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**About Octopus Energy**

Octopus Energy is a global clean energy tech business, driving the affordable, green energy system of the future. Under its own retail brand, Octopus delivers world-class customer service and cutting edge energy products to 7.7 million households globally. Its operations span 18 countries and the entire energy value chain. The group invests in, builds and flexibly manages renewable energy, operating a £6 billion portfolio of projects – one of Europe's largest.

Octopus has licensed its advanced data and machine learning platform, Kraken, to support over 54 million customer accounts worldwide through licensing deals with companies such as EDF, E.ON and Origin Energy. Kraken enables Octopus to drive the electrification of heat and transport through smart tariffs and innovative cleantech. Backed by pension funds, investors and energy giants, Octopus Energy Group businesses deliver cheaper, greener energy and cutting-edge tech to countries and customers worldwide.

For more information, check out [our website](#)

**Overview**

As a leading supplier of electricity to domestic and business customers across the UK, we recognize the need to minimise energy costs for customers wherever possible. As a leading renewable project developer, we also recognize the need to reduce network constraints to get more cheap, green electricity onto the system as fast as possible.

Maximising the potential of the competitive market to deliver the new grid infrastructure we need is an important solution to these two challenges, as is maximising the use of innovative technology to reduce grid constraints and the need to build in the first place. It is on this basis that we're responding to this consultation.

From our perspective, it is important that Ofgem keeps the following principles in mind when developing the policy design on early competition:

- 1. Maximising scale and certainty over the pipeline will in turn maximise the benefits from competition in onshore transmission build.**

We strongly support an increased role for competition in onshore infrastructure delivery. By increasing the number of projects subjected to competitive processes, Ofgem will enable more potential bidders to enter the market. A large and predictable project pipeline will give competitors confidence that upfront investment in bid capabilities will pay off over multiple opportunities, therefore increasing competition and further driving down costs for customers. As proposed by ESO, all transmission delivery, connections, reinforcement and asset replacement projects should be tested against the competition criteria by default. As a general principle, we think the burden of proof should be in favour of competition, meaning the finalised methodology behind ESO's competition criteria and CBA should clearly demonstrate the benefit of monopolisation in order for a project not to be tendered.

**2. Non-network solutions should be first in the merit order to alleviate constraints and the network development process should reflect this**

We emphasise the importance of utilising non-network solutions as a prioritised alternative to traditional network upgrades. Non-network solutions, including demand side response and energy storage, can provide cost-effective, flexible and sustainable options to address network constraints. We understand the rationale for having a different procurement process for network versus non-network solutions, but this needs to be complemented by a network options assessment process that fairly compares both categories of solution pre-tender. Such a process should properly value the benefits of non-network solutions in being lower capex, more flexible and buying valuable time for further network needs or options to be revealed. We urge Ofgem to consider routes for third-parties to challenge ESO thinking on what projects are required under the CSNP and ensure non-network solutions are being fully leveraged to minimise costs for customers. This should also be enabled by a regulatory framework for the NESO that incentivises cost minimisation for customers to avoid 'building by default' as a solution to network needs.

**3. Early competition should apply challenging, innovative thinking to current approaches, a principle that should also be followed in the network planning process**

We advocate for a regulatory framework that encourages and rewards innovative approaches to delivery of transmission infrastructure. Early competition is an important step towards achieving this in practice; allowing more scope for innovation in design, construction and financing approaches to meet network needs. Having a transparent process which is open to innovative solutions, with clearly defined success criteria and a route to challenge outcomes, is crucial to achieving this. These principles should also apply to the NESO processes more broadly, particularly the CSNP and CBA processes that drive tender opportunities for early competition. As the NESO is established, Ofgem should continue to oversee methodologies for these processes to ensure NESO doesn't inadvertently stifle innovation in the sector through one-size-fits-all thinking and top down centralised planning.

