



Department for
Business, Energy
& Industrial Strategy

FLEX COMPETITION

Clarification Questions and Answers

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Introduction

This document provides BEIS responses to non-confidential clarification questions about the FleX Competition submitted by email or during the Information Event on 13 March, 2019 for the FleX Competition. The questions have been divided into topics under the following headings:

- Platform Design and Technology Scope;
- Trial Scope;
- Electricity System Operator Questions;
- Location of Applicants;
- Eligible Project Costs;
- Grant Intensities and Match Funding Requirements;
- Generating Revenue from FleX Demonstrators;
- Project Partners;
- Scoring Procedure;
- Project Evaluation.

Several of the answers below refer to the Competition Guidance for the FleX Competition: this guidance can be accessed at the following weblink:

<https://www.gov.uk/government/publications/flexibility-exchange-demonstration-projects-flex-competition>

Potential applicants may also find it helpful to review the presentations and other information issued from the FleX Competition Information Event (including contact details for participants who have consented to share them and information from organisations seeking partners). The Event materials can be accessed here:

<https://drive.google.com/open?id=1HtFZK6shqXKm3OUPNesMwcoocNdfieWD>

FleX Competition Clarification Question and Answers

Platform Design and Technology Scope

Q1. Should the exchange be designed for how the market “should” operate (in the view of the applicant) or should it be designed for how it exists today.

A. The applicant may outline a vision of how the flexibility exchange could operate better under different market or regulatory conditions but they should also look at how to make the exchange work within the existing market and regulation. If outlining a vision of how the market could operate better, the applicant should also identify and describe regulatory, policy or other market changes which would be required to secure the improved operation of the exchange.

Identifying and seeking derogations (including via the Ofgem Sandbox) from regulatory or contractual frameworks is encouraged where practicable. BEIS acknowledge gaining derogations will not be possible in all cases.

Q2. Do you need to bring all potential parts of the “flexibility exchange” market together (e.g. all the existing flexibility products)?

A. It is not compulsory to bring in all parts of the “flexibility exchange” in an application. However, applicants are encouraged to bring together as many aspects as possible in a trial and at a minimum, the flexibility exchange demonstrator trial must span (some) flexibility products/requirements for both the Electricity System Operator and at least one Distribution Network Operator (or one Independent Distribution Network Operator).

Q3. Is a reactive market an essential requirement in any bid? Would a bid be marked down for not including reactive services?

A. It is not a requirement to include reactive market products in a FleX exchange demonstrator. Reactive services are an example of flexibility products which could be accessed through a flexibility exchange. For the FleX Competition, applicants are encouraged to explain how their proposed exchange will enable a range of distribution-connected sources of flexibility to access a range of both local and national markets for flexibility. Bids will be assessed in terms of the benefits which the proposed flexibility exchange are expected to provide for the energy system in GB and access to a wide range of different flexibility products, including reactive services, may help to secure greater benefits to the system (see assessment criterion 1 guidance for further details, section 7.2 of the Competition Guidance).

Q4. Are frequency services an essential requirement in a FleX Competition bid? Would a bid be marked down for not including access to frequency services?

A. It is not a requirement to include frequency services in a FleX exchange demonstrator. Frequency services are an example of flexibility products which could be accessed through a flexibility exchange. For the FleX Competition, applicants are encouraged to explain how their proposed exchange will enable a range of distribution-connected sources of flexibility to access a range of both local and national markets for flexibility. Bids will be assessed in terms of the benefits which the proposed flexibility exchange are expected to provide for the energy system in GB and access to a wide range of different flexibility products, including frequency services, may help to secure greater benefits to the system (see assessment criterion 1 guidance for further details, section 7.2 of the Competition Guidance).

Q5. Do experimental products require certification (e.g. CE or IEC) to meet the final TRL 7 goal.

A. There are no explicit requirements for certification in the FleX competition. However, it is the responsibility of applicants to identify the relevant safety and other product standards and to demonstrate they have given due consideration to safety and standards in their application.

