

Early Competition

Roles in Competition

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

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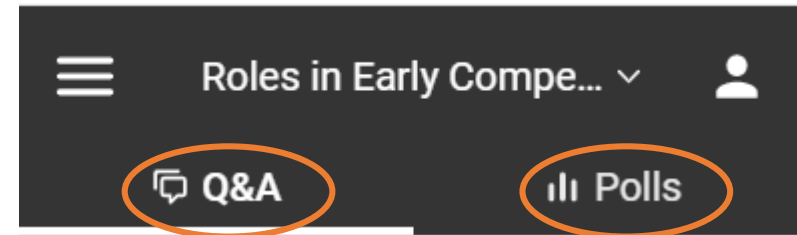
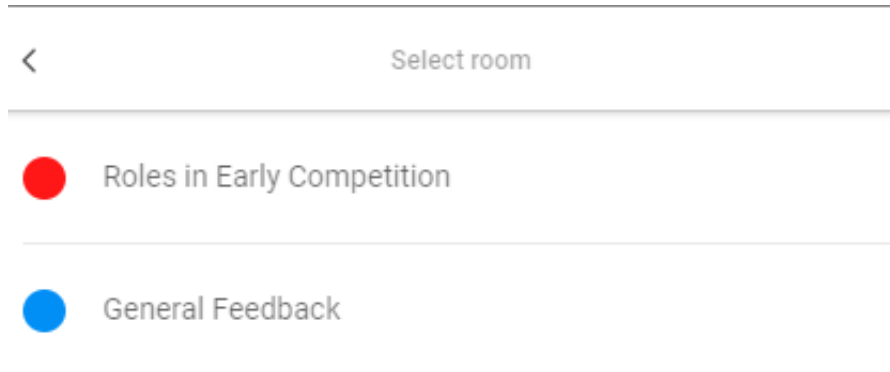
Tell us about you

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

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Agenda

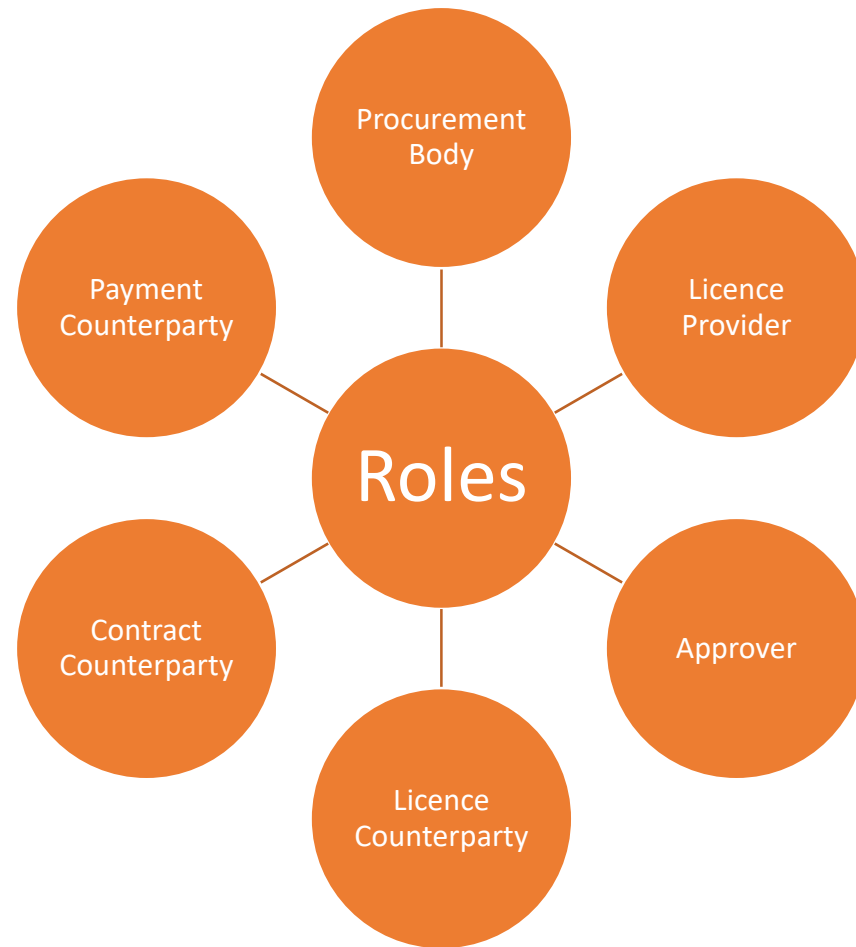
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Roles and Responsibilities Phase 2 Summary



