



# 4

**Suitability for third party delivery  
and tendering assessment**

## Overview

4.1 The ESO has a clear role to play in facilitating the introduction of competition and supports competition where it is in the interest of consumers. As part of their licence change consultations<sup>20</sup> Ofgem have made clear their intention and applicability of the criteria for competition assessment. The ESO therefore believes it is sensible and pragmatic to continue to include an assessment for competition for major network reinforcements against these criteria of new, high value and separable as the timescales for delivery of many investments now fall in the RIIO-T2 timeframe, where any projects meeting the criteria could be subject to competitive tendering. As Ofgem develops the proposed competitive delivery frameworks and timing the ESO will continue to extend the assessment against the criteria for competition into connections where the enabling works meet the relevant criteria. This methodology describes the process for the assessment for both wider network reinforcement and connections. It should be noted that, in the current NOA, the time for the competitive tendering process is not considered when the TOs submit the EISDs or delivery dates for their wider transmission reinforcements or enabling works<sup>21</sup> for connection projects.

4.2 The ESO assesses the suitability of projects for competition in accordance with published tendering criteria<sup>22</sup>. The single year regret analysis process identifies the recommended options. For each set of options, the ESO identifies the most relevant options and assesses these options against the tendering criteria, which are options that are:

- new,
- separable,
- high value.

In order to undertake the assessment, the TOs will provide information to the ESO via the SRF form (see appendix D) for wider works. The ESO then carries out the following process:

- Reviews the information provided for each option.
- Assesses the most relevant options against the criteria for competition.
- Provides a recommendation for the options on how they meet or do not meet the criteria for competition and hence the options' suitability for competition.

Note that some options will clearly not meet the criteria for competition, for instance because their value is far below the threshold. As a result, not all options are assessed for competition.

4.3 In addition to wider network reinforcement, the NOA also examines connections for eligibility for competition. For each NOA, the ESO assesses transmission connections against the same criteria as wider work options (described above) and publishes the conclusions in the NOA. The assessment against the criteria does not mean that investments meeting the criteria will be subject to competitive tendering. Any decision for competitive tendering lies with Ofgem.

## Connections

4.4 Prospective users can make connection applications and modification applications at any time of year whereas the NOA process works on an annual cycle. As a result the ESO assesses connection projects when it receives them. Few connection projects meet the value criteria of £100m and of those that do, many provide wider network benefits and hence are of interest and already included in the NOA process. The ESO uses the connection contract between the ESO and the prospective user to take a view of the likelihood of meeting the value criteria.

4.5 For a new connection, the ESO identifies the projects where there is the possibility of the required enabling works (not including works already covered in the NOA) meeting the value

<sup>20</sup> <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-modify-standard-condition-c27-electricity-transmission-licence>

<sup>21</sup> For the definition of 'enabling works', please refer to section 13 of the Connection and Use of System Code (CUSC) <https://www.nationalgrid.com/sites/default/files/documents/Complete%20CUSC%20-%20%201%20April%202018.pdf>

<sup>22</sup> [https://www.ofgem.gov.uk/system/files/docs/2018/01/competition\\_update.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/01/competition_update.pdf) and [https://www.ofgem.gov.uk/system/files/docs/2018/01/draft\\_criteria\\_guidance.pdf](https://www.ofgem.gov.uk/system/files/docs/2018/01/draft_criteria_guidance.pdf)

criteria. The ESO informs the relevant TO(s) of the projects and provides a summary of the work proposed and the costs. This is in time for the ESO to perform the assessment in October.

- 4.6 If the TO states that a project has wider network benefits, it can use the SRF at the usual time in the NOA process to submit the information for the competition assessment process.
- 4.7 The TO(s) responds to the ESO's summary of the projects and the ESO then uses the summary together with any input from the TO(s) for the process to assess eligibility for competition.

### Bundling/splitting of work packages

- 4.8 The first step in the ESO's competition assessment of larger projects, is to provide an opinion on bundling projects into larger packages, or splitting projects into smaller packages, to form a recommendation in the NOA. There are two aspects to the ESO's consideration of bundling and splitting as follows:
- The costs and size of the component aspects of projects to ensure that they can be most appropriately packaged.
  - Where the ESO can identify opportunities or benefits from repackaging of projects.

### Bundling

- 4.9 The ESO considers whether combining one or more projects into a single tender could be appropriate (if they have common needs/drivers or it makes technical or commercial sense) and whether it is in the interests of consumers (e.g. economies of scale for procuring large quantities). If the ESO believes that there is benefit from bundling (and where the constituent projects have not been challenged or corrected), then each constituent project should meet the high value threshold. Where work is bundled as part of this process, the component parts must each meet the competition criteria to be eligible.

