

Early Competition Plan

Phase 3 Consultation: Response Proforma



Response Proforma

As set out in the Consultation Summary, you can respond to our consultation in a number of ways. Below is a proforma that could be used, summarising the questions highlighted in our consultation. Completed proformas should be sent, by the closing date, to box.earlycompetition@nationalgrideso.com

Name of organisation: Centrica

Sector: Energy Supply

Contact name: Andy Manning

Contact email: Andy.Manning2@centrica.com

Status of response: Public

Chapter 2: Roles and Responsibilities

Question	Yes/No (if applicable)	Response
1. Do you agree with the activities of the Approver we are proposing? Please tell us why.	Choose an item.	Click or tap here to enter text.
2. What do you think the checks, that make up the other activities, should look like? Should they be a formalised process?	Choose an item.	Click or tap here to enter text.
3. Who do you think is the most appropriate party or parties to perform the Procurement Body role?	Choose an item.	Click or tap here to enter text.
4. Taking into consideration the role of the Approver, do you think an	Choose an item.	Click or tap here to enter text.

Independent Assurance activity is needed?		
5. Do you agree with our position on the Contract Counterparty role? Please tell us why.	Choose an item.	Click or tap here to enter text.
6. Do you agree with our position on the Payment Counterparty role? Please tell us why.	Choose an item.	Click or tap here to enter text.
7. Do you agree with our proposed approach to conflict mitigation?	Choose an item.	Click or tap here to enter text.
8. Do you agree with the key differences between early competition and these case studies? And do you agree that the key differences would limit the lessons that can be learnt for the purposes of developing the model for early competition?	Choose an item.	Click or tap here to enter text.

Chapter 3: Identifying Projects

Question	Yes/No (if applicable)	Response
1. Do you agree that only competing projects that appear in at least two FES scenarios will provide sufficient confidence that the project will go ahead?	Choose an item.	Click or tap here to enter text.
2. Do you agree with our proposed approaches for different drivers of network investment? Are there ways single party connections could be	Choose an item.	Click or tap here to enter text.

identified as having sufficient certainty to compete?		
3. Do you agree that continuing to develop the Interested Persons Options process is the best way to engage stakeholders in initial solution design?	Choose an item.	Click or tap here to enter text.

Chapter 4: Commercial Model

Question	Yes/No (if applicable)	Response
1. Do you agree with the partial indexation of the TRS and the adoption of CPIH as the index? Why?	Choose an item.	Click or tap here to enter text.
2. Which of the options for extending the revenue period do you think are most appropriate? Why?	Choose an item.	Click or tap here to enter text.
3. Do you agree with the preferred option of a fixed payment to the successful bidder upon the delivery of key milestones during the preliminary works period? Why?	Choose an item.	Click or tap here to enter text.
4. Do you agree with our revised views and preferences in respect of the Post Preliminary Works Cost Assessment, Performance Bond and Income Adjusting Events? Why?	Choose an item.	Click or tap here to enter text.

5. Do you agree with our preferred option regarding margins and overheads? Why?	Choose an item.	Click or tap here to enter text.
6. Are there any additional measures a Procurement Body could take to further drive value for consumers in securing debt finance?	Choose an item.	Click or tap here to enter text.
7. Do you agree with our current preferred option with regards to equity? Why?	Choose an item.	Click or tap here to enter text.
8. Do you agree with our views on indexation? Why?	Choose an item.	Click or tap here to enter text.
9. Do you agree with our updated views on licence/contract and industry codes? Why?	Choose an item.	Click or tap here to enter text.
10. Do you agree with our views on need change or disappearance? Why?	Choose an item.	Click or tap here to enter text.
11. Do you agree with our views and preference in respect of the 'provider of last resort' arrangements? Why?	Choose an item.	Click or tap here to enter text.

Chapter 5: End to End process for early competition

Question	Yes/No (if applicable)	Response
1. Do you agree with our preferred position on pre-tender activities? Please explain your answer.	Choose an item.	Click or tap here to enter text.
2. Do you agree with our preferred position on impact studies?	Choose an item.	Click or tap here to enter text.
3. Is there anything in our approach to sharing network information that you believe is unworkable? If yes, please provide details?	Choose an item.	Click or tap here to enter text.
4. Do you agree that individual pre-submission reviews should not be offered to bidders during the tender process if the clarification question process is in place?	Choose an item.	Click or tap here to enter text.
5. Do you agree with our preferred position on the Pre-Qualification assessment and process? Please explain your answer.	Choose an item.	Click or tap here to enter text.
6. Do you agree with our preferred position on Invitation to Tender stage 1 assessment and process? Please explain your answer.	Choose an item.	Click or tap here to enter text.
7. Do you agree with our preferred position on Invitation to Tender stage 2 assessment and process? Please explain your answer.	Choose an item.	Click or tap here to enter text.

8. Do you agree with our updated views in respect of late project delivery? Why?	Choose an item.	Click or tap here to enter text.
9. Do you agree with our updated views on the preliminary works / solution delivery incentive regime being proposed for early competition? Why?	Choose an item.	Click or tap here to enter text.
10. Do you agree with our updated views on the operational incentive regime being proposed for early competition? Why?	Choose an item.	Click or tap here to enter text.
11. Do you agree with our revised views and amended preference in respect of decommissioning securities? Why?	Choose an item.	Click or tap here to enter text.

Chapter 6: Implementation

Question	Yes/No (if applicable)	Response
1. Do you think Table 1 is a comprehensive list of high-level implementation plan activities? If not, what has been omitted?	Choose an item.	Click or tap here to enter text.
2. Do you agree with our proposed timing and sequencing for implementation plan activities? If not, what would you change?	Choose an item.	Click or tap here to enter text.
3. Do you agree with the 'potentially advanceable' implementation plan	Choose an item.	Click or tap here to enter text.

activities? If not, what would you change?		
4. Do you agree with our views on early competition prior to early competition legislation? Why?	Choose an item.	Click or tap here to enter text.

