

ECIT Late CATO Model Workshop – Report

Context

As part of its extending competition in transmission (ECIT) project, Ofgem has established a steering group to assess policy options. This steering group is attended by TOs, potential CATOs, generators and the Scottish Government, along with the ENA.

ENA facilitated a stakeholder workshop hosted by Ofgem. The workshop took place on 23rd August 2016. The ECIT steering group and Ofgem asked ENA to draft a short report to capture the views expressed by stakeholders at the workshop. **The note below captures those stakeholder views but does not represent a company position on these questions.**

Please note that this report should be read alongside the Ofgem's presentation slides from the workshop and chapter 2 of Ofgem's consultation document: 'Extending Competition in Electricity Transmission: Tender Models and Market Offering'¹. This outlines their proposals regarding the Late CATO build tender model.

Annex 1 to the note includes a list of the stakeholders who attended the workshop on 23rd August. Annex 2 to the note contains a list of key terms.

Questions

1. Do you have any general feedback or questions on consultation or presentation

Tender timetable and project delay

There was a view from certain members of the group that running a tender process would inevitably lead to a longer timetable to construct new assets. Stakeholders stated that the overall benefits from the competitively run tender process would need to come from cost savings which outweigh delays in construction.

Ofgem stated they want to start the Invitation to Tender (ITT) process once planning consent is in place but recognise that this may not be possible for some projects. For the RIIO T1 projects Ofgem is basing tendering decisions on the existing Strategic Wider Works (SWW) Needs case processes. This will involve looking at the time scale, technical scope, potential development etc.

Ofgem confirmed CATO's would receive a transmission licence at 'Licence grant' after the successful bidder is chosen, which would be prior to the start of construction.

Needs Cases

Certain stakeholders were keen to understand if Ofgem planned to revisit the needs case for tendering a project once it had been approved.

Ofgem explained they would get certainty on the project before starting a tender so don't intend a formal review of the needs case after this point. They confirmed they wouldn't be doing a project assessment as under SWW because the tender would reveal costs. Some members of the group requested that as much information on a project was made available before starting the tender process to ensure a high level of certainty.

¹ https://www.ofgem.gov.uk/system/files/docs/2016/08/extending_competition_in_electricity_transmission_-_tender_models_and_market_offering_0.pdf

Implementation of asset methodologies developed by TOs and DNOs in CATO projects

Ofgem stated they're proposing some incentives on asset management, to encourage CATO's to maintain their assets, so they're in an 'appropriate condition' at the end of the 25 year revenue term. The group recognized that TOs and DNOs are required to have defined 'asset health indices' under network output measures (NOM). Stakeholders asked if there was any way for learning from these to be shared with potential CATOs, while noting that it would probably not be efficient or effective for CATOs to be subject to NOMs in the way of other network companies given the portfolio nature of their assets vs discrete CATO assets.

Repeating the EPQ stage

Several stakeholders queried whether it would be efficient to have to go through an EPQ stage for each tender if they had completed this stage on another project. Ofgem clarified that bidders would have to undergo this process even if they had passed this stage on another project. The purpose of this stage is to carry out background checks and see what the bidder's capabilities are and this may vary between projects.

2. What do you think about our proposed approach to tender evaluation?

Timings and Innovation

Certain stakeholders expressed that the tender process would inevitably result in delays in construction. There were also concerns that there is limited scope for innovation in the late build CATO model.

Other stakeholders commented that there would still be scope to innovate under the late model, particularly in reducing the size of assets. A manufacturer offered to demonstrate how to improve space efficiency when deploying assets to illustrate how benefits could be delivered under the late model.

Ofgem Interaction during the tender process

The group said they would potentially want to see more interaction with Ofgem during the tender process. Ofgem clarified they're looking for bidders to demonstrate what's outlined in the tender specification. They would then evaluate bids against the tender specification.

Stakeholders noted that variant bids may need greater interaction from Ofgem, as this would provide reassurance that it would be worth pursuing.

