Response to the FOI request – "Any communication between representatives of Camelot, The New Lottery Company (TNLC), and Sisal, and the Gambling Commission concerning the Solution Risk Factor that was used to judge the level of risk in their bids."

<u>Phase 2 Outcome Letters issued on 15 March 2022 to the Successful Applicant (Allwyn), the Reserve Applicant (Camelot) and the Unsuccessful Applicants (TNLC and Sisal) – Created by the Commission</u>

All 4 letters included a sentence to the effect "*The Commission did not identify any SRF risks in relation to XXXXXX's Application*".

<u>Document Entitled "The Fourth National Lottery Licence Competition (4NLC) Invitation to Apply (ITA)" dated 26 October 2020 – Excerpts relevant to SRF are set out below</u>

Section 5.3.4 – Phase One Review and Feedback - Feedback on Ancillary Activities

If Applicants propose Ancillary Activities as part of their Phase One Applications, the Commission will provide feedback.

If the proposed Ancillary Activity or Activities are consistent with the terms of the Fourth Licence, the Commission will review and provide feedback on the Applicant's Business Plan as described in Section 8 (Evaluation Methodology), inclusive of the proposed Ancillary Activities. The Commission will also consider the impact that the proposed Ancillary Activities may have on other aspects of the application including the Business Plan and Solution Risk Factor.

Section 7 – Evaluation Approach – Business Plan (scored)

The Business Plan will be evaluated based on written responses to the five areas below, using marking criteria between 0-15. Each Business Plan Area carries an equal weighting.

- Transition
- Branding
- Portfolio
- Channels
- Operations

Applicants will be evaluated using a relative scoring mechanism whereby their Business Plan Mark (following application of a Solution Risk Factor) will be relatively scored against the highest of all Applicants' Business Plan Marks. The Applicant that receives the highest Business Plan Mark, following application of the Solution Risk Factor, will be awarded 100% in this area of Evaluation, with all other Applicants scored relative to this. This score is then multiplied by the Good Causes Contribution Score to calculate the combined Business Plan and Good Causes Contribution Score, prior to application of the combined area weighting. The combined areas have a weighting of 85%.

Section 8.6 – Business Plan

At Phase Two, Applicants will be provided with a mark per Area of the Business Plan, and a threshold will apply for each Business Plan Area.

Applicants will gain a mark between 0-15 for each Business Plan Area, with the total available mark for the Business Plan being 75 (Business Plan Mark). A Solution Risk Factor of 0-15% will then be applied to the total Business Plan Mark.

…

The Applicant that receives the highest Business Plan Mark (including Solution Risk Factor, as set out below) will receive 100% for this area of evaluation. Each Applicant's Business Plan Mark (following Solution Risk Factor adjustment) will be relatively scored against the highest of all Applicants' Business Plan Marks.

Applicants should note that the Business Plan Mark (following SRF adjustment) is multiplied by the Good Causes Contribution Score prior to being awarded a percentage in the overall Evaluation as set out in Section 8.9 (Evaluation mechanics).

Section 8.6.1 – Approach to Evaluation of Risk

The way in which these risks are evaluated will depend on their impact on the proposal. Where a risk is specific to an area of Evaluation or an individual Business Plan Area, it will be considered as part of that area of Evaluation. For example, risks associated with Business Plan Areas will be evaluated as part of the Commission's assessment of credibility and deliverability of each Business Plan Area. Where a risk is considered to be 'solution-level', as described below, it will be considered as part of Solution Risk Factor (SRF). Further detail relating to SRF can be found in Section 8.6.2 (Solution Risk Factor).

Section 8.6.2 – Solution Risk Factor

A Solution Risk Factor (SRF) will be used to address the impact of cross-cutting aspects of the Applicant's Business Plan. The SRF will enable the Commission to give consideration to interactions between different aspects of the Business Plan and to any issue which arises from one or more of the five separate areas of the Business Plan assessment (Transition, Branding, Portfolio, Channels, Operations) where, irrespective of the level of risk that issue presents in any single area, that issue gives rise to risk when considered in the context of two or more individual areas (a 'solution-level' risk). The SRF will be a whole number percentage between 0-15%. The resulting SRF will be applied to the Applicant's total Business Plan Mark. The higher the SRF, the greater the reduction in Business Plan Mark. The highest factor that could be applied will be 15% (i.e. a total Business Plan Mark (/75) could be reduced by up to 15% of that mark based on solution level risks identified in Evaluation).

Applicants will be asked to provide their view of risks and mitigations in a Risk Register, of which 'solution level' risks will be considered in this assessment, all other risks will be based on the Commission's judgement across the overall Business Plan.

Applicants should note that the Commission will have the discretion to determine that an Applicant whose SRF is 15% will Fail the Evaluation.

The Commission will retain the right to request additional scenarios from Applicants which will be considered as part of the SRF assessment.

