

# Early Competition Plan

Consultation Presentation Summary 9 July  
August 2020



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## Introduction

On 3 July, National Grid ESO issued an initial consultation on the emerging Early Competition Model. Stakeholders were invited to comment on the current end-to-end early competition model and provide their thoughts on how to develop the model further to maximise value for consumers.

On the 9 July we presented our emerging view of an Early Competition and Q&A session to clarify the model. This document summarises the questions and responses from that webinar, the webinar is also available to view on our website.

This document contains the views of ESO when the phase 2 consultation was published, as we further develop the model these views may change.

The summary of the consultation Q&As is presented across five subject areas based on the consolidated questions raised by the stakeholders:

1. Suitability for early competition
2. Parties, roles and responsibilities
3. Commercial model
4. Tender process, and
5. Post tender process.

## Suitability for early competition

The focus of this consultation area is on a well-defined and transparent process for identifying a pipeline of projects for early competition, which is vital in encouraging participation in this new sector.

Stakeholders raised the following questions in respect of the suitability of the early competition.



*Is it part of this consultation to consider how NOA (TO proposed solutions) links to ESO developing initial solutions here? Will ESO enter solutions into NOA?*

We anticipate the ESO will have a role in potentially developing solution to enter into NOA. It would be based on the engagements we had beforehand and engagements with TOs to consider all the range of possible solutions. We expect a lot of engagement during this stage, and the ESO to have a clear role in developing solutions.



*Very early stage can be responses to ETYS and/or NOA. They should be collaborative explorations of options.*

We interpret that the very early stage would be after the ETYS stage and before NOA. Before any initial solution development and, as we are trying to set out, our ambition is to be collaborative so there is a lot of interaction between the ESO and market participants in developing their solutions so that what is feeding into NOA is as wide ranging and collaborative as possible.

## Parties, roles and responsibilities

The focus of this consultation area is for early competition to operate and be as open as possible. Roles and responsibilities need to be well defined and sit with the party best placed to carry them out.

Stakeholders raised the following questions in respect of the parties, roles and responsibilities.



*What is the rationale of splitting the Approver from the Procurement Body?*

This represents our current high-level thinking of the different roles when looking at the different stages where approval might be needed. We thought that it was an added complexity, potentially it is appropriate to separate the decision making from the procurement body, so deciding what gets tendered and what enters the competition, and then deciding who is the successful bidder. We welcome your views on this and whether it is something inappropriate and should sit with the procurement body.



*ESO engaged TOs during workshops to formulate views on the roles. Can you share information gathered, your assessment of views, and decision-making process?*

We gathered a range of views during the May stakeholder workshops. We have summarised feedback from these workshops and have published on our website, there is also a podcast for each of the workshop themes.

We have also spoken to the TOs directly. In this consultation the only view we are assessing is how TOs should participate in the competition. We have not set out any views on the TOs ongoing role, we will focus on that question alongside the other roles and responsibilities. In the consultation document, we have set out our rationale and stakeholder feedback we have in response to this. We anticipate stakeholder engagement on this going forward.



*If the counter party is not the ESO who could be the third party? Is there an obvious alternative choice?*

Currently there is no alternative choice. We welcome feedback on whether it could be a separate body or if there are any other party that stakeholders think would be more appropriate.



*Has this proposal been shared with Ofgem and BEIS?*

Yes, we talked through the content of the consultation with Ofgem and BEIS as well as other stakeholders.

## Commercial model

The focus of this consultation area is on consumer value achieved through the competitive tension of suitably qualified multiple parties seeking to provide a solution.

Stakeholders raised the following questions in respect of the commercial model.



*ESO proposes Commercial Solutions in NOA, are you expecting these solutions to be competed as well with 3rd parties and how might this work?*

Yes, we are expecting all types of solutions to be competed under early competition, including non-network solutions, meaning solutions that don't involve building transmission assets.



*Bid bonds typically are issued to take part in the tender. However, ESO mentioned bond issue post tender award, that's usually a performance bond. Which is it?*

To clarify, a bond being in place from point of award through to either the end of the preliminary works or the end of construction, rather than a bond being in place during the tender process until the point of award.



*Do all asset based 'network' solutions need a licence as this contradicts pathfinder? What differentiates between asset solutions that are network/non-network? Network projects will be licenced (via the competitive process), no detail has been provided to state how they can be appointed without Primary legislation?*

We are assuming that CATO legislation will be in place. We are also considering how it might work and what changes might be needed. If we need to run tender prior to CATO legislation, we will assume that primary legislation is in place, so that Ofgem can award new transmission licences if someone were to be successful in the early competition process.

In terms of the difference between network and non-network solutions, our expectation is anything performing what the law defines as electricity transmission will have a licence. Then will enter a construction agreement under STC, for example, there will be contract in place with STC rather than under a commercial contract. Whereas, the non-network solutions will have a contract not a licence. We are not proposing that people who win and have a licence to also have a commercial contract, but there will be a STC derived contract in place for licensees.