Supplier engagement and Proposals Stage

Several members stated it would be difficult to get the supply chain sufficiently engaged to enable a potential CATO to produce a tender revenue stream, prior to the ITT stage. Ofgem agreed and stated they plan to make information available early in the process (subject to confidentiality restrictions etc.), but it would be up to bidders to decide how they want to interact with suppliers prior to the ITT stage. Ofgem clarified they aren't looking for a tender revenue stream (TRS) at the outline proposal stage, but rather are looking for pragmatic proposals at this point which will allow them to select a number of bidders to progress through the tender process.

Stakeholders also explained they are unsure of what Ofgem want to assess in the outline proposals stage. They were concerned there was a danger that this stage would become a 'mini ITT stage'. There was an overall consensus from the group that the proposals stage needs to be less

comprehensive than the ITT stage. Stakeholders said it would be helpful if they could receive guidance on what an outline proposal would look like.

Requirements for Detailed Design

Stakeholders noted the consultation document stated that by the ITT stage, prospective CATO's should have a 'detailed design'. Some members queried what was meant by 'detailed design' at the ITT stage and what level of detail was required. They agreed that any guidance from Ofgem pertaining to this would be helpful and would ensure consistency of bids.

There was an opinion that obtaining details designs prior to the ITT stage would be a lot of money to spend, given there is no certainty at this point that they would go ahead with the project. Stakeholders were informed a sufficient level of design would be required at the ITT stage to get a fix price bid.

3. What do you think about our proposals for variant bids? Which areas might lead to the largest customer benefit? How can we evaluate the merits of different proposals?

There was general support for the implementation of variant bids, however certain stakeholders raised concerns regarding the limited scope for innovation in the late build model.

Types of Variants

Ofgem sought feedback on which areas would be subject to variation e.g. environmental impact assessment or societal impact (these could potentially re-open planning consent). Stakeholders suggested a number of other potential variants. These included undergrounding, extending asset life and reducing transmission losses. Some stakeholders were interested in whether they could submit commercial variants as well as engineering ones; for example suggesting a new re-opener.

Stakeholders Indicated it would be helpful if Ofgem could provide a clear definition of a fully compliant bid in order to understand where scope for variants lie. Some members suggested it may be useful to submit variant bids alongside compliant ones, to allow Ofgem to weigh up the risks and benefits.

Multiple Bids

Potential bidders indicated it would be cost effective for them to submit a single bid and they would be unlikely to place a large number of additional bids due to costs – in this way the number of variants was likely to be self-regulating.

Evaluating the merits of different proposals

A stakeholder suggested variant bids could be evaluated on the same basis as compliant bids with provision for additional scoring for additional benefits.

4. Does our proposed tender process allow sufficient time for supply chain interaction and design work?

Differences between outline proposal and ITT stage

The group reiterated that the outline proposal stage shouldn't be a shortened version of the ITT stage as this wouldn't be time or cost efficient.

Transparency of preliminary works

Prospective bidders felt it would be helpful if TOs could formalise any interactions and discussions with the supply chain and hand over this information during preliminary works. They said this transparency would help facilitate smooth transfer of the project and help the CATO to understand any risks. At the moment the CATO is left to do due diligence to mitigate any risk. Any unwarranted work is left to the CATO to resolve and is ultimately priced into the CATO's bid and paid for by consumers.

Increased work for supply chain

Some stakeholders noted that since multiple prospective CATOs will be bidding, there will be an increase in the level of work that the supply chain must do for the same likelihood of winning the bid and the same reward. This differs from the historical context where the network provider would engage with the supply chain, who would then carry out a certain level of detailed design with greater confidence of carrying out the work.

5. Do you have views on contracts/warranties etc. from previous preliminary works

It should be noted that the group did not have extensive feedback on this question.

The group agreed that the standard of preliminary works were inconsistent and represented a spectrum. On one end, the level of work carried out by the TO would satisfy the CATO bidder, at the other end preliminary works carried out by the TO would not meet the CATO bidders expectations.

Many stakeholders noted that manufacturers would likely refuse to sign any contractual clauses which place the full risk liability on themselves for a CATO project. The CATO would therefore be likely to reduce any risk liability in the manufacturer's contract and factor this price into the bid.