### Splitting

- 4.10 The ESO is expected to recommend splitting a project into more than one tender package if it is in the interest of consumers (for example if a project constitutes new assets and refurbishment of existing assets these could be split so new assets could be competed). When it considers splitting a project, the ESO will consider the impact this could have on project delivery. Each resultant package should meet the high value threshold, if these are to be competed.

### Competition criteria

- 4.11 Ofgem has stated that there are significant benefits to consumers in introducing competition into the delivery of transmission projects that meet defined criteria. These criteria are:
- **New** – completely new transmission assets or complete replacement of transmission assets.
  - **Separable** – ownership between these assets and other (existing) assets can be clearly delineated.
  - **High value** – at or above £100m in value of the expected capital expenditure of the project.

Figure 4. 1 shows the process for assessing whether reinforcement projects meet competition criteria.

- 4.12 Note that there are two stages in the high value assessment (red outline) and two stages in the separability assessment (green outline).
- 4.13 Process stages - the names of the process stages below match those on the diagram. The numbered stages below correspond to the boxes on the left side of the diagram.

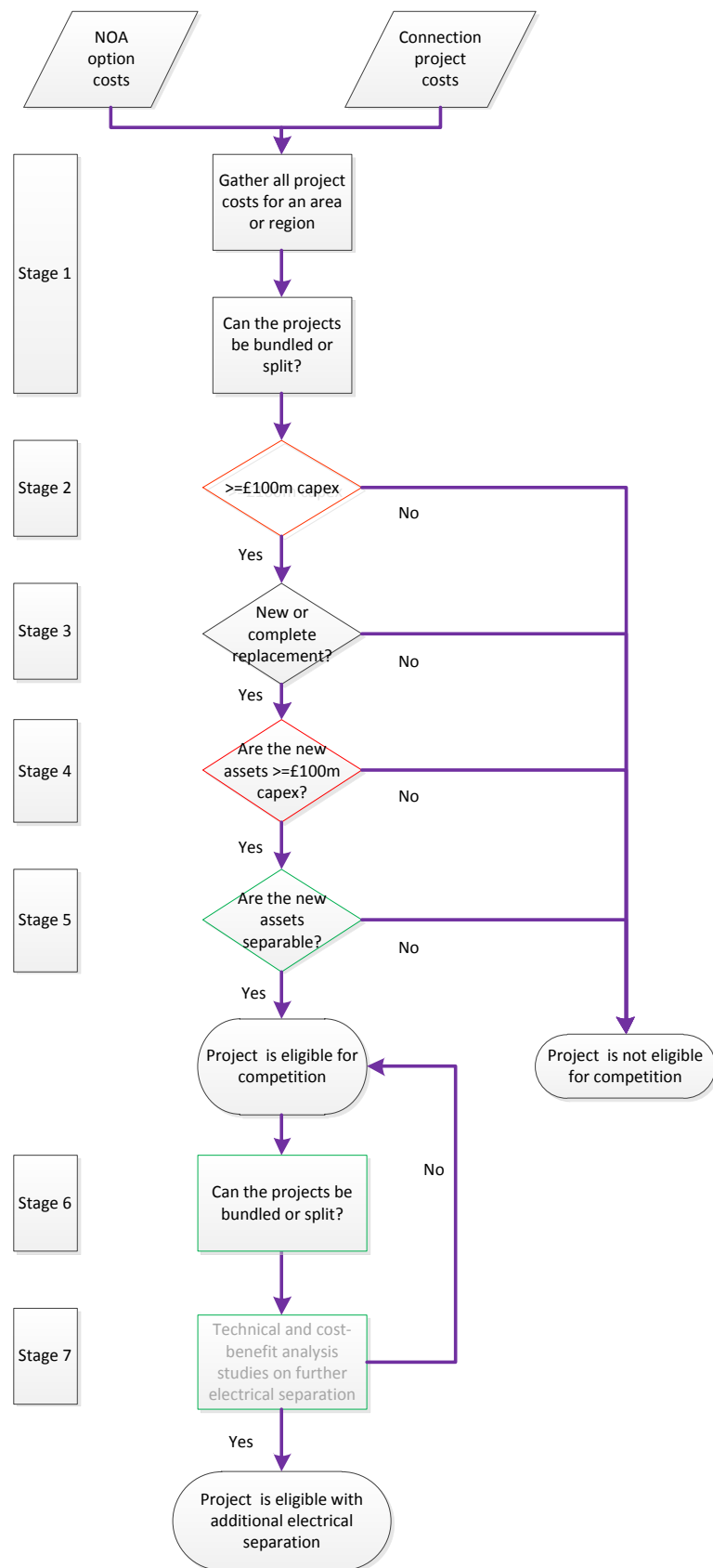


Figure 4. 1 The process for assessing suitability for competition



## Stage 1

### Can the projects be bundled or split?

**Aim** – to carry out a first check to ensure that sensible packages of work are developed together by assessing the proposed work to see if it should be split (broken into more than one smaller bundle) or whether work across more than one project should be bundled together.