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Trial Scope

Q6: Do all the 100 trial participants need to be in place at the commencement of the trial or can the number of participants increase to that level over the course of the trial?

A: In principle, it would be acceptable for the number of trial participants to be increased over the course of the trial, so that the total target number of participants (ie. 100 individual participants) is participating in the demonstrator exchange by the end of the trial. There may be good risk management and engineering reasons for wanting to test the exchange with a smaller number of assets initially, before trialling with 100 participants or more. However, BEIS would want these practical considerations to be balanced with the limited time available for the project and BEIS would need to have confidence that the proposed exchange demonstrator would be operating with the target number of 100 participants for a reasonable period of time during the project lifetime.

Q7. The Guidance states (Page 11) that "Trials should involve at least 100 individual, real participants (i.e. domestic, commercial or public sector owners of flexibility assets)." 100 owners seems a high number for a demonstration that is not solely focused on domestic users. Is there leeway in this number? Or an alternative way of capturing 100, by evidencing number of devices or users instead, for example?

A. BEIS has asked for the trial to involve at least 100 real participants in order to avoid situations where the trial only involved a very small number of large assets or a large number of smaller assets owned by a single large organisation. Part of the aim of the FleX Competition is to test methods of engagement with a range of different flexibility asset owners, including smaller-scale commercial owners and domestic asset owners. 100 participants is expected to be a challenging but deliverable target for the trial but we recognise that this number of participants may not be firmly identified at the point of submitting the application or even at the start of the trial operation (see question 6 also). It is also acceptable for some of the trial participants to be involved via an umbrella organisation (such as a community energy group) rather than having individual relationships with the flexibility demonstrator provider.

Q8. The Guidance states (Page 11) that "The products offered in the initial trial must span both the Electricity System Operator (ESO) and at least one Distribution Network Operator (DNO)". Could you confirm that the FleX Project doesn't require:

a) the direct involvement of National Grid as part of the consortium but rather the products offered to correspond to their needs? For example, could the exchange use balancing service contracts with National Grid that have already been secured or link the platform with National Grid auction systems?

b) the direct involvement of a DNO as part of the consortium but the products offered to correspond to their needs?

A. Project teams applying to the FleX Competition do not have to involve either the Electricity System Operator or Distribution Network Operator(s) directly in their consortium to be eligible. However, to be eligible for FleX Competition funding, each proposed flexibility exchange must have the capability to provide access to flexibility products addressing needs spanning both the ESO and at least one DNO or IDNO. This could include providing access through the

exchange to balancing service contracts that have already been secured or to existing auctions or other systems used by the ESO, DNOs or IDNOs to procure flexibility.

Q9. Could the trial span the Electricity System Operator and at least one Independent Distribution Network Operator (IDNO) rather than a DNO?

A. Yes, it will be acceptable for the trial to span the products offered by the Electricity System Operator and at least one Independent Distribution Network Operator rather than one DNO. In line with the principles set out in the competition guidance, the flexibility exchange should be designed such that it could expand to access products offered by other IDNOs and DNOs in future.

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Electricity System Operator Questions

Q10. Can the ESO provide support for individual bids or make a commitment to be involved?

A. The ESO will assist all parties in understanding the current balancing markets, as well as the work that is already underway to reform those markets and the products bought through them. Committing to be directly involved in individual projects at the bidding stage risks giving a competitive advantage, which is something we wish to avoid. Post-award, we will engage with successful projects to ensure that we can actively participate in their platforms. This involvement is subject to satisfying both our procurement obligations (set out below) and an assessment of the materiality (both in terms of cost and time) of any proposed changes to ESO systems or processes that would be required for the project.

Q11. If a winning bid requires ESO involvement, what is the process pre/post bid?

A. The exact process will be dependent on the requirements of the successful bid(s). However, information requests can always be sent to box.futureofbalancingservices@nationalgrid.com, and depending on the number and similarity of questions, we may collate responses in a publicly-available FAQ document. We will also provide expert guidance and support on the same basis as we would to a balancing service provider, i.e. through email/telecon/physical meetings.