Roles and Responsibilities



Parties

Ofgem, the ESO and incumbent TOs and the possibility of a 3rd Party

Roles:

- **Procurement Body:** responsible for the design of the procurement structure and process. The development of tender and contractual documents.
- **Licence Provider:** This entity will issue the Licence.
- **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.

We sought views on these roles and which entities would be best placed to fulfil each new role

Procurement Body

The role could be carried out by:

ofgem

Or



Or

nationalgridESO

Approver

These entities could carry out these roles:

ofgem

Or



Or

nationalgridESO

This role could be shared across two separate entities

Licence provider

The power to issue a Licence sits with:

ofgem

We do not envisage any other party would be more appropriate to undertake this role

Counterparty

This role is split by transaction:

- Licence

ofgem

- Contract



Or nationalgridESO

- Payment



Or nationalgridESO

Stakeholder Feedback

Several stakeholders agree with the new roles identified.

Requirement for a truly knowledgeable party to run the procurement process

The Procurement Body or Approver should have the same statutory duties as a TO with respect to its Licence obligation to develop an economic and efficient system

For non-network solutions, all stakeholders agree that a contract counterparty is required to monitor and manage compliance against a contract.

One of the suggestions on the proposed scope of the roles and responsibilities of parties is to be consistent with the ESO's Licence and the existing regulatory regime.

Proposal Development



Development

During proposal development, we found that some roles overlapped, and others would benefit from being defined.

Updates

- Removed the role of Licence Provider as this activity overlapped with activities under the Licence Counterparty
- Added the role of Network Planning Bodies to help us in our thinking on the role of incumbent TOs.



Procurement Body - Activities

Our initial view on activities that would sit under the Procurement Body based on our current end to end model.

| Needs Identification | Pre-tender planning | Qualification and Tender | Preliminary Works | Construction | Operation | Decommissioning |
|---|---|--|--|---|--|-----------------|
| | Market engagement and networking events about the upcoming tender | | | | | |
| | Define bid evaluation criteria Sharing information with market | Carries out tender process (PQ, ITT stage 1, ITT stage 2), including arranging any performance bond | | | | |
| Kept informed of work and outcomes relating to network needs and strategic overview etc | Refines Network Planning Body recommendations on projects to tender for final approval to launch tender. Preparation of resources for the procurement process. This can include generic documentation, strategies etc... Supports Counterparty in development of commercial agreements and/or Licence documentation | Carries out any final negotiations Makes Preferred Bidder recommendation Delivers the procurement process in line with documentation | Oversees Debt Competition, which is run by the bidder Informed of final project needs case recommendation | Conducts a lessons learnt review of outturn costs, including benchmarking and data collection | Incorporates lessons learnt into procurement process | |

Procurement Body - Risks of the Role

Tender Process

Technical Risk

Cashflow/ Financial
risk

Legal Challenge

Perceived unlevel
playing field

Political

Other

Have we considered all of the risks
associated with this role?

Analysis of Phase 2 Proposals

| Entity | Advantages to playing this role | Disadvantages to playing this role |
|--------------------|--|---|
| Ofgem | <ul style="list-style-type: none"> Experience of conducting a similar tender process. Independent party in role as Regulator. Commercial relationships and capabilities. Experience of regulatory models and regimes. | <ul style="list-style-type: none"> Lack of technical knowledge of the electricity system. Limited experience in assessing construction tenders. No experience in evaluating system needs and solutions or of non-network solutions |
| Third Party | <ul style="list-style-type: none"> Independent body Potential to create synergies across sectors May be beneficial for competition in distribution | <ul style="list-style-type: none"> High set up cost. Would need to procure the relevant skills and experience. Creation of new governance and regulatory arrangements. Lack of system knowledge. |
| ESO | <ul style="list-style-type: none"> Experience of procurement processes In-depth knowledge of the electricity system Will not participate in competition and has robust legal separation requirements in place. Synergies with other roles the ESO carries out. | <ul style="list-style-type: none"> Significant increase in procurement process complexity compared to what the ESO is used to. Little experience of regulatory finance models and regimes. Potential inability to finance the liability risk of this role. |