Four solution risk areas that will be considered for the SRF are:

• Delivery Risk -any issue which arises from one or more of the five separate areas of the Business Plan assessment (Transition, Branding, Portfolio, Channels, Operations) where, irrespective of the

level of risk that issue presents in any single area, that issue gives rise to a risk in establishing future operations, when considered in the context of two or more individual areas;
• Operational Risk -any issue which arises from one or more of the five separate areas of the Business Plan assessment (Transition, Branding, Portfolio, Channels, Operations) where, irrespective of the level of risk that issue presents in any single area, that issue gives rise to a risk in running future operations, when considered in the context of two or more individual areas;
• Cost Risk – Any risk related to overall costs to deploy or operate the National Lottery. Solution level cost risk is evaluated at this level to factor in the uncertainty of Applicant's costs, costs which are not directly attributable to a single Business Plan Area, and/or future variability of costs putting Proposed Good Causes Contribution projections at risk;
• Resilience Risk – Any risk that the Licensee and/or its Business Plan may not be able to withstand the stress or pressure induced by events outside of the normal course of business. Applicants should note that 'Resilience Risk' as part of SRF, will be considered separately from the financial strength part of Evaluation. Within SRF, the Commission will be looking at the operational resilience of an Applicant's Business Plan at a solution level only.

– The Upside and Breakeven Cases will be used to support the assessment of Resilience Risk. Within the 'Upside' scenario, the Commission will specifically look at how Applicants will provide assurance that their proposal is resilient in an Upside scenario where the National Lottery grows above the proposed Base Case scenario. The 'Breakeven' scenario will be assessed in the same way, but in a scenario where the National Lottery does not meet forecasts in the Base Case scenario.

An example of how this will be evaluated is set out below. Applicants should note that this is for illustrative purposes only

	Business Plan Mark (/75)	Solution Risk Factor (0-15%)	Total Business Plan Mark (/75)	Business Plan Score (/100%)
Applicant 1	75	0	75 x 1.00 = 75.00	(75.00/75.00) x 100 = 100.00
Applicant 2	70	3	70 x 0.97 = 67.90	(67.90/75.00) x 100 = 90.53

Table 9: Example showing the application of SRF to the Business Plan Mark and the relative scoring approach.

*N.B: Only final calculations will be rounded to 2dp. All decimal places from prior calculations will be carried through. Numbers used within this example are for illustrative purposes only.

Section 8.6.4 – Evaluation criteria for Solution Risk Factor

Evaluation of total solution risk will be completed through the application of a Solution Risk Factor, using the four areas outlined in Section 8.6.2 (Solution Risk Factor). This Solution Risk Factor (%) will then be applied to total combined mark of the individual Business Plan Areas. The criteria for the Solution Risk Factor are as follows:

Solution Risk Factor (%)	Definition	Description
0	Minimal risk	When considering the entire Business Plan, the overall proposal presents minimal incremental risk to one or more of Delivery, Operations, Cost and Resilience.
3	Very low risk	When considering the entire Business Plan, the overall proposal presents a very low risk to one or more of Delivery, Operations, Cost and Resilience and any risk is likely to be manageable with mitigations proposed by the Applicant.
6	Low risk	When considering the entire Business Plan, the overall proposal presents a low risk to one or more of Delivery, Operations, Cost and Resilience and any risk is capable of being manageable with mitigations proposed by the Applicant.
9	Moderate risk	When considering the entire Business Plan, the overall proposal presents a moderate risk to one or more of Delivery, Operations, Cost and Resilience with some uncertainty of likelihood of success for mitigations proposed.
12	High risk	When considering the entire Business Plan, the overall proposal presents a high risk to one or more of Delivery, Operations, Cost and Resilience that may be incapable of being entirely mitigated by the Applicant.
15	Very high risk	When considering the entire Business Plan, the overall proposal presents a very high risk to one or more of Delivery, Operations, Cost and Resilience that is likely to be unmanageable and incapable of being entirely mitigated by the Applicant.

Table 11: Evaluation criteria for Solution Risk Factor

Section 8.7.1 – Base Case

Solution Risk Factor (SRF)
Where relevant, the Base Case will be used to support the assessment of the impact of 'solution-level' risks to the Business Plan. See Section 8.6.2 (Solution Risk Factor) for further detail.

Section 8.7.2 – Breakeven Case

Solution Risk Factor (SRF)
The Breakeven Case will be used to support the assessment of the 'Resilience Risk' element of SRF. See Section 8.6.2 (Solution Risk Factor) for further detail.

Section 8.7.3 – Upside Case Solution

Risk Factor (SRF)
The Upside Case will be used to support the assessment of the 'Resilience Risk' element of SRF. See Section 8.6.2 (Solution Risk Factor) for further detail on the other elements of the SRF evaluation.

Section 8.8 – Ancillary Activities

If the proposed Ancillary Activity or Activities meet the Commission's requirements, the Commission will evaluate the Applicant's Business Plan as described in this Section 8 (Evaluation Methodology), inclusive of the proposed Ancillary Activities and any associated revenues and costs. The Commission will also consider the impact that the proposed Ancillary Activities may have on other aspects of the application including the Business Plan and Solution Risk Factor. The Commission may adjust the Applicant's scores in these sections accordingly.

