



Early Competition

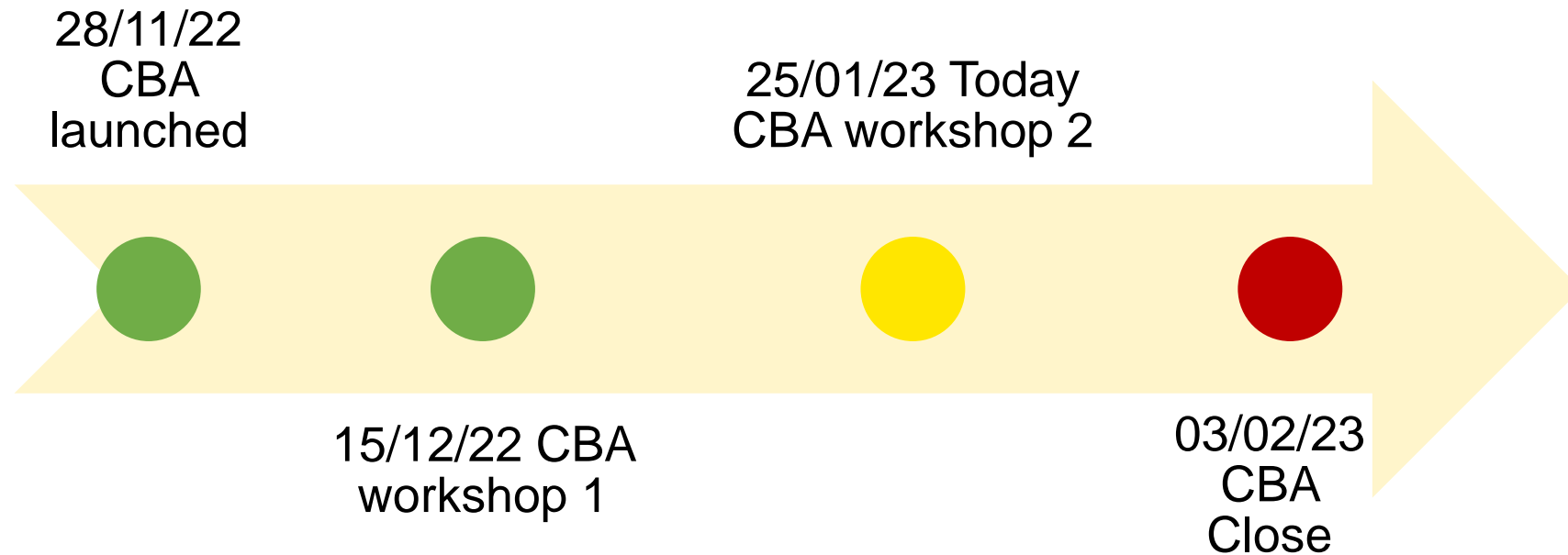
Cost Benefit Analysis Methodology

Workshop 2

January 2023

This session will be recorded
(slide code **ECCBA2**)

