

Tender Commercial –

What do winners win and how is risk allocated?

Welcome to our WebEx for Early Competition

We will commence the meeting on the hour

nationalgridESO



Agenda

- Introductions
- Housekeeping
- Content challenge and review
- Next steps



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

Mike Oxenham (ESO)

Network Competition Policy
Manager



Urmi Mistry (ESO)

Network Competition Policy
Development Analyst



Rachel Payne (ESO)

Stakeholder Lead



Geoff Randall

KPMG



Marine Foillett

KPMG



Tell us about you

Who are you? Where do you work? What is your interest in early competition?

House Keeping

We've scheduled the meeting for 1 hour and appreciate how precious people's time is so to help us keep to time:

Please feel free to ask questions and challenge views but please don't be offended if we need to park questions or discussion if we start to move off topic, or if we are running out time.

In this circumstance we can advise if this topic area is covered in one of our subsequent workshops, or we can make contact with you separately to further discuss at a later date.

Also please feel free to call questions out when you have them, or use the chat function.

What Do Winners Win – Key Components



Assumptions

For the purpose of the following slides and group discussion a handful of assumptions are required as follows.

- The identification of projects and needs for early competition and the tender process can be separately considered to what is being 'won' by the bidder.
- Risk Allocation and Incentives elements can be separately considered to what is being 'won' by the preferred bidder.
- The same party (or consortium) will be responsible for the project up to the point of decommissioning in future.
- Proposals need to be considered for both non-network and network solutions.

Revenue Model

Tender Revenue Stream Based Model

- As per the existing Offshore Regime; a specific set of assets, obligations and incentives
- Lower relative complexity of those assets, obligations and incentives
- A fixed revenue stream which is indexed and expected to be broadly comparable to the economic asset life

Regulated Asset Value Based Model

- As per the existing Onshore Regime; a portfolio of different assets, obligations and incentives
- Higher relative complexity of those assets, obligations and incentives
- A variable review stream which is periodically reviewed over the expected economic asset life

What Model do you feel would be the most appropriate? Why?

Licence and/or Contract

No.	Options
1	All Successful Bidders to require a Licence
2	All Successful Bidders to enter into a Commercial Contract
3	Only some of the Successful Bidders (as appropriate) to require a Licence

Under Option 3 an example of an appropriate split might be that any solutions to be performing the function of Electricity Transmission will require a CATO Electricity Transmission Licence and those not performing the function of Electricity Transmission will instead enter into a commercial contract with a contract counter-party

- Are the above options a suitably diverse range? Are there any omissions?
- Do you think potential bidders would prefer a licence, a contract or a combination? Why?
- Who do you think the contract counter-party should be for any solutions delivered under a contract? Why?
- Which option do you believe will result in the greatest consumer value? Why?

Duration

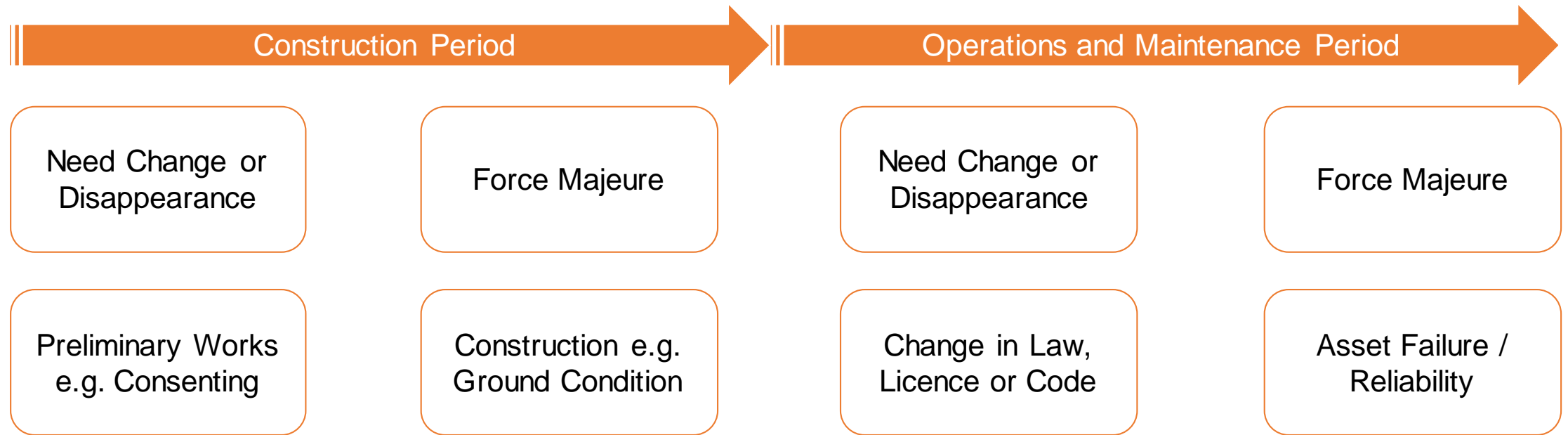
No.	Revenue Period Options	Potential Comparable - Electricity Transmission
1	Variable i.e. Need Dependent	N/A
2	20 Years	Offshore Regime (TR1-TR5)
3	25 Years	Offshore Regime (TR6)
4	45 Years	RIIO-T1 (Actual) and RIIO-T2 (Proposed)
5	Other Fixed Duration	N/A