The group agreed that the CATO needs to understand whether preliminary works have been completed to a sufficient standard, and should be able to factor this into their bid. It was accepted that there were different approaches to managing this risk and that this would be a key differentiator among the bids, where each CATO would do what it felt was appropriate.

6. Do you have any feedback on other elements of the CATO proposal?

Implementation from OFTO feedback

The group recognised that many of the former OFTO team are involved in developing policies for the CATO project which would help learn the lessons from that regime. The group agreed that it would be helpful if Ofgem could look at responses to OFTO consultations and take these into account for policy development in the CATO project.

The group requested that some 'role-play' sessions were held as this would give parties involved a realistic idea of challenges they could potentially face. Certain stakeholders reiterated that the proposed tender process was slower than the TO procurement process, so the benefits of lower capital would need to outweigh the impact of the time delay for the use of a CATO to be beneficial for customers.

Some stakeholders questioned whether the project would end after 25 years. They said it would be helpful if Ofgem could provide guidance on the required asset condition after the revenue term and what their expectations are on design life and asset management.

Annex 1 – Stakeholder attendees at Late CATO build tender model workshop, 23rd August 2016

Name	Organisation
Alan Kelly	SP Energy Networks (Transmission)
Sally Lewis	National Grid
Craig McTaggart	SP Energy Networks (Transmission)
Dan North	Balfour Beatty
Danny McMillan	SSE
Gary Thornton	DTC
Gordon Hutcheson	Ofgem
Mark Askew	Energy Networks Association
Mark Tunney	National Grid
Matthew Knight	Siemens
Mike Lee	Transmission Investment
Vlad Ivic	Laing
Helen Martin	SSE
Fabian Cordes	Res Group
Ardy Elansei	Energy Networks Association
Peter R. Jones	ABB
Chris Brennan	NuGen
Petra Lenihan	Ofgem
Matthew Ball	Ofgem
David Ward	Horizon Nuclear Power
Andy Benjamin	National Grid
Parth Mehta (Phone)	Siemens

Annex 2 – Key Terms

Term	Definition
TO – <i>Transmission Owner</i>	Britain’s electricity network is owned and maintained by regional transmission companies known as TOs. Incumbent TOs are SP Energy Networks, SHE Transmission and National Grid.
SO – <i>System Operator</i>	Britain’s electricity network system is operated by a single System Operator. This role is performed by National Grid Electricity Transmission plc (NGET) – it is responsible for ensuring the stable and secure operation of the whole transmission system.
CATO – <i>Competitively Appointed Transmission Owner</i>	Where a TO is competitively appointed by Ofgem’s proposed onshore tender system, they will be known as a CATO.
OFTO – <i>Offshore Transmission Owners</i>	A competitively appointed offshore transmission owner.
SQSS – <i>System Security and Quality of Supply Standards²</i>	The National Electricity Transmission System Security and Quality of Supply Standards establish a coordinated set of criteria and methodologies that Transmission Licensees use in the planning and operation of the National Electricity Transmission System.
HSE – <i>Health and Safety Executive³</i>	The Health and Safety Executive is the national independent watchdog for work-related health, safety and illness.
NOMs – <i>Network Output Measures</i>	The Network Output Measures Health & Risk Reporting Methodology & Framework sets out the overall process for assessing condition based risk and specifies the parameters, values and calculation methods to be used. The collective outputs of the assessment, used for regulatory reporting purposes, are known as the Network Output Measures.
EPQ Stage – <i>Enhanced Pre-qualification Stage</i>	The first stage in the proposed 2 stage tender process proposed by Ofgem.
ITT Stage – <i>Invitation To Tender Stage</i>	The second stage in the proposed 2 stage tender process proposed by Ofgem.
DNO – <i>Distribution Network Operator</i>	Companies licenced by Ofgem to distribute electricity in Great Britain.

² <http://www2.nationalgrid.com/uk/industry-information/electricity-codes/sqss/the-sqss/>

³ <http://www.hse.gov.uk/>