Summary of consultation

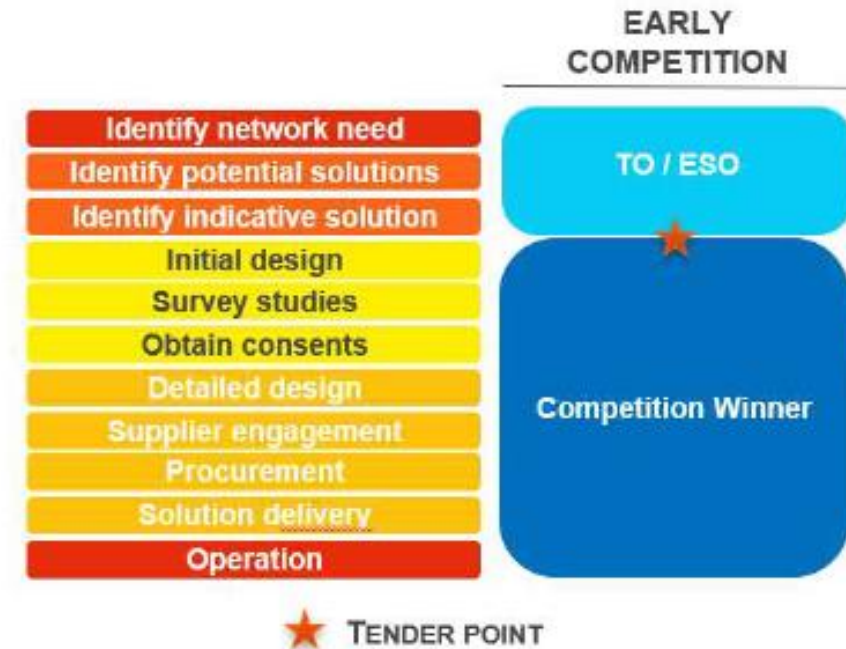


Part 1: Refresh of early competition process



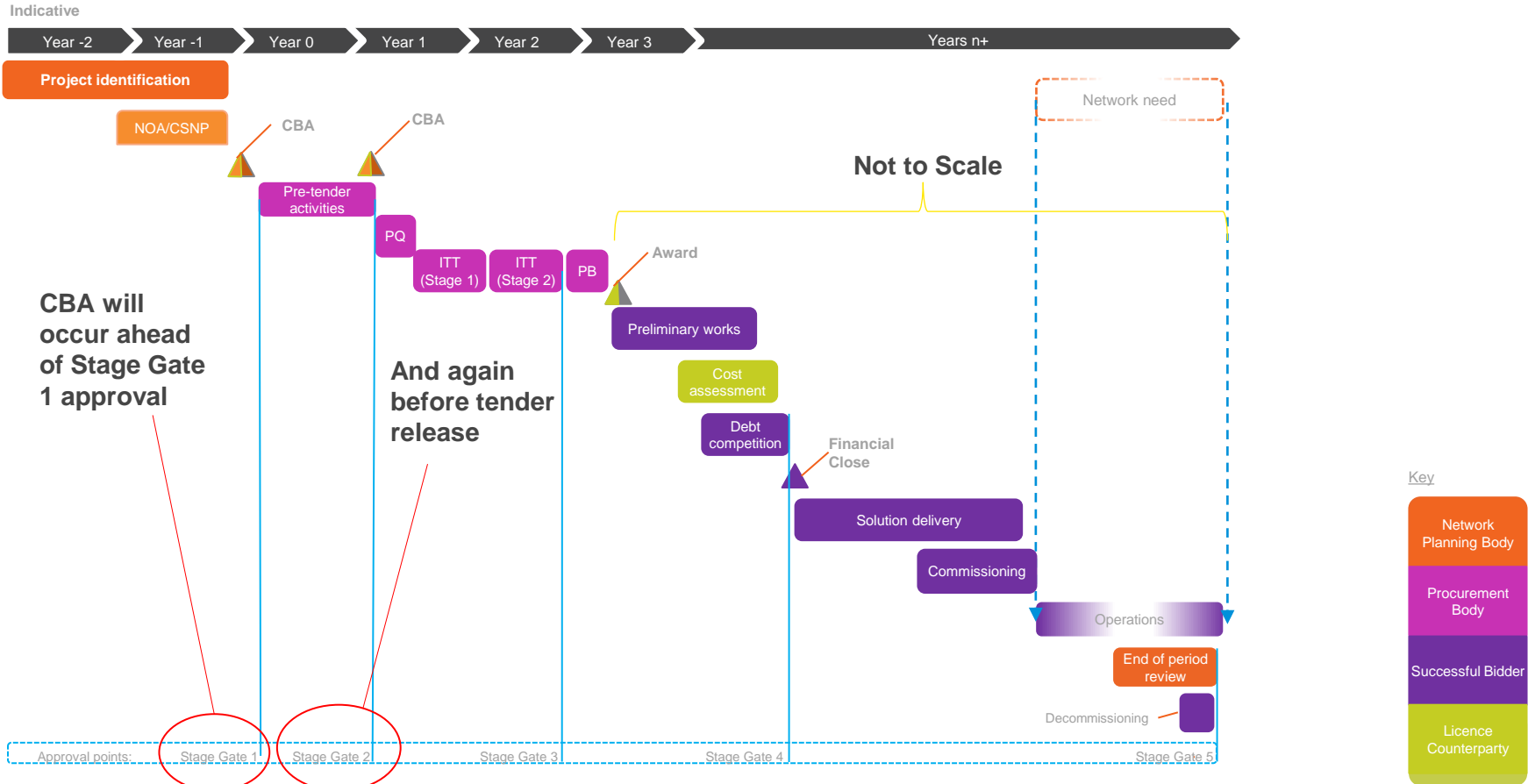
What is Early Competition

- Competition that occurs prior to the detailed design, surveying and consenting phases of solution development.
- Can help to generate a wide range of ideas for solutions to system needs and drive efficiency in delivery, and therefore bring net benefits for consumers.
- Open to as many potential solutions as possible, including proposals from both network and non-network options.