Have we missed any advantages or disadvantages of Ofgem, Third Party or the ESO owning this role?

Sli.do Poll

Taking the above information into account, who is best placed to own the Procurement Body role?

ofgem

Or



Or

nationalgridESO

Contract Counterparty- Activities

Our initial view on activities that would sit under the Contract Counterparty based on our current end to end model.

| Needs Identification | Pre-tender planning | Qualification and Tender | Preliminary Works | Construction | Operation | Decommissioning |
|----------------------|---|---|---|---|---|--|
| | Support procurement body in creating tender documentation and process in relation to drawing up or acquiring contract | Issues contract once tender has concluded | Enacting of changes resulting from Debt competition or as a result of final project needs case | | | |
| | Commercial input, in part, into any procurement process documentation | Performance bond put in place before contract award | Cost assessment carried out (including assessing the detailed design) and enacted by counterparty (committing of underlying costs). Decision maker on any cost assessment | Manages contract reports and any changes, manages change, risk and contingency. Also manages any uncertainty mechanisms | Contract management and oversight | |
| | Determine any post-award cost assessment guidance/principles | Approval of any post award cost assessment mechanisms | Manages contract obligations and requirements agreed during this period | Decision maker on any Tender Revenue Stream adjustments | Final step of operations phase - Approval of decommissioning plan | Decides on whether to release security (did they follow the plan as described) |
| | | Approves contract terms, which are the output of any final negotiations at this stage | Approval of sunk costs in the event the project no longer continues to the successful bidder | | | |

Contract Counterparty - Risks of the Role

Financial/ Cashflow

Legal Challenge

Winning bidder
default

Political

Perceived unlevel
playing field

Contract
management

Other

Have we considered all of the risks
associated with this role?

Analysis of Phase 2 Proposals

| Entity | Advantages to playing this role | Disadvantages to playing this role |
|-------------|---|--|
| Third Party | Independent body so perception of conflict of interest during certain processes e.g. . during commissioning where adjudication is needed, is mitigated. | High set up costs. Need to acquire relevant skills and experience. Potentially higher monitoring costs from Ofgem. |
| ESO | Experience of contracting. Less additional funding needed than required for a 3 rd party. Builds on existing capabilities. Current relationships with some potential bidders. | Increased complexities in contracting arrangements from what the ESO is used to. |

Have we missed any advantages or disadvantages of a Third Party or the ESO owning this role?

Sli.do Poll

Taking the above information into account, who is best placed to own the Contract Counterparty role?



Or

national**grid**ESO

Payment Counterparty- Activities

Our initial view on activities that would sit under the Payment Counterparty based on our current end to end model.

| Needs Identification | Pre-tender planning | Qualification and Tender | Preliminary Works | Construction | Operation | Decommissioning |
|----------------------|---------------------|--------------------------|--|--|--|--|
| | | | Payment of any sunk cost in the event the project no longer continues to the successful bidder | Payment of any sunk cost in the event the project no longer continues to the successful bidder | Payment of revenue once solution is commissioned through existing arrangements (TNUoS or BSUoS) for the duration of the revenue period | Stop paying revenues at the end of the TRS |
| | | | Potentially responsible for any milestone payments during this stage (to be confirmed) | Potentially responsible for any milestone payments during this stage (to be confirmed) | Holds decommissioning security | Release decommissioning security |

Payment Counterparty - Risks of the Role

Cashflow

Legal Challenge/ Political

Have we considered all of the risks
associated with this role?

