream interventions. These include (i) cost of electricity, and (ii) revenue support mechanisms (such as Contracts for Difference). It concludes that the Scheme is unlikely to have negative effects in these downstream markets.

2.53 In our view, the Assessment considers and evidences various aspects of the effect of the Scheme on competition and investment, in line with Annex 3 of the Statutory Guidance. However, the Assessment, when looking at the likely short term distortive impacts and the potential impact on competition for critical components and services to the clean energy market, could make better use of available evidence including third party reports and consultation feedback.

¹⁶ As per [Statutory Guidance](#) paragraph 17.60.

Step 4: Carrying out the balancing exercise

- 2.54 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.¹⁷
- 2.55 The Assessment sets out the benefits of the Scheme, which include:
- (a) environmental benefits: these arise where GBE invests in projects that reduce carbon emissions and improve air quality, as well as where activities reduce the delivery risk of existing power sector decarbonisation targets by increasing market co-ordination, increasing the level of capital in the market, 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.
- 2.56 The Assessment identifies three main risks, which are analysed in terms of their likelihood and mitigated through governance mechanisms, subsidy design, and market context. These potential negative impacts include:
- (a) Lower commercial terms for investment may create negative incentives to the way GBE will operate. GBE will not have the same shareholder expectations that exist in the private sector which could in theory lead to GBE making slower or less commercially optimal investment decisions, relative to a private developer or investor. The Assessment explains that robust control mechanisms and incentives are in place to ensure that GBE is making viable commercial investments that support the delivery of the policy objective, including an IRR and key performance criteria which will be routinely monitored by DESNZ.
 - (b) GBE's utilisation of the Scheme will support investments in nascent technologies and previously inaccessible or unviable markets that support the UK government's decarbonisation goals. The Assessment acknowledges that this could temporarily weaken competitive pressure in parts of the market if GBE are accumulating knowledge, relationships and experience

¹⁷ See [Statutory Guidance](#), paragraphs 3.113–3.121 and the [SAU Guidance](#), paragraphs 3.19–3.21 for further detail.

ahead of other developers. However, it explains that GBE is expected to undertake minority investments in clean energy projects, which will mobilise private investment and ensure that benefits are not concentrated solely within GBE and thus minimise distortive effects.

- (c) GBE receiving subsidies under the Scheme 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. In particular, the Assessment:
- (i) 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 Scheme on normal market terms and that GBE will be disincentivised from taking on majority ownership or risk positions in projects, see paragraph 2.43;
 - (ii) 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 receiving preferential treatment. The Assessment considers this risk to be mitigated by the enforceable legal requirements on GBE and relevant public bodies to implement safeguards designed to prevent any such treatment.

2.57 When discussing geographic impacts, the Assessment sets out that the Scheme is not expected to create regional distortions, as decisions around project location will be driven by the same market fundamentals driving private sector actors and therefore the scheme itself is not distortionary from a geographic perspective.

2.58 The Assessment concludes therefore that the Scheme is unlikely to have any significant adverse impacts on a particular group or area. It notes that a potential exception to this is Aberdeen where the GBE headquarters will be located but states that the proportion of the total subsidy allocated to operations in Aberdeen is minimal and therefore unlikely to have a major distortionary effect.

2.59 The Assessment concludes that the benefits of achieving the policy objectives of the Scheme outweigh the potential negative effects.

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

- 2.61 However, on geographical impacts, we note that the Assessment elsewhere states that GBE will be able to develop projects in locations/geographies where purely commercial incentives have led to underinvestment by the private sector. This appears consistent with the Assessment's identification of a market failure linked to geographically dispersed energy generation assets. In light of this, DESNZ should assess more fully, as part of Step 4, the potential for negative effects in areas from which investments may be diverted.
- 2.62 In addition, to the extent that DESNZ makes changes to Step 3, on the basis of this report these will need to be reflected in the balancing exercise of Step 4.

Energy and Environment Principles

- 2.63 This section sets out our evaluation of the Assessment against the energy and environment principles.¹⁸
- 2.64 DESNZ has conducted an assessment of the Subsidy against Principles A and B.

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

- 2.65 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.¹⁹
- 2.66 The Assessment states that the Scheme (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 Scheme to act as a strategic investor in the clean energy sector to contribute to government's decarbonisation targets.
- 2.67 In our view, the Assessment states, briefly, how the Scheme complies with Principle A of the energy and environment principles.

¹⁸ See Schedule 2 to the Act, and [Statutory Guidance](#), Chapter 4.

¹⁹ [Statutory Guidance](#), paragraphs 4.19–4.28.

Principle B: Beneficiary’s liabilities as a polluter

- 2.68 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.²⁰
- 2.69 The Assessment states that the Scheme does not relieve GBE from any liabilities arising from its responsibilities as a polluter under the law of England and Wales, Scotland or Northern Ireland.

Other Energy and Environment Principles

- 2.70 The Assessment states that Principles C, D and E do not apply to the Scheme because, in line with the Statutory Guidance, these principles only apply to subsidies that are specifically designed to be granted for the purpose of electricity generation adequacy (in the case of Principles C and D), renewable energy (in the case of Principles C and E) or cogeneration (again, in the case of Principles C and E).
- 2.71 In this case, the Assessment explains that the Scheme²¹ is not specifically designed for these purposes. Notwithstanding this, the Assessment states why, if Principles C, D and E did apply, the Scheme would be consistent with those principles.
- 2.72 In our view, the Assessment explains why Principles C, D and E do not apply to the Scheme.

Other Requirements of the Act

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

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²⁰ [Statutory Guidance](#), paragraphs 4.29–4.34.

²¹ Fuller description of DESNZ reasoning in this respect can be found at <https://www.gov.uk/government/publications/report-on-the-proposed-subsidy-to-great-british-energy-by-the-department-for-energy-security-and-net-zero>