

Phase 3 Consultation Launch Q&A

Early Competition

January 2021

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Introduction

Our Phase 3 consultation on early competition launched on 4 December 2020 and sets out our updated proposals for an early competition model. To complement our consultation launch, we hosted a webinar on 15 December providing an overview of our proposals and guidance on how to get involved.

We invited attendees to ask clarification questions on our consultation. This document summarises the questions and responses by chapter from our launch webinar, the webinar is also available to view on our [website](#).

Chapter 2 – Roles and Responsibilities



Is the expectation that TO delivery teams would also be ring-fenced or just bidding teams? Are TO bidding teams expected to be separated on an enduring basis or just for the bidding period?

The expectation is that TO bidding teams would be ringfenced for the duration of the tender. Other TO teams would not be ringfenced.

Chapter 3 – Identifying Projects



What considerations would support the final approval to launch the tender once project tender have been identified?

The final decision would consider market appetite to compete for the project, informed by the pre-tender engagement. It would also consider any update to the identified network need (if relevant) and reconfirmation the competition criteria are still met.



The potential benefits of early competition can only be determined if there have been prior conversations with potential non-network solution providers. These would be broad-brush discussions. There should be both proactive approaches to such providers & general invitations for input.

We propose to engage with stakeholders as part of the initial solution identification for NOA (Network Options Assessment). This will help the ESO understand what potential alternative solutions may be available.



Can you just provide some clarity what you mean by 'compliance' driven investments? And how these are different from customer and NOA requirements?

There are some projects taken forward by TOs to ensure compliance with the SQSS (Security and Quality of Supply Standard) that do not feature in NOA because they do not impact on a network boundary.



Is the expectation that as soon as there is a 'Proceed' in 2 scenarios in NOA that a competitive tender could start? The document seemed to imply multiple NOA cycles would happen before a tender process starts? Which means multiple years between need identification and any work starting?

Once a project is identified as meeting the competition criteria it will begin the pre-tender stage (subject to Ofgem approval). The length of this pre-tender stage will vary by project. In some cases, depending on the urgency of the need, the pre-tender stage could span more than a year. The network need would therefore be reassessed in the subsequent NOA.



The CBA following the criteria test seems to focus on specific projects/solutions -could you explain how you intend to run this?

The CBA (Cost Benefit Analysis) will be conducted on the initial solution used in the NOA analysis.

Chapter 4 – Commercial Model



You ask for revenue streams up to 45 years. Will you favour longer-lived solutions? After all, the grid itself is built for longevity – this should be important among your requirements?

The revenue period will be set on a case-by-case basis for a maximum period of 45 years. Solutions with a technical/asset life of a greater duration than the tendered revenue period will be assessed on the same basis as those with a technical/asset life which is the same duration as the tendered revenue period. Further information can be found in Section 2.2. of [Chapter 4](#).



You mention debt assumptions, will bidders retain any benefits of efficient financing?

Not in respect of the debt financing competition as our preferred option is to pass any benefit from a reduction in the Tender Revenue Stream from an improvement in debt terms (when compared to the indicative terms provided by the Procurement Body for ITT Stage 2) through to consumers. Equally, we would expect consumers to take the risk of an increased Tender Revenue Stream as the result of worse debt terms than assumed at ITT Stage 2. Further information can be found in Section 3.3. of [Chapter 4](#).

Chapter 5 – End to End Process for Early Competition



TRL stage is misleading shorthand, often mis-interpreted. Any "low technical risk" modifications could be deemed TRL 8 or (because the mod itself hasn't previously been built) much lower even though risk is negligible and base technologies are TRL9. Such low-tech risk solutions should be encouraged.

During implementation we would further define what is required in terms of technology readiness, and would take in to consideration the points made here. The use of TRL (Technology Readiness Level) 8/9 at this stage of developing the ECP is to provide an indication of the broad level we expect.



Have you considered the cost of running a two-stage process for market participants and how appropriate is to have the TO during the process to (undertake) impact studies?

The two-stage process aims to minimise the impact on bidders by narrowing down the pool of bidders prior to the full detail of the project being required. We welcome views on whether our proposal achieves this aim.

We propose that the relevant network owners need to be involved in impact assessments because these consider the impact on their networks. The network owners have the detailed knowledge of their own networks and will need to manage any implications of the proposed solution.



Even if there are no formal pre-submission reviews, there should be feedback which give opportunities for misunderstanding to be clarified and proposals to be modified. This will ensure that optimal solutions are put forward by all, and that the SO only considers optimal solutions.

We note this point and will consider exactly what support can be provided further during implementation.

Chapter 6 – Implementation



Implementation: the different solutions will all have different natural timescales. The 2-year timescale may not allow those that need planning permission: geological storage takes ~4 years to build, achieving full durations later.

The estimated minimum 18-24 implementation timescales mentioned relate to the implementation of an early competition model and an ability to commence an inaugural tender under that model rather than the time any successful bidder would require to commission their successful solution. Further information can be found in [Chapter 6](#).

Chapter 7 – Early Competition in Distribution



Page 2 summary doc states stakeholder engagement suggests there is no role for the ESO on competition in distribution. Is this intended to indicate ECP is not of benefit at distribution level, or is it intended competition is applicable but none of the roles should be carried out by the ESO?

It is not intended to indicate there is not a benefit of early competition at distribution sector level. We have summarised the views expressed so far on whether the proposed process and roles could work in the distribution sector, if Ofgem decide that early competition should be introduced in ED2.

We have also indicated the majority of views so far on which parties might be best placed to perform the roles if early competition was introduced in ED2.

Heads of Terms



What sort of securities would you anticipate requiring at preliminary works stage?

We have stated that a performance bond or equivalent form of security would be required - this could include a guarantee from a parent or affiliated company that has and maintains an approved credit rating, cash on deposit, or an irrevocable letter of credit or bank guarantee where the issuer has and maintains an approved credit rating. Further information can be found in the [Heads of Terms document](#).

Stakeholder Feedback

The participants on this session consisted of 25 individuals representing 15 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 at the end of the session, the results are included below.

Survey (1/3)

0 0 4

Did you find this session useful?

Yes



No



Survey (2/3)

0 0 4

Did you find our comms regarding Phase 3 Launch effective?

Yes



No



Poll: 3/3

Please let us know if there is anything else we could do to improve?

0 0 0