Analysis of Phase 2 Proposals

| Entity | Advantages to playing this role | Disadvantages to playing this role |
|-------------|--|--|
| Third Party | <p>Potentially able to provide greater financial security than under current arrangements e.g. if Government backed.</p> <p>Proven model that works e.g Low Carbon Contracts Company (LCCC)</p> | <p>High set up costs.</p> <p>Need to build up knowledge of payment arrangements</p> <p>Need to secure acceptable credit rating to mitigate counterparty credit risk.</p> <p>Need to amend existing arrangements for TNUoS and BSUoS.</p> |
| ESO | <p>Currently play this role for TNUoS and BSUoS charging arrangements.</p> <p>Regulatory arrangements and codes currently allow for the ESO owning this role.</p> <p>Vast experience in delivering this role and the arrangements surrounding it.</p> <p>Trusted to manage monies by industry due to having factors such as a good credit rating</p> | <p>Over/under recovery risk could increase as money moves from TNUoS to BSUoS in future as and when non-network solutions win early competitions.</p> |

Have we missed any advantages or disadvantages of a Third Party or the ESO owning this role?

Sli.do Poll

Taking the above information into account, who is best placed to own the Payment Counterparty role?



Or

national**grid**ESO

Ofgem's role

Approver

- Stakeholder feedback supports Ofgem taking on this role.
- It will help build trust in the competition
- Gives all stakeholders confidence that consumer value and interest is at the heart of Early Competition.
- We are in discussions with Ofgem on specific activities.

Licence Counterparty

- We believe that only Ofgem can play this role.
- Under current legislation (Electricity Act 1989) the power to issue Licenses sits with Ofgem.

Under our current model proposal, what decisions should be the responsibility of the Approver?

Phase 2 Summary Network Planning Bodies



Stakeholder feedback

TO participation in Early Competition

Current preferred option

- TOs bid into the same procurement process as other bidders.
- TOs subject to same post tender arrangement as other bidders (e.g. TRS revenue stream and cost change mechanisms).
- Creates a level-playing field between the TO and other bidders.
- Excludes ability of TO to put forward RIIO proposal, which could be best value solution.

Alternative options

- TOs develop their solution under RIIO alongside competitive process.
- Bids from other parties compared against this indicative solution.
- If TO solution cheapest, then progressed through existing RIIO funding arrangements.
- More challenging to ensure fair treatment between all parties due to different frameworks underpinning their bids.
- Removes ability of the TO to tailor their bids.

Stakeholder Feedback

Agreed with the TO bidding in as a market participant.

Support for TOs having the option not to compete if they don't wish to.

TO bidding activities should not be funded via their RIIO frameworks.

Ringfencing arrangements required if TOs to provide tender support or involved in shaping tender specification.

Expertise and experience paid for by consumers should be made available on an equal basis to all bidders.

TOs should submit solutions as the counterfactual to the rest of the bidders.

Conflict of interests could undermine the integrity of the competition and affect the overall outcomes.

Ringfencing challenging to implement and would impact TO resources and abilities to execute license responsibilities effectively.

Competition is an alternative to the regulated delivery of network assets and TO participation should be ruled out on this basis.

Unsure whether businesses that are regulated by existing licence obligations and duties, can fairly compete in an open market.

Proposal Development



Network Planning Bodies

Our initial view on activities that would sit under the Network Planning Bodies based on our current end to end model.

Need identification

- Identify future network reinforcement needs, modelling the impacts of the Future Energy Scenarios on the network.

Assess option combinations

- Study option combinations, analyse how reinforcement options stack up and identify options combinations to be input in to NOA Cost Benefit analysis.

Initial solution development

- Provide high level details of reinforcement options, in response to boundary capabilities and requirements.
- This also includes commercial solutions and reduced-build options which utilise existing assets.

