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for energy consumers

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Ofgem update on early model competition

In our May 2019 RIIO-2 Sector Specific Methodology Decision (SSMD)¹, we requested that the Electricity System Operator (ESO) work on an Early Competition Plan alongside its RIIO-2 Business Plan. As part of this decision we provided our minimum expectations as to what this plan should include.

Our September 2019 open letter² addressed our expectations of this work, including timelines and what is to be included. Phase 1 of the process ran from September to December 2019 and Phase 2 commenced in January 2020, targeting completion in February 2021.

This document summarises our objectives for early competition, provides a update following on from the ESO publishing Phase 1 of its Early Competition Plan, and provides a high level overview of the interactions between this work and the RIIO2 price control processes.

As set out in our May 2019 SSMD publication and our September 2019 open letter, this update does not represent a commitment to proceed with any part of the ESO's Early Competition Plan or the role of the ESO within any future early competition process.

Our objectives for early competition

Early competition can help to generate a wide range of ideas for solutions to system needs, and these may bring net benefits for consumers. For these competitions to be effective they should be open to as many potential solutions as possible, including proposals from the full range of both network and non-network options.

¹ For the next round of RIIO price controls beginning in April 2021, covering electricity transmission, gas transmission, gas distribution, and the electricity system operator (ESO).

https://www.ofgem.gov.uk/system/files/docs/2019/05/riio-2_sector_specific_methodoloy_decision_-_eso.pdf

² <https://www.ofgem.gov.uk/publications-and-updates/electricity-system-operator-s-early-competition-plan-letter> (page 16, paragrpagh 2.20)

To progress this, we need to do further work to scope early competition. For example, what are the underlying components, what are the roles and responsibilities of different industry parties and what would be needed to implement early competition?

The early competition model should be designed to enable entities with the legal and technical ability to deliver their proposed solution to submit tenders to compete. The aim is that the same model should be able to operate with and without Competitively Appointed Transmission Owner (CATO) legislation. For example, before CATO legislation is passed, solutions from existing licensees should be able to compete against options from parties able to deliver non-network solutions without the requirement for a licence. Should CATO legislation be enacted by Parliament, then the aim is that existing licensees, parties able to deliver non-network solutions that do not require a licence, and those parties whose solution would require the issuance of a licence, should all be able to compete to meet a system need.

Update on Phase 1 of the Early Competition Plan and interactions with RIIO2 Business Plans

The ESO has published Phase 1 of its Early Competition Plan³. We are satisfied that the update and outputs contained within that publication align with the original project specification set out in the May 2019 SSMD and September 2019 Open Letter.

In our September 2019 open letter to the ESO, we specified that design-only competitions ('competitions for ideas') should fall within the scope of the Early Competition Plan. However, following high-level exploration of the idea as part of Phase 1 we have determined that while there is merit to the concept, this work is best pursued through existing workstreams around innovation. We therefore intend to consider how we could integrate 'competitions for ideas' into our ongoing work on innovation in RIIO-2. We intend to publish further details on this in due course.

In the May 2019 SSMD, we set out that network companies should identify projects in their Business Plans that have a value of over £50m and which are contestable (that is, there is the potential for alternative solutions), as being possibly suitable for early competition. Based on information submitted to us, and which has been published by the network companies, a pipeline of potential projects that may be suitable to undergo competitive processes over the course of the RIIO-2 price control period has an estimated average value of over £1bn annually. We consider that this provides an indication of potential future value of assets that could be subject to early competition. However, for the avoidance of doubt, this is not a confirmation of which / how many projects will be subject to early competition during the RIIO-2 period and our assessment of Business Plans is ongoing.

Interactions with electricity distribution (RIIO-ED2)

As stated in our RIIO-ED2 Framework Decision in December 2019⁴, we are continuing to look at introducing early models of competition in the electricity distribution sector, with further details to be published later this year. Due to the technology-agnostic nature of early competitions, we expect DNOs and other ED stakeholders will wish to engage with the ESO as it develops its Early Competition Plan.

Next steps

Work is ongoing to ensure the Early Competition Plan is effectively integrated into the wider ESO portfolio and ambitions, including the Networks Options Assessment (NOA) roadmap and associated pathfinders. In particular, we are expecting to see the deliverables associated with the Early Competition Plan included in the ESO's final forward plan for 2020/21 (due to be published in March). We will assess the ESO's performance on the Early

³ <https://www.nationalgrideso.com/document/164036/download>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/riio-ed2-framework-decision> (page 34, paragraph 2.92)

Competition Plan through its incentive scheme, alongside its performance in its wider network development-related activities. We expect the ESO to maintain a strong focus on all its commitments in its network development role. We look forward to seeing how the views of a range of stakeholders are incorporated and used to shape the Early Competition Plan through the remaining phases of the project.

We encourage all stakeholders to get involved and engage with the development of early competition, including via the ESO's workshops and consultations once details of these are made available by the ESO.

We are also happy to engage in bilateral conversations with parties in relation to early competition – please contact James Norman or Timothy Wood, NTIMailbox@ofgem.gov.uk.

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