- Are the options presented a suitably diverse range? Are there any omissions?
- What is the optimum revenue period duration to facilitate competitive financing arrangements? Why?
- Do any of the options result in barriers to entry for any type of potential participant? Why?
- Do you think the economic asset life, depreciation period and revenue period should be fully aligned? Why?
- What should happen at the end of the revenue term? Why?
- Which option do you believe will result in the greatest consumer value? Why?

What Duration do you feel would be the most appropriate? Why?

Risk Allocation

For the following general risks should the risk sit with the bidder, the consumer, the counterparty, be shared or sit elsewhere? Why?

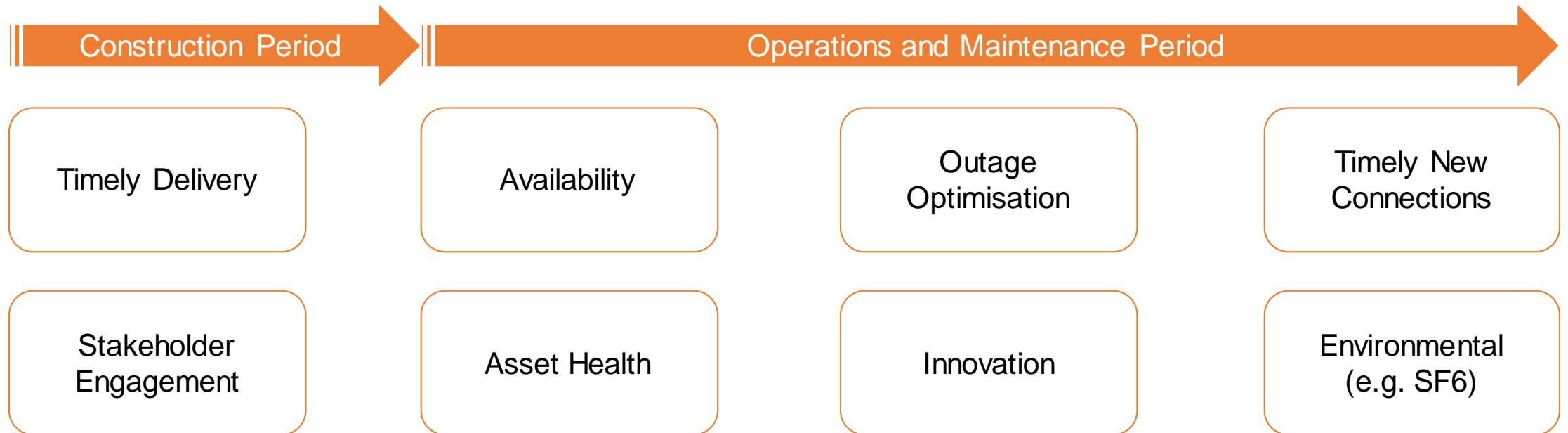


Are there other general key risks omitted and where should they sit? Why?

Risk Allocation will also be considered in the Service Delivery and Operations Discussion Forum Webinars so there may be some duplication of discussion.

Incentives

For the following potential incentives do you think there is merit in further consideration? Why?
What incentive type and how might such an incentive be constructed which would deliver consumer value?



Are there other potential incentives which should be considered? Why?

Incentives will also be considered in the Service Delivery and Operations Discussion Forum Webinars so there may be some duplication of discussion.

Next steps

- If you have feedback or wish to discuss anything please get in touch

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- The slides and any notes from this session will be made available on our website
- We will be emailing a survey; please can you take the time to feedback on this session
- Our next milestone is the Early Competition Consultation Document which we expect to publish in July

