



# Early Competition

## ESO Role in Distribution

# Agenda

Introductions

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Our approach

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model

Additional roles

Next steps

# On the call today from the Early Competition Team are...

***Richard Paterson (ESO)***

Network Competition Policy  
Development Analyst



***Sally Thatcher (ESO)***

Network Competition Policy  
Manager



***Urmi Mistry (ESO)***

Network Competition Policy  
Development Analyst



***Hannah Urquhart (ESO)***

PMO Analyst



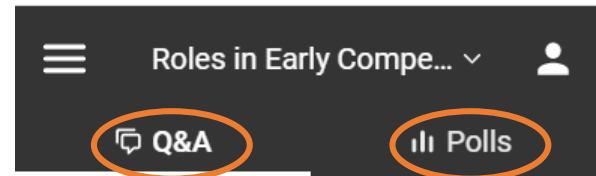
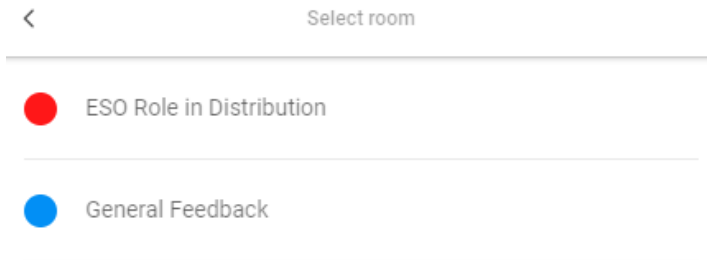
## ***Tell us about you***

Who are you? Who are you representing? What is your interest in early competition

# Navigating Sli.do

## Sli.do ERD1

[www.sli.do](http://www.sli.do)



# Ask from Ofgem



Ofgem have asked the ESO to consider what role the ESO could play in supporting early competition at the distribution sector level from 2023 (e.g. auditing, running and/or assessing the tender process).

Our [Phase 1 update](#) provides a comprehensive summary of all the objectives and background to the early competition plan project

# Our approach



## We are working with stakeholders to test:

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- 1) Could the process steps and activities developed for the transmission level model of early competition be applied to distribution needs?
- 2) Are the key roles required to support the delivery of the transmission level model of early competition the same, if the Tx model is applied to distribution?
- 3) Are there potentially other roles that could be useful?
- 4) Applying the same logic used for transmission thinking, which parties might be able to perform the roles?
- 5) What are the strengths and weaknesses of these options?
- 6) Gather views on what may, or may not, be sensible in terms of who might be best placed to perform the roles

***The output of the approach will be a thought piece due early 2021. It will set out a range of options and considerations that could inform Ofgem's next steps in relation to early competition.***