Chapter 7: Early competition and Distribution

Question	Yes/No (if applicable)	Response
1. Is there any issue with the high-level early competition process being developed that means it could not be used for distribution sector needs? If yes, please specify the issue(s) and why they make the process unusable.	No	The high level early competition process being developed for the transmission level appears broadly appropriate for the distribution level. We recommend improvements below.
2. Which party is best placed to perform each of the key roles at distribution level? Where a third party is chosen please specify who you think this could be and why?	Choose an item.	<p>The ESO should reconsider its proposals for parties that should be considered for delivering certain roles.</p> <p>We recognise Ofgem’s <i>‘Review of GB energy system operation’</i> and the <i>‘RIIO-ED2 Methodology Decision’</i> were published after the consultation was drafted and, therefore, the ESO would not have been able to reflect either in the consultation. It is necessary the ESO reconsiders its proposals for the Early Competition Plan in relation to some roles at the distribution level, to reflect the findings of the review and the Decision.</p> <p>Ofgem identified features of the current arrangements, such as the potential asset ownership conflicts of interest, which could result in possible biases in competitive procurement and network development. The potential asset ownership conflicts of interest could act as barriers to the System Operators (SOs) taking on and performing the Net Zero system roles effectively. Ofgem concluded those features would appear to constrain the ability of the SOs to perform</p>

the Net Zero system roles and functions effectively and creates possible bias in competitive procurement. Ofgem recommended changes including that the electricity SO should be made fully independent from the transmission network owner and should assume a more active role in designing and planning the future energy system. Also, we highlight Ofgem states the methodology for the next electricity distribution price control (RIIO-ED2), starting in 2023, has been designed to support Net Zero targets while keeping the cost to existing and future consumers as low as possible. In relation to Distribution System Operation (DSO) in RIIO-ED2, Ofgem has specified baseline expectations of DNOs including they should introduce other proportionate measures, developed with robust stakeholder engagement, to identify and address actual and perceived conflicts between its market development and network ownership roles or other business interests.

Procurement body: This role should not be performed by network companies. We note stakeholders the ESO engaged with ahead of this consultation expressed very strong support for this role to sit with the DNO/DSO. Some expressed concern about a conflict of interest if the DNO takes part in competitions but suggested this risk could be mitigated by the DNO/DSO regulatory regime being strengthened. Those views are now superseded by Ofgem's recommendations for system operation and the requirements for RIIO-ED2. If they were implemented, the approaches stakeholders expressed support for would embed the potential asset ownership conflicts of interest and possible bias in competitive procurement. While Ofgem's recommendations apply to the transmission level, we believe they are equally relevant for distribution because those asset conflicts of interest exist at the distribution level. We do not think it would be credible for DNOs to propose they perform the role of procurement body in RIIO-ED2 given Ofgem has :

- set out a baseline expectation for DSO that DNOs address actual and perceived conflicts that arise because of their network ownership roles, and
- recommended separation of system operation from network ownership at the transmission level to address conflicts of interest including possible bias in competitive procurement.

These factors mean the ESO should not recommend that DNOs/DSO are considered for performing the role of procurement body at the distribution level.

Network planning:

We recommend the extent to which DNO/DSOs will be involved in network planning is reviewed. In its review of system operation, Ofgem explains the potential asset ownership conflicts of interest could take the form of possible bias in transmission network development: the SOs may act, or be perceived to act, to increase the size of affiliated companies' transmission asset bases, thereby increasing the commercial return of those businesses. We acknowledge network planning has been a core DNO activity and that some stakeholders the ESO engaged with ahead of this consultation supported network planning at the distribution level being delivered in a similar way to that proposed at the transmission level. However, relative to current arrangements at the transmission level, implementing this approach at the distribution level could increase the possible bias in network development because there is greater integration of system and network operation at the distribution level:

- The ESO is a legally separate entity from the network operator at the transmission level. Legal separation does not exist at the distribution level. Even though Ofgem has signalled DSO governance arrangements will be reviewed during 2021, it is unclear whether it should be assumed changes to the legal framework will be made in the short term.
- The ESO will operate under a separate regulatory framework and settlement as of April 2021. An integrated DNO/DSO regulatory settlement will be set for RIIO-ED2. Further, a 're-opener' will be included to accommodate changes to arrangements. This suggests it should not be assumed changes to regulatory arrangements that result in a material degree of DNO/DSO separation will be made in the short term.

These factors mean the ESO should investigate how third party involvement in network planning at the distribution level could be increased.

3. Should any of the additional roles be created as specific roles? If yes, please set out who you think is best placed to perform the role and why?

Yes

A role should be created for Whole Systems Review, to mitigate against consumer value being lost. We agree with other stakeholders that Ofgem has placed focus on whole system solutions in the RIIO-2 price controls. However, we highlight those mechanisms act mainly to facilitate the delivery. For example, the Coordinated Re-opener Mechanism facilitates the reallocation of outputs and

expenditure allowances across companies and allows for the 'transferring' company to be compensated so it is no worse off as a result of outputs and expenditure allowances being removed. There is less emphasis in the RIIO-2 framework that:

- encourages companies to identify whole system solutions, or
- compels companies to participate in the delivery of whole system solutions once they have been identified.

We assume DNOs will play a role in network planning and, as such, the possible bias in network development could arise. Creating a role for Whole Systems Review could mitigate against the risk of the bias skewing network planning recommendations and could provide an opportunity for network problems that could be resolved via a whole system solution to be identified, particularly across the transmission-distribution interface.