**Q1. Do you agree that the proposed amendments by the ESO represent good value for money for consumers?**

In general we support some elements of the ESO's proposed amendments to the Early Competition model, particularly the ability for the NESO to undertake environmental appraisals and public consultation early to define the spatial elements of any new infrastructure requirements more clearly. This will improve certainty for competitors and reduce the level of risk that needs to be priced into bid submissions, which we agree is likely to reduce costs for customers. Proposing a shorter tender process will also support objectives to deliver new infrastructure at a quicker pace, to the benefit of customers.

However, we note that these proposals are effectively making the competition less 'early' in the round. In general, competitive procurement at later stages of the project development lifecycle limits scope for bidders to innovate and propose designs or methodologies that reduce costs for customers. Whilst competition under the proposed EC-I model is still early enough to secure many of these benefits, Ofgem should also ensure that ESO's CSNP methodologies for considering solutions to different network needs maximise scope for innovation and explore a wide range of approaches.

We are particularly concerned about the exclusion of non-network solutions from the early competition tender process itself. Non-network solutions are often lower cost, more flexible and improve optionality on the network under conditions of uncertainty. As such, we urge Ofgem to ensure that these solutions are prioritised early in the solutions assessment process. Although not the topic of this consultation, a key approach to achieving this will be routes to challenge or feed into CSNP development for industry stakeholders. This will be a crucial 'check and balance' to centralised planning to help ensure the NESO is maximising the benefits of new technologies or approaches to minimise long-term costs for customers. Linked to this is the need for reform in several of the network services procurement processes ESO will continue to run for non-network solutions, particularly improvements in digital capability and procurement processes to maximise scope for decentralised / consumer-driven flexibility technologies to compete. In order to fully agree that these proposed amendments represent good value for money for customers we will need to have confidence that these parallel reforms are taking place alongside the EC-I development.

## **Q2. Do you agree with the ESO's proposal of alignment of Early Competition with the Centralised Strategic Network Plan (CSNP)?**

We recognise the value of aligning early competition with the CSNP in terms of quicker route to market, a more streamlined procurement process and higher certainty for bidders in the deliverability of solutions proposed (as more detailed planning and scoping work will have been delivered by ESO prior to tender). Aligning with the CSNP should also provide more visibility and certainty over the forward pipeline of tender opportunities. Along with having a large pipeline in terms of opportunity value, we see this certainty as crucial to pulling in more bidders, unlocking more competitive pressure in the tender process, and maximising the benefits of the whole process for customers.

However, these proposals do effectively reduce scope for the market to compete in designing solutions to network needs at an earlier stage, which is likely to limit the scope for innovation in the process. Relying too heavily on a centralised planner as the sole authority on defining solutions to network challenges risks undermining the benefits of an increased role for competition in the first place.

In our view, the methodology for CSNP development therefore needs to maximise scope for stakeholder input, engagement and challenge. This must involve consultative processes, data transparency on inputs/assumptions, as well as scope for third parties to propose solutions to network needs early in the planning process and have these assessed through a transparent approach (in line with Ofgem's Decision 4 under Stage-3 'identifying options' in the decision on the framework for the FSO's CSNP). Crucially, we do not think that these EC-I proposals (in isolation) deliver on the substance of that decision, which must include consideration of short-term and non-network solutions to meet network needs, and await further NESO proposals on how this part of the CSNP process will work in practice.

A successful process here will therefore rely on the NESO's ability to assess both network and non-network needs effectively and maximise the potential from innovative solutions that might not fit neatly into a methodology defined ex-ante. We look forward to engaging with the NESO on detailed CSNP methodology proposals in due course. We cannot fully support the proposal to align early competition with the CSNP without having more clarity on these proposals and confidence that the above requirements will be met.