**Q. Any questions?**



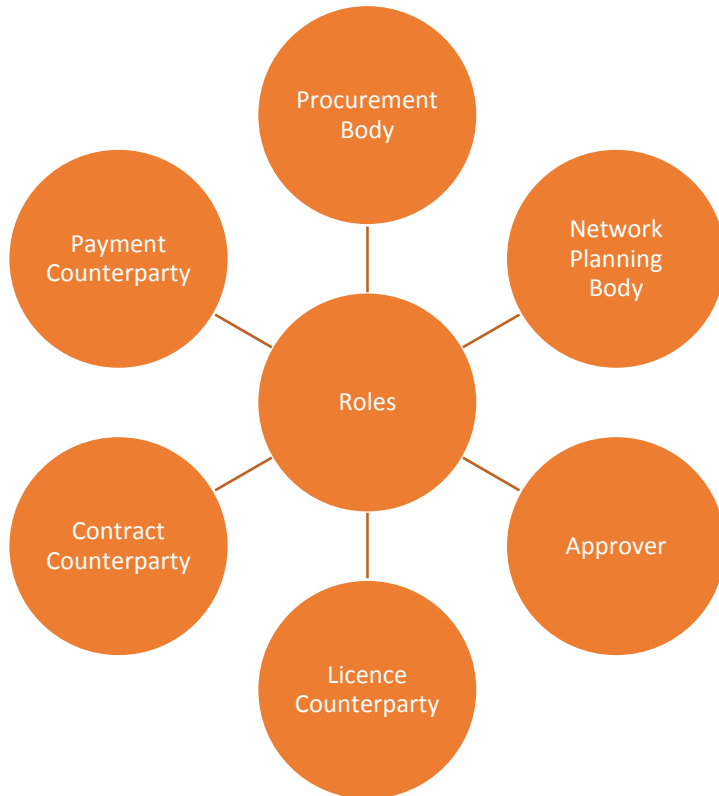
# Roles based on transmission model
















## So what have we learnt so far?

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- At a high level the process steps and activities could work for distribution
- At a high level the same roles are required



- **Procurement Body:** Responsible for the design of the procurement structure and process. The development of tender and contractual documents.
- **Network Planning Body:** Accountable for identifying needs, initial solution development, market engagement to explore options, assessing option combinations and determining which needs might be suitable for competition
- **Approver:** Makes the formal decision to conclude a stage of early competition.
- **Licence Counterparty:** Will manage and monitor any obligations placed on any successful bidder that is issued or has a transmission licence.
- **Contract Counterparty:** Will manage and monitor any obligations placed on any winning bidder who will hold a contract for any solution not performing the function of electricity transmission (non-network).
- **Payment Counterparty:** This entity will manage financial transactions between the winning bidder and the other counterparties.

Role	Options		
Procurement Body			
Network Planner			
Approver*			
Licence Counterparty			
Contract Counterparty			
Payment Counterparty			

## Assumptions for ED2:

- Multiple integrated DNO/DSOs – business structures as of 2020
- DNOs will be able to compete
- Higher vol/lower £ of projects at distribution level
- Early Competition being run for transmission needs
- 3<sup>rd</sup> Party could be new party, Tx role party, or ESO

\*role could be split across 2 entities

# Some key potential advantages and disadvantages

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Role	Ofgem		DSO		3 <sup>rd</sup> Party	
	Adv	DA	Adv	DA	Adv	DA
<b>Procurement Body</b>	<ul style="list-style-type: none"> <li>• Experience of conducting tender process.</li> <li>• Independent</li> <li>• Well placed to consider interests of existing and future consumers</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of technical knowledge of systems</li> <li>• Limited construction procurement exp.</li> <li>• Resource to deal with high volume?</li> </ul>	<ul style="list-style-type: none"> <li>• Experience running procurement activities</li> <li>• In-depth knowledge of the electricity system.</li> <li>• Building on existing capabilities</li> </ul>	<ul style="list-style-type: none"> <li>• Potential for variable processes due to multiple PB's – more complex for bidders</li> <li>• Potential perceived conflict of interest (same party runs event, competes, decides winner)</li> </ul>	<ul style="list-style-type: none"> <li>• Potential to create synergies, creating an 'expert' body covering Tx and/or Dx needs.</li> <li>• Consistent process</li> <li>• Potentially perceived as more independent</li> </ul>	<ul style="list-style-type: none"> <li>• Limited knowledge of distribution systems</li> <li>• Potentially very high cost &amp; complexity of set up</li> <li>• Regulatory change to introduce new party into distribution</li> </ul>
<b>Network Planner</b>	N/A	N/A	<ul style="list-style-type: none"> <li>• Extension of current role with SME's in-house</li> <li>• Detailed knowledge of networks</li> <li>• Retain existing process of majority of network planning</li> </ul>	<ul style="list-style-type: none"> <li>• Potential for perception of unlevel playing field on information</li> <li>• Potential perceived conflict of interest as shaping and actively involved in competition</li> </ul>	<ul style="list-style-type: none"> <li>• Potentially easier to set more standard process</li> <li>• Potentially perceived as more independent</li> </ul>	<ul style="list-style-type: none"> <li>• Limited knowledge of distribution planning</li> <li>• Potential cost/complexity of set up</li> <li>• Significant Regulatory change required</li> </ul>