Considerations when assessing potential for splitting:

- Does the project involve different technologies that suggests different skills and procurement are needed for the separate elements?
- Is there a variety of works involved? For example:
- Are there one or more new substations?
- Does the proposed project comprise OHL and cable sections and how do they affect existing networks?
- Are there one or more cable tunnels?
- Are the project phases adjoining or in naturally separate timeframes?
- Could the resulting work package lead to stranded investments?

Considerations when assessing the potential for bundling:

- Are there multiple projects with common needs / drivers?
- Are there several individual projects in a relatively self-contained area or corridor?
- Are there scheme works that are very similar?
- Is it one of several smaller projects that could be efficiently or more efficiently developed with other projects?

## Stage 2

### **>=£100m capex**

**Aim** – to assess whether the project or bundle of projects meets the high value criteria and include only projects that exceed the threshold within a 10% margin for consideration at the next stage.

Table 4. 1 lists the factors that affect the high value figure.<sup>23</sup>

**Criteria** – this is the first of a two-stage process (the second, stage 4 is below). The ESO uses the costs that the TO(s) have provided and that have undergone cost checking or that appear in the connection contract to calculate the cost (or where we are looking to create a bundled package the total costs) of the project. The ESO might seek advice from the TO if it has queries. The trigger threshold is set at £90m to highlight projects that are marginally below the £100m figure. This produces a straight yes/no output.

Table 4. 1 List of factors that the high value figure includes or excludes

The £100m capex 'high value' figure	
includes	excludes
<ul style="list-style-type: none"> <li>• Costs of acquiring land</li> <li>• Costs of complying with consents conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Costs of gaining consent</li> </ul>

<sup>23</sup> As applied to the current framework for cost allocation under the RIIO-T1 framework

**Stage 3****New or complete replacement**

Aim – to test the projects against whether they are new assets or complete replacement assets rather than, say, refurbished assets. This test has the practical benefit of checking for complicated examples. For example, where a new double circuit crosses an existing double circuit and because of routing and the existing circuits, the existing circuits need modification leading to new assets integrated into existing circuits. Thus, the affected existing circuits would become a mix of old and new assets. The consenting process might also change a simple double circuit route into a complicated one that includes mixed ownership because of old and new assets being integrated. As the project, will be assessed annually in the NOA process this might lead to a change in the project's eligibility, from one year's assessment to another.

Criteria – is a project delivering completely new assets or complete replacement assets that fulfil the same function of the assets to be removed or replaced? This produces a straight yes/no output.

**Stage 4****Are the new assets  $\geq$ £100m value?**

Aim – to test whether the new assets reach or exceed the high value threshold.

Criteria – this is the second part of a two-stage process (the first, stage 2 is above). If the project has a very high proportion of new assets and high value, the project will pass this stage. For more marginal projects, the ESO uses the breakdown of costs from the TO to calculate the value of the new assets. This produces a straight yes/no output.

**Stage 5****Are the new assets separable?**

Aim – to test whether the project details indicate that the new assets are readily separable from the existing assets.

Criteria – this is to check if the project already has points of connection to existing assets that can be clearly delineated, in other words, clearly identified. Disconnectors are obvious points that can be delineated but Ofgem suggest that other points such as clamps on busbars would also be acceptable as long as the point can be clearly identified. This produces a straight yes/no output.

**Stage 6****Can the projects be bundled or split?**

Aim – having gone through the process to check for eligibility, this stage is a recheck that sensible packages of work are developed together.

Criteria – these are the same as for stage 1 (above). Note that projects that are split must have component parts that meet or exceed the £100m value threshold.

**Stage 7****Based on technical and cost-benefit analysis studies, is it appropriate for the ESO to recommend additional electrical separation for the projects that have met the competition criteria?**

If the ESO concludes that the project proposals already have adequate electrical separation, it is not necessary to carry out this stage.

Aim – use cost-benefit analysis studies to test technical solutions and determine if it is worth extra investment in assets or amending the design to further delineate ownership boundaries to provide adequate electrical separability.

The ESO is considering ways of conducting this assessment with the most likely being a study against some criteria to provide consistency. The ESO believes that the assessment will be needed by exception only.

The ESO maintains a log of connection projects that meet the competition criteria and liaises with the TOs about the outcomes of the competition eligibility assessments. This log forms the basis of the list that is published in the NOA.