If appropriate, we may suggest additional tests/outcomes that may enhance the findings/learnings from the project. As long as platforms can provide or allow provision of a service that meets the existing product and market requirements, they will be treated in the same manner as any other provider. Where platforms are proposing to provide, or allow provision of, a new product or an existing product in a new way, further discussions will be needed to understand the impact on existing ESO systems and processes and the potential consumer benefit.

Q12. Is there an obligation on the ESO to allow their products to be traded on multiple platforms?

A. We have a licence obligation to procure balancing services in a transparent manner, without discriminating against any party (Condition C16 at <https://epr.ofgem.gov.uk/Content/Documents/Electricity%20transmission%20full%20set%20of%20consolidated%20standard%20licence%20conditions%20-%20Current%20Version.pdf>).

Q13. How will the ESO manage conflicts of interest between involvement multiple projects and their own platform and product development?

A. It is in the interest of the ESO and consumers that competition in the provision of balancing services is increased, and the introduction of these platforms can only support this goal. While we are involved in developing platforms outside of the competition (the frequency response auction trial; Cornwall LEM), our goal is to access the lowest cost flexibility for consumers, and we will use every available route to that end. All ESO involvement in flexibility markets is being

progressed through programmes supported by innovation funding (either Network Innovation Allowance or Innovate UK), and therefore all learning will be made public. Ensuring that all successful FleX bids engage with existing markets and products will ensure that conflicts of interest are avoided.

Q14. The application makes Electricity System Operator (ESO) product use mandatory for success. Therefore, does the ESO have the de-facto ability to select the successful partners?

A. No: the ESO will not be involved in assessment of applicants. Applicants are expected to involve products offered by ESO in the design of their flexibility exchange. The applicant does not need to have agreements in place with ESO when submitting an application.

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Location of Applicants

Q15. Do applicants have to set up a UK company to participate in the FleX Competition? If so, would they need to do this before submitting an application?

A. Applicants to the FleX Competition (both sole applicants and the project team partners in a formal consortium) must be 'UK-based'. In accordance with Article 1(5) of the General Block Exemption Regulation 2014, UK-based organisations are not required to have their headquarters in the UK nor to be predominantly established in the UK but they must have an establishment or branch in the UK.

If sole applicants or project team partners are not already UK based prior to the application deadline for the FleX Competition, they must demonstrate clear and definitive intent of establishing a UK presence on application.

If a project is selected for funding, all formal project team partners must have a UK presence and must be registered with Companies House¹ to receive payment. BEIS would require all project partners to have a registered UK presence before issuing the formal Grant Offer Letter and Grant Agreement.

Q16. Could a consortium applying to the FleX Competition include organisations based outside the UK if the consortium is led by a UK-based organisation?

A. All formal applicants to the FleX Competition, including all the named members of a formal consortium must be 'UK-based' (see answer to question 15 for guidance on the definition of UK-based). Sub-contractors or informal consortium members who are not receiving funding for their participation in the FleX project can be based outside the UK.

¹ <https://www.gov.uk/government/publications/overseas-companies-in-the-uk-registration-filing-and-disclosure-obligations> - Companies House guidance on registration and filing obligations of an overseas company that opens an establishment in the UK.

Eligible Project Costs

Q17. Can legal costs be included in the eligible project costs?

A. Legal costs incurred directly to enable delivery of the agreed project can be included as eligible project costs as long as they fit within the category of “costs of consultancy and equivalent services used exclusively for the project”.

Q18. Can the costs of specialist advisers or academics be included in the eligible project costs?

A. The costs of specialist advisers or academic experts can be included as eligible project costs as long as they fit within the category of “costs of contractual research, knowledge....., as well as costs of consultancy and equivalent services used exclusively for the project”.

Q19. Will BEIS scale back the funding offered if parts of a proposal are not acceptable? – or will the proposal be rejected altogether?

A. BEIS may offer lower funding than is sought for a project in order to secure better value for money from the programme and grant awards may be lower than the maximum limit permitted under the state aid regulations. BEIS will also exclude proposed project activity which is not in line with the objectives of the FleX Competition.