Q. Thoughts on key potential advantages and disadvantages?

Q. Which party do you feel is best placed to perform the roles during ED2?

# Some key potential advantages and disadvantages

Sli.do ERD1

Role	DSO		3 <sup>rd</sup> Party	
	Adv	DA	Adv	DA
<b>Contract Counterparty</b>	<ul style="list-style-type: none"> <li>DNO/DSO hold operational risk</li> <li>Experience contracting services</li> <li>Extension of current activities – less time to upskill and resource</li> <li>Current relationships with some potential bidders.</li> </ul>	<ul style="list-style-type: none"> <li>Potentially greater level complexity than used to</li> <li>Potential perceived conflict of interest if developing the contract terms and the DNO is competing</li> </ul>	<ul style="list-style-type: none"> <li>Potentially perceived as more independent</li> </ul>	<ul style="list-style-type: none"> <li>Doesn't hold the operational risk</li> <li>Potentially high set up costs – acquire relevant skills and experience.</li> </ul>
<b>Payment Counterparty</b>	<ul style="list-style-type: none"> <li>Extension of exiting role of DNOs – experienced and trusted</li> <li>Excellent understanding of charging regime</li> <li>Direct relationship between customer and service provider</li> </ul>	<ul style="list-style-type: none"> <li>Under/over recovery of costs introduces new cashflow risk</li> </ul>	<ul style="list-style-type: none"> <li>Potentially able to provide greater financial security e.g. if Government backed.</li> <li>Single payment counterparty might be more cost effective for consumers</li> </ul>	<ul style="list-style-type: none"> <li>Potentially high set up costs</li> <li>Regulatory change may be required</li> <li>No/limited detailed knowledge of payment regime and its history</li> <li>Need to secure acceptable credit rating</li> </ul>

Q. Thoughts on key potential advantages and disadvantages?

Q. Who would you prefer to perform the roles during ED2?

Based on transmission work, Ofgem are the current preferred party to perform the following roles:

### Approver

- Stakeholder support
- Builds trust in competition
- Strong voice for consumer value and interest

### Licence Counterparty

- Basis of current regulatory regime
- Only Ofgem has power to issue Licences (Electricity Act 1989)

**Q. Should Ofgem perform these roles at Distribution level if early competition is introduced?**




# Additional roles



# Are there other roles that could be useful?

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To fully explore the question of whether the ESO may have a role in supporting early competition in the distribution sector, it is worth considering if there are additional roles that may create value for consumers. Some initial ideas are listed below for discussion.

Role	Description	Discussion prompts	Options?
Best practice coordinator	Set out, standardise and improve process used by all parties	Could ENA Open networks and Ofgem direction be effective? How might this compare to a 3 <sup>rd</sup> party?	  
Auditor	Monitor consistent application/compliance of process across all parties	Would Procurement legislation and Licence deal with compliance? Costs of new role? Impact on regulatory regime?	
Project consolidation	Identify opportunities to bundle projects across networks	Are there already mechanisms in place, or being developed, to encourage this?	
Whole System review	A check to look at whether with minor changes to planned work on Tx or Dx network, a proposed competition is not required	Are there already mechanisms in place, or being developed, to encourage this type of collaboration?	

- Q. Are these roles that may add value for consumers?
- Q. Ideas for other roles?
- Q. Thoughts on who might be best placed to perform roles?



# Next Steps

- Please take time to answer our feedback poll, on sli.do, to allow us to further improve your experience for future events.
- Alternatively contact us by email at:

[Box.earlycompetition@nationalgrideso.com](mailto:Box.earlycompetition@nationalgrideso.com)

- Our next milestone is the Early Competition Phase 3 Consultation Document which we expect to publish in December
- The slides and any notes from this session will be made available on our website

# Thank you