*Can you provide more detail of the debt competition - surely the expectation is for the market to highlight the debt cost as part of the main tender process?*

There are two options noted in the consultation – one for bidders to set the cost of debt assumption and another for the procurement body to set the cost of debt assumption. We also note that further consideration is required on what happens if the cost of debt is different once the debt competition is completed versus what was submitted or assumed as part of the bid i.e. should the risk be shared between the bidder and consumers. For example, to what extent can bidders provide their own assumption and take the risk themselves, or does it need to be a procurement body assumption and risk.

We don't have a firm view on how the cost of debt will be treated as we acknowledged in the consultation that there is further thinking required around that question, which is being asked on where this risk sits and how any changes are accounted for in the tender revenue stream.



*Is there a desire to link any cost assessment and overarching incentive framework for ECP with the RIIO-T2 framework to ensure consistency where applicable?*

If there is an incentive which we think might be suitable for early competition, and it could be similar to what is in the RIIO-T2, or potentially the OFTO regime as an existing, then we will look into this incentive mechanism as we will be developing more details.

Now that the Draft Determinations are out, we will review what we said on the incentives and sense check, however, it will not apply to all incentives. We are taking the availability incentive in a different direction, but we are less certain on the cost assessment process.

When we discuss the cost assessment process in the consultation, this might be trying do slightly different things, or maybe the same things in different ways than in the existing mechanisms. We can definitely lead from some of the best practice on how the cost assessment is done. We expect that it won't be the same for the cost assessment process, but we will look into this.



*Statutory land powers could be exercised by the TO on behalf of non licensees, paid for at cost plus (10%?) mark-up.*

We will take this question as a suggestion and look into it.

## Tender process

The focus of this consultation area is on a tender process that will follow a standard procurement format, familiar to investors and bidders, and encourage as wide range of innovative bids as possible.

Stakeholders raised the following questions in respect of the tender process.



*Would the ESO consider to run any preliminary study following engagement with the market in solutions?*

Assuming that the 'preliminary study' refers to the preliminary stages of the project (e.g. initial surveying, detailed design work, etc.) in which case under the early competition plan we are looking at here, we wouldn't be proposing to look into the preliminary stages of the project.

Ofgem are also looking at the late model, which tenders at the preliminary work stage, therefore this option is still on the cards. This specific project on the early competition doesn't review this area.



*Can a party submit a tender even if they didn't engage ESO during very early engagement work? i.e. do they have to commit at that very early stage?*

Bidders can submit bids even if they don't engage in that early stage engagement. The purpose of the engagement is to inform the scope of the need that goes out to tender. We will ensure that the scope doesn't get narrowed down in a way that inadvertently excludes bids, so we won't be affecting stakeholder's ability to form a bid at the early stage. The purpose of this engagement is to inform thinking on the early stage, not until the formal tender launches, which could be some time after the early stage engagement, when the process will start.



*What role will the NOA committee have in the tender award process?*

Once the tender is started, we don't expect the NOA committee to have a role in the tender process. The NOA committee may have more interest in the initial project identification stage

Although we do set out that the ESO should make a recommendation to Ofgem on which projects should be tendered, and we did consult on in during the May workshops, there wasn't a huge amount of stakeholder support for that option. Therefore, we proposed that ESO should make recommendations to Ofgem and we wouldn't envisage the NOA committee to have an actual role in the tender process.



*Page 28 of the consultation document. Are the costs and benefits the right way round? I think constraint costs should be a benefit and be savings not costs.*

A tender process could, for example, run for 2 years, you could potentially delay the start of the project which could in turn incur constraint costs which would otherwise not have been incurred if there wasn't early competition process. We will need to factor the cost of delaying the start of the project into the tender process.

We would also factor this cost into consideration when we determine if it is appropriate to tender a project under the early competition. We need to further consider this point and assess whether there is a risk of it causing a delay, and if so, how much the delay would cost and if it would reduce the benefit of the competition.



*If ESO is going to engage with the market pre-competition, how will they assure themselves of the robustness of data/solutions provided by 3rd parties? If market engagement determines the tender, isn't there a risk that those informing that process gain an advantage?*

This is one of the key challenges we need to think about going forward in terms of practicalities of making the early competition process work. What we are looking at is whether we can upscale the ESO to have expertise



in this area, and as with this planning activities it would be based on the expertise of the organisation. We are not expecting to work with a third parties at that stage.



*Would you consider that a party entering 'very' early engagement stage will gain a competitive advantage over parties who do not? Is this a level playing field? It's only fair if those who engage at very early stage get some benefit from doing so. Especially in terms of suitability acceptance.*

We are looking to make the process as open as possible to everybody to enter that very early stage. We hope that the market engagement is keeping as many solutions available to enter the competition, as can do, so it should not give a huge advantage forward specific solution.



*Pre-tender activities should be collaborative between bidder and TO so the proposals can be optimised. This is not anti-competitive if offered to all.*

We are still working through the details of how all the early pre-tender stages would work. We envisage an extensive period of market engagement which would involve potential TO liaison sessions, to ensure that potential bidders have the information they need in order to produce their bids.