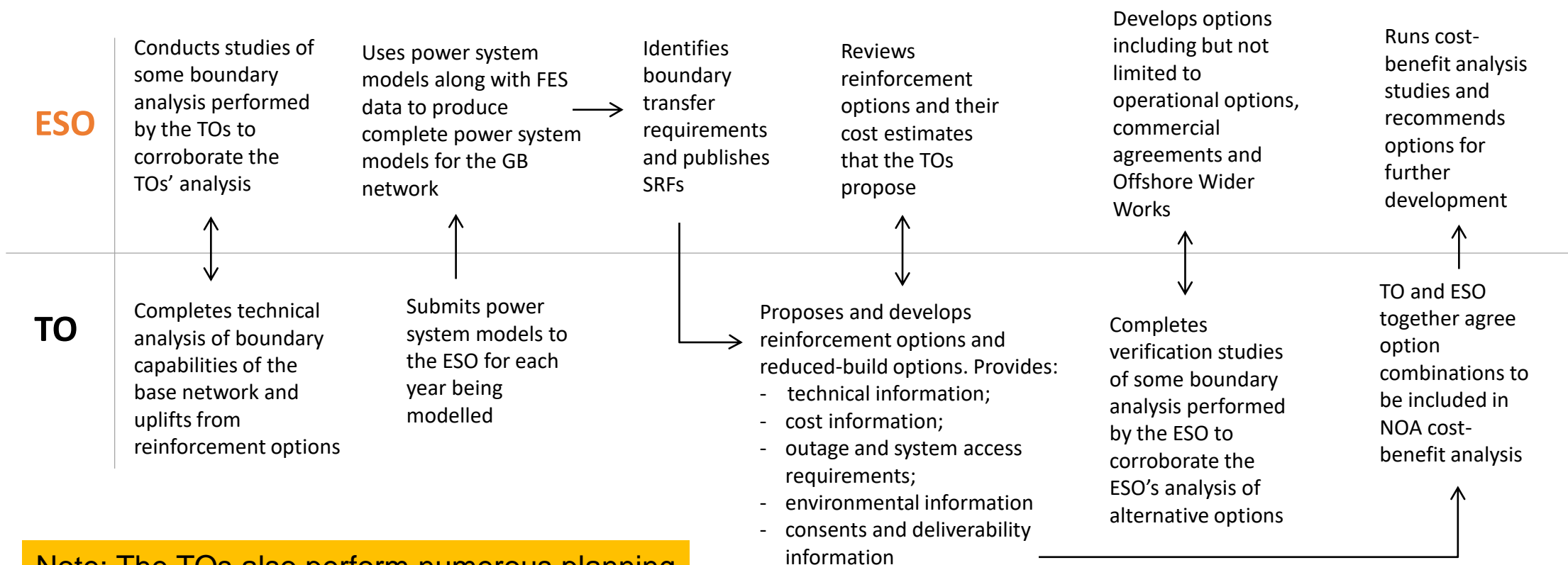
Determine suitability for competition

- Assess options with recommendation to proceed against criteria for competition.

Market engagement

- Engage with third parties to gauge market interest and explore with stakeholders and potential bidders the range of solutions that could meet the network needs.

Current TO and ESO roles



Note: The TOs also perform numerous planning activities in addition NOA-related activities e.g. connections assessment, asset-health related activities etc.

How may current network planning roles need to change for EC?

Problem statement and key assumptions

TOs have potential to produce the best value solution, based on experience and expertise.

Process required that enables TOs to participate in Early Competition.

Process should enable TOs to meet ongoing licence obligations and responsibilities additional to NOA process (connections, asset health etc).

To avoid conflicts of interest, process must ensure that:

- Resource spent by the TOs that shapes the solutions they put forward as part of a competitive process is clearly accounted for in the costing of their bids.
- Resource TOs use to develop their bids does not benefit from additional data or information not available to other bidders.
- Resource TOs use to develop their bids does not have any knowledge of other competitors bids.
- Tos' RIIO funded network planning activities are not influenced in any way by the Tos' proposed competitive solutions.

1. Are there any further conditions that must be met to enable incumbent TOs to bid in to Early Competition as a market participant?

2. What arrangements (e.g. ringfencing) or alternations to the current network planning process are required to ensure these conditions are met?

Next steps

- The roles and responsibilities thought paper is open for responses until 30 September, you can feed in via this session or alternatively email your written response to

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
- Please take time to answer our feedback poll to allow us to further improve your experience for future events