### **Q3. Do you agree with the ESO's proposal that only network solutions should be eligible for Early Competition?**

We reiterate the critical need to maximise the use of non-network solutions as a strategic measure to reduce costs to customers, manage uncertainty in low-carbon technology deployment and deliver a flexible, tech-enabled grid that is prepared for Net Zero. We recognise the challenge in designing an early competition tender process that fairly competes infrastructure build against non-network solutions but reiterate that the CSNP must be able to fully leverage the potential of non-network solutions to minimise costs for customers. Ofgem's emerging regulatory framework for the NESO will be critical in ensuring incentives are in place for NESO to deliver this.

As such, we refer to our responses to Q1 and Q2 that highlight the need for two other crucial steps that the (N)ESO needs to take in order for us to agree with these proposals, namely:

- 1) Continue to improve network services procurement processes to expand scope for competition from decentralised, consumer-tech driven flexibility technologies (which will increasingly be readily available and can reduce the need for new infrastructure projects to be built). Enhancing digital capabilities in the ESO will be an important part of achieving this.
- 2) Ensure that the CSNP methodology involves robust stakeholder engagement and a clear process for third parties to propose solutions to network needs, which facilitates comparison between different solution types and facilitates innovative proposals wherever there is scope to reduce network costs for customers. It is our

understanding that this process must happen before any specific projects are released for tender in the EC-I process.

**Q4. Do you have any material concerns with the conflict mitigation measures proposed by Ofgem for incumbent TOs and other bidders?**

Octopus energy will not respond to this question.

**Q5. What are your views on our proposed modification to put in place timing requirements for when the TO must confirm its intention to bid and put in place conflict arrangements?**

Octopus energy will not respond to this question.

**Q6. What are your views on our proposed modification to restrict the transfer of TO employees between the Bidding Unit and the team undertaking the Tender Support Activities and pre-construction activity?**

Octopus energy will not respond to this question.

**Q7. What are your views on the proposed information sharing framework and, on the roles, assigned therein?**

Octopus energy will not respond to this question.

**Q8. Do you have any material concerns with the company structure proposed for raising debt for Early Competition?**

Octopus energy will not respond to this question.

**Q9. Do you have any material concerns with the ESO's proposed methodology of its CBA model and the elements considered therein?**

We do not have any material concerns with the proposed methodology, but note the following considerations in its implementation over time.

In general, we reiterate the need to maximise the volume of projects in the competition pipeline, as well as providing visibility and certainty over this pipeline, to truly leverage the full potential of competition to provide value to customers. Ofgem should therefore push to ensure that the CBA process is run as far in advance as possible, in order to fill the pipeline with projects and give bidders certainty of upcoming opportunities.

That being said, we agree with Ofgem that assumptions or methodologies in the CBA will need to be updated over time, particularly as the scope for cost reduction from competition is revealed by the market, and/or innovative approaches come forward in other areas that impact the parameters used in the tool. As more bidders compete in tender processes, we expect efficiencies will reduce (pre)tender costs, bidder costs, consortium costs and the pool of debt and equity capital available will grow. This will, in turn, make more projects attractive to compete. To ensure the benefits of competition are maximised for consumers, it is therefore incumbent on the ESO to continually source the most up to date cost benchmarks for these factors and integrate them into the model. We suggest that a structured process is also defined to allow bidders to provide data required to refine the model.

ESO should therefore continue to iterate the CBA model, but the overall CSNP and project selection process should avoid any retrospective changes to the tender pipeline to avoid undermining certainty for potential bidders.

We also agree with Ofgem's proposals to consider wider factors and potential risks, as well as qualitative considerations that are hard to monetise in the CBA. In general though, we urge Ofgem to consider these factors in a timely manner with a well resourced team, helping to avoid any delays to infrastructure roll-out, in line with the intentions of the TAAP.

**Q10. Do you have any material concerns with the proposed TNUoS revenue recovery model for a CATO similar to the OFTO model?**

Octopus energy will not respond to this question.

**Q11. Do you have any material concerns about the proposed approach and principles in dealing with a situation of CATO/tender failure?**

Octopus energy will not respond to this question.