*Is there a desire to link any cost assessment and overarching incentive framework for ECP with the RIIO-T2 framework to ensure consistency where applicable? Are you expecting that this Early CATO process and the Pathfinder tenders you are currently running essentially merge into the same process? Do all asset based 'network' solutions need a licence as this contradicts pathfinder. What differentiates between asset solutions that are network/non-network?*

We wouldn't expect the proposals currently in place for the pathfinders to be reflected in this project in the immediate future. The status quo for non-network solutions would effectively be similar to pathfinders, the costs associated with the annual payment would transfer into BSUoS and for a network solution the costs under license would transfer into TNUoS.

Potentially the same process can be run for the early competition and pathfinder tenders. There may be potential value in retaining two slightly different processes due to the different types of projects and different types of needs that may warrant slightly different processes.

If possible, we would have one process, however there may be grounds for the two slightly different processes. We will keep this under review and take stakeholders' feedback into account.



*On information sharing - you talked earlier about system models. Are you expecting bidders to be able to run system studies on proposed solutions?*

Yes, this will be one of the capability areas we will be testing at the PQQ stage. Bidders are expected to have the technical capabilities to be able to run system studies to develop their bids.



*By requiring bidders to run system modelling you're excluding new entrants, especially those with new technologies.*

We have noted this feedback



*Could you add something more in Sustainability requirements in PQ? Ofgem today welcomed TO commitments to sustainability in solutions. How will commitments to sustainability and Net Zero be included?*

As a general principle, we are aiming to make PQ consistent with PQ evaluations in other similar tenders. However, we will consider whether there is merit in increased focus on sustainability in the early competition PQ.



*Do you envisage all projects as part of NOA will go through another CBA to see if it should be subject to competition? This needs to be built into EISDs if so.*

At this point of time, we are open to both views, and we need to investigate further the most practical role for all involved. We envisage that the market engagement we do, along with the ESO solution, will help to inform the earliest in service date. Potentially, opening to competition to bring forward the earliest in service date, or to push it back.

## Post tender process

The focus of this consultation area is on activities and requirements on the Preferred Bidders once the tender process will conclude.

Stakeholders raised the following questions in respect of the post tender process.



*What is the rationale for decommissioning securities as there is usually no legal obligation onshore to reserve for decommissioning or even to carry it out? Decommissioning securities are also not an expectation offshore. Omit decommissioning requirements: existing grid assets aren't routinely decommissioned or we'd have little grid left.*

At the end of the asset lifetime, the asset may need to be decommissioned and therefore we will need to ensure there is a party in place who is accountable for decommissioning of the asset when required.

To mitigate against the risk of that party not delivering on their obligation to decommission the asset to the required standards we will need to ensure there is some form of security in place.

We are happy to hear different views from stakeholders on our initial proposals for decommissioning.



*Presumably it is envisaged that any successful bidder is a licensed TO? Will they become a statutory undertaker for consents and land rights?*

Only those successful bidders who are performing a function of electricity transmission, there could be successful bidders who are not TOs or licensees or at least transmission electricity licensees.

There could be another form of a licensees to provide commercial solution, but those who are licensees we expect that they will have statutory power around land and alike. There is a question whether that is a level playing field for those who are not licensees and whether they are in a slightly worse position for delivery if they don't have the same powers, which requires further Investigation.



*How will the ESO ensure that a proposed solution continues to meet system requirements, background changes etc.*

From the post-tender perspective, it depends on what has changed. If we say that we put a section on a new connection (for example, there could be a need to change in the solution to facilitate a new connection, should we say that the successful bidder will be responsible for doing). We acknowledge that there needs to be also a change to tender revenue stream to allow this to happen.

All the changes, like background change would fall to need change. We are not proposing to link the tender revenue stream to usage or utilisation, potentially there could be no impact on the tender revenue stream if there is a change to the configuration of the assets. The process in STC or the corresponding process in the commercial contract would potentially address this issue.

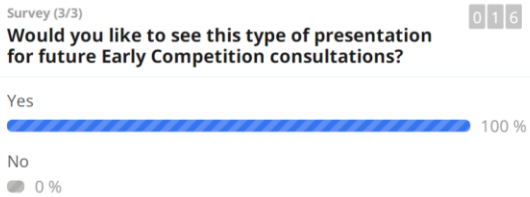
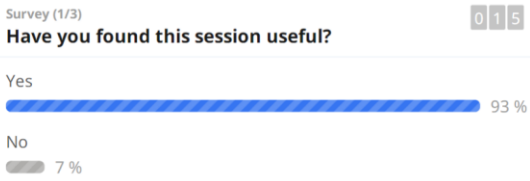
It comes down to what is driving the change, and as result of the driver what process to go though and where the responsibilities and costs sits at.

### Stakeholder Feedback

The participants on this session consisted of 26 individuals representing 12 organisations. The following companies were represented at the webinar:



To help us improve for future events we requested the participants to fill in a survey between the consultation overview and Q&A session. The results are included below and will help us structure future events.



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