Q20. Is the 75% / 25% split between experimental development and industrial research confirmed?

A. Yes: as set out in the Competition Guidance (section 4.1 3), page 12), only a minority of activity (defined as less than 25% of the total eligible project costs) in any project funded by the Competition can be industrial research.

Q21. If a project has already been funded by government and is looking for additional funding to expand the scope of works is this acceptable?

A. This will be reviewed on a case by case basis but the applicant must demonstrate that the proposed new project shows significant additionality relative to previously funded project.

Q22. Could the purchase of hardware, such as solar panels and batteries, for trial participants from community energy projects only be included as an eligible project costs? – Private homeowner and commercial trial participants would be funding the hardware themselves.

A. There are a number of points to consider here. In terms of eligibility, the cost of flexibility assets (such as batteries for a community energy project) would be eligible but only “to the extent and for the period used for the project”. Since these assets would be expected to have significant useful life beyond the FleX Competition project, “only the depreciation costs

corresponding to the life of the project, as calculated on the basis of generally accepted accounting principles” would be eligible. Solar generation hardware would not be classified as a flexibility asset and could not be included as an eligible cost.

In addition to the question of eligibility, inclusion of flexibility asset hardware costs may also affect how a proposal is assessed in terms of value for money and project delivery. If hardware costs account for a high proportion of project costs, the proposal may score less well against the project financing assessment criterion. If the proposed project trial is reliant on installing a significant number of new flexibility assets, the project may score less well against the project delivery assessment criterion, given the limited time available for delivering the project.

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Grant Intensities and Match Funding Requirements

Q23. Does a project team need to have all the matched funding in place on the day of the offer letter? Or can it come in phases?

A. Project teams are not required to have all the necessary match funding accessible or available for their use at the point when the grant offer is confirmed through the formal grant documents. However, as part of the financial due diligence, BEIS will require project teams to confirm that the sources of all the match funding to be used during the project and to provide evidence of when and how the funding will be secured if it is not available at the start of the project. It is acceptable for the match funding to be secured in a number of phases during the project but clear and robust details of the sources of funding and expected timing of its availability for the project must be provided to BEIS as part of the financial due diligence process. BEIS will need to have sufficient confidence that the match funding will be secured for the whole project before signing the grant agreements.

Q24. Please could you clarify the grant intensities in Table 1 of the Guidance (page 19); for example, the grant intensity for a small enterprise undertaking experimental development is identified as 60% (max). Does this include the additional 15% described in section 5.4 on page 20?

A. In Table 1 of the Competition Guidance, the maximum public sector funding figures for companies which are in collaborations or for sole applicants fulfilling dissemination requirements already include the grant funding increase which is applicable for projects which meet the collaboration or dissemination requirements set out in section 5.4 of the Guidance. For example, the maximum grant intensity for a small enterprise undertaking experimental development is 60% - this grant intensity figure already includes the maximum 15% increase for collaboration or dissemination.

Generating Revenue from FleX Demonstrators

Q25. Can project teams charge fees to flexibility buyers (e.g. DNOs/ESO/others) as part of a trial?

A. It is acceptable for project teams to charge fees for flexibility buyers as part of a trial where this is necessary to help to validate the proposed flexibility exchange (e.g. to validate proposed business models and charging mechanisms).

Under the terms of the General Block Exemption Regulation 2014, experimental development innovation activity may include “*the development of a commercially usable prototype or pilot which is necessarily the final commercial product and which is too expensive to produce for it to be used only for demonstration and validation purposes*”. Therefore, it will be acceptable for project teams to charge fees to flexibility buyers for participation in the flexibility exchange demonstrator during and after the trial where it is too expensive for the demonstrator to be used only for demonstration and validation purposes.

Q26. Can project teams charge fees to flexibility sellers (flexibility asset owners) as part of a trial?

A. It is acceptable for project teams to charge fees for flexibility sellers as part of a trial where this is necessary to help to validate the proposed flexibility exchange (e.g. to validate proposed business models and charging mechanisms).