CBA in the End-to-End process

- When the ECP was developed the CBA currently was envisaged to happen as a part of the yearly NOA process.
- The NOA process is being replaced by the CSNP and the ESO is separately considering how the CBA interface with the revised process.



Note: Timescales are illustrative based on comparable precedents and are likely to vary between projects.

CBA methodology – Outline

Methodology outline

- The CBA assesses the cost to consumers of delivering a particular project through the **commercial model set out in the ECP** (factual case) **versus a regulatory building block** approach based on RIIO2 (counterfactual case).
- It compares a **range of costs against a range of benefits** for each delivery model and provides a **Net Present Value (NPV)** range for each delivery model
- It also contains a **qualitative assessment** which assesses factors that are likely to impact customer value but lack sufficient certainty to be included as part of the **quantitative assessment**.
- The results of the **qualitative assessment** are considered alongside the **quantitative** outputs of the CBA.

Methodology Objective

To determine on a project-by-project basis which needs are suitable for early competition

Methodology approach

To assess qualitative and quantitative factors of the costs/benefits of delivery via EC vs RIIO2

Methodology outputs

A comparative range of NPV to deliver a project via EC vs RIIO2 and a qualitative impact assessment of delivery via EC

Part 2: CBA methodology

- Costs, Benefits, & Assumptions
- Quantitative & Qualitative Assessment
- Result interpretation



Costs, Benefits, and Assumptions

Below is an overview of all the cost and benefit elements included in the methodology along with **simplifying assumptions to enable the CBA.**

Quantitative assessment		Qualitative assessment	
Costs	Benefits	Costs	Benefits
<ul style="list-style-type: none"> Project costs (Totex profile over life) Pre-tender, tender and bidder costs Constraint costs Contract management costs Financing costs 	<ul style="list-style-type: none"> Access to wider pool of debt and equity capital Revenue start point (difference in timing of cashflows) Detailed allocation of risk 	<ul style="list-style-type: none"> Large consortium costs First-Of-A-Kind premium Portfolio effect (diseconomies of scale) Carbon emissions Additional system costs 	<ul style="list-style-type: none"> Innovation in ecological impact and carbon emissions Innovation in technology, process or system Reduced overrun exposure Portfolio effect (economies of scale)
Key assumptions			
<ul style="list-style-type: none"> Solutions under factual and counterfactual Additional system costs Network or non-network solution Capex phasing Opex and lifecycle costs Economic life of assets 	<ul style="list-style-type: none"> Pre-tender and tender costs PPWCA Pre commissioning revenues Commissioning of solutions Cash flow timing Future regulatory decisions 	<ul style="list-style-type: none"> Tax Indexation Discount rate Project finance Timing of constraint cost 	

- Do you have any comments on the assumptions made?
- Do you consider the methodology has captured the key costs and benefits for the factual and counterfactual cases?
- Are there any factors which you consider are missing?

Qualitative & Quantitative Assessment

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- Do you consider the methodology has accurately described the process for assessing each factor?

CBA outputs

- The quantitative assessment will provide a NPV for both the factual and counterfactual cases
- The quantitative assessment will consider several sensitivity factors providing an indicative NPV for each
- The qualitative analysis will provide a high, medium or low score

Result Interpretation

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Outcome

- Following the analysis of the project we will have a series of **quantitative and qualitative outputs** to consider when making a recommendation as to which delivery route is likely to **deliver value for consumers**.
 - The overall conclusion in some cases **may not be binary** and we will have to make a holistic assessment based on the range of evidence resulting from the methodological assessment.
 - These results will then be **shared with Ofgem** for determination on proceeding with an Early Competition tender event.
- **Do you have any comments on the way the results are interpreted**

Part 3: Questions?

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Questions we are asking

1. Do you consider the methodology has captured the key costs and benefits for the factual and counterfactual cases?
2. Are there any factors which you consider are missing? If so, please can you detail how this could be assessed within the methodology.
3. Do you consider the methodology has accurately described the process for assessing each factor? If not, do you have any proposals for how to more accurately assess the costs and benefits set out in the methodology?
4. Do you have any other comments in relation to the methodology?

How to get involved

There are a number of ways to get involved as we implement Early Competition, including webinars and 1-2-1 meetings:



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