

Static Reactive Power – Pennine 2024-2034

Commercial Consultation Summary

Introduction

This document aims to provide parties participating in the Static Reactive Power Pennine Pathfinder Tender an overview of the outcome of the commercial consultation process.

As part of the tender process and commercial consultation, we invited tender parties to provide feedback on our proposed contract terms. We received over 80 items of feedback and would like to thank everyone who took the time to provide their thoughts. Below we have provided a summary of the key themes of the feedback that was received and identified the changes to the standard contract terms that we will be making to the draft published in March.

Key Themes

Grid connections

Feedback received: Unexpected delays to grid connection works should not result in termination of the contract.

NGESO position: We appreciate that grid connection dates are outside of the provider's control and form an important part of the project plan. We have therefore amended the definition of the Scheduled Commercial Operations Date stated in Schedule 1 to allow for additional time where appropriate.

Grid outages

Feedback received: Transmission restrictions or outages should not be counted towards Continued Performance Failures nor affect availability payments.

NGESO position: With regards to Continued Performance Failures, no instructions would be issued if there is a network outage, therefore TO/DNO outages would not contribute towards Continued Performance Failure.

With regards to transmission restrictions/outages, we have introduced a grace period, whereby penalties for non-availability due to a TO or DNO outage will only be applicable for a set period of days (clause 7.6) thereafter full availability payment will be due (assuming the facility is still available). This is a development from the Mersey pathfinder, and it allows the risk to be shared between both parties and is aligned with Stability phase 2 pathfinder. It also encourages providers to align their asset outages with network outages.

Post Tender Milestones (PTM)

Feedback received: Parties should come to an agreement if the provider is unable to meet PTMs

NGESO position: PTMs are an obligation within the contract for providers to manage. We have clarified our existing position that referral to an expert is possible if NGESO has not acted reasonably in determining that there is no reasonable prospect that the PTMs will be met within two months after the PTM Date. Regarding other changes made to PTMs, we have also moved from two sets of milestones with 12 month and 6-month deadlines to one set of milestones to be completed 12 months prior to service delivery to ensure alignment across pathfinders.

Remedies

Feedback received: A number of parties asked for clarity in which scenarios "liquidated damages" and "termination sum" apply

NGESO feedback: We have added a new clause (clause 3.10) to clarify NGESO's right to remedies. This includes termination sum (where the PTMs are not satisfied and the Agreement is terminated early) **or** liquidated damages (late delivery). Only one of these would be the sole remedy in accordance with the relevant situation. We hope this clarity helps parties concerns on this topic.

Proving tests

Feedback received: A few parties flagged they would find it beneficial for ESO to provide descriptions of the proving tests as early as possible to support their project planning work.

NGESO position: We have provided a description of the proving tests in Schedule 5. ESO seek to provide full set of test requirements no less than one year before the Scheduled Commercial Operations Date. In practice ESO hope to share these earlier as we recognise the benefit to parties of having these as early as possible.

Tender Timeline

Feedback received: Some participants noted that the duration of the tender is prolonged, with reference to the commercial stage, and as a result this has potential impacts on their commercial agreements with subcontractors.

NGESO position: ESO intends to maintain the original contract award date for Pennine and at this stage we do not believe it is viable to shorten the process, however we note the impact this has on the supply base.

NOA Pathfinder Stability Phase 3 will be run as a one-stage tender where technical and commercial submissions will be received at once. This change enables timeline efficiencies for both bidders and NGESO. This decision has been made following feedback received during this Pennine consultation process, and feedback received through other pathfinders.

Commercial Assessment Methodology

Feedback received: Parties indicated that it would be useful to have more information on how the combination of bids would be assessed

NGESO feedback: As part of the tender documents, we included our commercial assessment methodology whereby the complexities of the network mean that an effectiveness approach cannot be used for one of the regions of the tender (West Yorkshire). Further questions were asked on our methodology in the area. As a result, we discussed the model assumptions and summary of results at the Technical Q&A webinar as well as publishing the summary of results ([West Yorkshire Analysis Summary April 2021](#)) to show the feasibility of different combinations in that area.

Grid code interaction

Feedback received: Parties identified there could be further clarity around how this service interacts with Grid Code obligations

NGESO position: New clause (clause 4.9) has been added to confirm parties' obligations. Any provider who is subject to the Grid Code, will need to provide the reactive power capability defined under CC 6.3.2/ECC 6.3.2 and provided as a System Ancillary Service under CC 8/ECC 8, both before an Instruction is issued and after an Instruction to End is issued. Those providers will need to operate in voltage control mode in accordance with CC.6.3.8/ECC.6.3.8 and CC.A.7/ECC.A.7.

As per the FAQ document and covered by clause 4.6.2 in the contract terms, obligated providers of reactive power agree they will cease to be entitled to payments for the Obligatory Reactive Power Service throughout the Service Term of the Voltage Pennine service.

The Instructed Settlement Periods Cap of 11,000 settlement periods is only in respect of Instruction and Instruction to End within the contract terms.

- **Final consumption levies**

Feedback received: There is interest to understand what work ESO are undertaking to seek clarity on final consumption levies / OMW assets.

NGESO position: ESO recognise that historically reactors (OMW assets) have been built and operated mainly by transmission system owners and that within the competition pathfinders are unlocking this landscape is changing. .

The industry framework implicitly assumes that these asset types are built by network owners, therefore the Grid Code and the CUSC are silent on their treatment. This creates considerable uncertainty as the

framework does not set out what should happen when market parties build these assets and apply to connect them to the system. For the voltage pathfinder, we raised a charging modification (CMP334) that excludes reactive power assets from incurring the TNUoS Transmission Demand Residual charge. This has been approved and allows providers to compete on a more level playing field with the TO.

We acknowledge this is a significant issue and clarity on this would benefit a number of parties as soon as possible. We are working closely with BEIS and Ofgem to explore solutions that will give all industry participants the clarity that is very much needed.

- **Residual value**

Feedback received: Parties would like more information on the TO evaluation methodology

NGESO position: The Pathfinder approach is to evaluate third party commercial solutions and solutions put forward by transmission owners under their regulated price controls. However, these are very different price structures, with very different risks and levels of price flexibility and so developing a methodology that allows a fair evaluation across both types of provider is proving to be challenging.

NGESO is working with OFGEM and the various TO's to establish a TO evaluation methodology that best reflects the costs and value to the end consumer and is committed to sharing this with the industry prior to the commercial tendering segment of each relevant pathfinder.