Under the terms of the General Block Exemption Regulation 2014, experimental development innovation activity may include “*the development of a commercially usable prototype or pilot which is necessarily the final commercial product and which is too expensive to produce for it to be used only for demonstration and validation purposes*”. Therefore, it will be acceptable for project teams to charge fees to flexibility sellers for participation in the flexibility exchange demonstrator during and after the trial where it is too expensive for the demonstrator to be used only for demonstration and validation purposes.

Q27. What would happen if an organisation wanted to pay a project team to fully commercialise the flexibility exchange before March 2021 (i.e. before the trial has ended)?

A. Under the terms of the General Block Exemption Regulation 2014, experimental development innovation activity may include “*the development of a commercially usable prototype or pilot which is necessarily the final commercial product and which is too expensive to produce for it to be used only for demonstration and validation purposes*”. Therefore, it will be acceptable for a flexibility exchange demonstrator developed in the FleX Competition to be used commercially after the trial where it is too expensive for the demonstrator to be used only for demonstration and validation purposes.

If an organisation wishes to use the demonstrator as a fully commercial product before the end of the trial, BEIS would discuss the proposal with the project team on a case-by-case basis. BEIS would be keen to ensure that the move to commercialisation did not block key learning from the project – for example, securing data from operational testing of the demonstrator funded by BEIS. The Department would also be mindful of additionality requirements and could decide to terminate the project before the planned end date to avoid funding where there is no

further need for public sector support. BEIS is likely to require the project team to complete their final project reporting and any other outstanding knowledge dissemination requirements even if the project is finished early.

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Project Partners and Consortium Make Up

Q28. What would an ideal consortium look like?

A. BEIS are open to different consortia as long as the team members meet the eligibility requirements (set out in section 10) of the Eligibility Criteria section of the Competition Guidance). Applicants are also encouraged to review the Competition assessment criteria and to ensure the combined team has the relevant skills, capabilities and access to markets for this Competition.

Q29. Can you confirm that a consortium including at least one SME is considered as a collaboration under the state aid regulations?

A. Yes: a consortium that includes at least one SME (working in formal collaboration with any other size of enterprise or with another type of organisation) would be classified as a collaboration and should be eligible to receive a higher grant intensity. To classify as a formal consortium under the General Block Exemption Regulation, it is also a requirement that “no single undertaking bears more than 70% of the eligible costs”.

Q30. Is there a way to look for partners online?

A. The list of participants’ “Give/Get” documents (outlining their partnering requirements) has been published online with contact details along with the other information from the FleX Information Event. The event materials can be downloaded here:

<https://drive.google.com/open?id=1HfZK6shgXKm3OUPNesMwccocNdfieWD>

Q31. Can an individual participate in this competition, or is it the case that participants must be either a company or a university (or consortium of these)? If the latter is a requirement, could an individual participate in the competition and create a new company as a result of being awarded some funding?

A. Individuals would not be able to participate as sole applicants in the FleX Competition; applicants must meet the criteria set out in the Competition Guidance; i.e. they must be:

- UK-based (see footnote 2) private sector companies;
- UK academic, research, public, third sector or community organisations working as part of a project consortium with private sector organisations.

If an individual set up a company for the purposes of participating in FleX Competition, the assessors would need to be satisfied that the applicant or consortium would be able to provide the right mix of skills, experience and capacity to deliver the proposed project.

Proposal Scoring Procedure

Q32: Please can you clarify the proposal scoring procedure. Section 7.3 gives guidance and refers to Table 3 but says that each criterion will be scored out of 10. Table 3 gives scores from 0 to 5. Projects must score 40% against each criterion.

A: Each of the assessment criterion will be scored from 0 to 5 for the FleX Competition, in line with the scoring guidance shown in Table 3. Apologies for the incorrect reference in section 7.3 to scoring out of 10.

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Project Evaluation

Q33. How will the evaluation of the funded FleX projects be done?

A: The evaluation is BEIS led. Project teams are expected to participate in this by providing information to BEIS and its evaluation advisers relating to the outputs and outcomes secured from the project (for example, details of any patents secured; jobs generated; further investment secured; product sales, etc).

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