…

At Phase Two, Ancillary Activities proposals that do not meet the Commission's requirements may also adversely impact the four solution risk areas outlined in Section 8.6.2 (Solution Risk Factor) of this document, by indicating higher levels of risk associated with delivery, operations, costs and/or resilience. Where this is the case, this will be reflected in that Applicant's Solution Risk Factor.

<u>Document (Spreadsheet) entitled "ITA Phase Two Clarification Request Tracker" – Created by the Commission to keep track of Clarification Questions from Applicants, and Responses</u>

Approx 24/11/21 – CQ Ref 39 – Clarification Response issued to all Applicants

Question – Please could you clarify the scoring for the Solution Risk Factors, particularly around the scores for 0, 3 and 6. Would a bidder would achieve 0 only if minimal risk across all four areas not just one?

Response – At Phase Two, scoring will be based on the highest level of risk in any one of Delivery, Operations, Cost and Resilience i.e. an applicant that is deemed to be High risk to Delivery but Low risk in the other three areas would have an SRF of 12 applied to their Business Plan Area Mark.

-

Approx 27/11/21 – CQ Ref 45 – Clarification Response issued to all Applicants

Question – Please could the Commission clarify how scoring will operate if an Ancillary Activity has failed to meet the Requirements: a) can bidder identify indirect costs with and without the relevant Ancillary Activity included; and b) in what way could the Solution Risk Factor be impacted if the relevant Ancillary Activity is essentially removed from the bid for scoring purposes?

Response – In response to a) Please see the definitions in the ITA for Ancillary Activities Direct Costs (AADC) and Ancillary Activities Indirect Costs (AAIC). Applicants are free to identify indirect costs not associated with Ancillary Activity (AA) in their wider business model. AADCs may include costs that your organisation may treat as either direct or indirect costs from an accounting treatment perspective. A cost that otherwise be considered indirect if only incurred in relation to an AA will be treated as an AADC.

In response to b) The Solution Risk Factor (SRF) is calculated post AA assessment, therefore there is no impact as neither AADC or AA revenues would be taken into account if the AA was rejected

Approx 15/12/21 – CQ Ref 66 – Clarification Response issued to all Applicants

Question – Who will be Evaluating Applications?

Response – There will be a substantial team of evaluators, comprised of internal Commission and external resources. This substantial panel will be divided into smaller areas, with a small team of evaluators for each area of the business plan and pass/fail areas. There will also be a separate team of evaluators for SRF.

The Commission will not be sharing the names of evaluators.

Evaluators will be the same at Phase One and Phase Two (subject to exceptions such as leave etc.).

Approx 15/12/21 – CQ Ref 67 – Clarification Response issued to all Applicants

Question – How will Evaluators conduct their review?

Response – Evaluators will review their specific areas of the Application. Applicants should not rely on an evaluator having sight of other areas of the submission. Each evaluator will independently review their area of the response and form an opinion against the relevant evaluation criteria. Evaluators for each area of the Business Plan will have the opportunity to provide information to the SRF evaluators. A moderator will coordinate a meeting between evaluators whereby a consensus will be reached.

Applicants should not assume that an evaluator has knowledge of the Applicant or how a game will be perceived in the market for example. Evaluators can only score based on the evidence provided.

Applicants can use technical language where appropriate; mechanisms will be in place for evaluators to confirm their understanding with subject matter resources or by submitting a clarification request to the Applicant.

Approx 15/12/21 – CQ Ref 78 – Clarification Response issued to all Applicants

Question – How will the upside and downside cases will be used in evaluation?

Response – The Upside Case and Downside Case will be considered as part of the resilience risk element of SRF but will not be considered in the assessment of Good Causes Contribution.

Approx 22/01/22 – CQ Ref 150 – Clarification Response issued to all Applicants

Question – Could the Commission to confirm whether existing suppliers under the Third Licence need to be vetted for the purposes of the Competition?

Response – For the purposes of the Fourth Licence, these suppliers would need to be vetted regardless. Applicants may make an assumption that this is lower risk and vetting could be conducted during the Implementation Period.

It would be unlikely that an existing Third Licence supplier that had not yet been through vetting under the Fourth Licence competition would be considered high risk for the purposes of Evaluation at Phase Two. Furthermore, as the Solution Risk Factor (SRF) is designed to consider 'solution-level risk', this is unlikely to be a contributing factor to SRF in isolation.

Approx 02/02/22 – CQ Ref 191 – Clarification Response issued to all Applicants

Question – Noting that different sections of the Business Plan would be evaluated by different people, will reviewers communicate with each other or should Applicants should repeat information for each audience?

Response – Evaluators will only review their specific areas of the Application and so Applicants should not rely on evaluators reading across the submission.

We note two exceptions:
- Solution Risk Factor (SRF) whereby lead evaluators for each Business Plan Area will come together to highlight any solution-level risks, and a SRF panel will review those risks; and
- Pass/Fail elements (propriety, protecting participants' interests and financial strength) whereby evaluators may flag risks to pass/fail evaluators for consideration.

In summary, evaluation will be carried out on a siloed basis with read across and escalation routes where appropriate. Information should be therefore be repeated where it is relevant to more than one Business Plan Area.

Approx 16/02/22 – CQ Ref 233 – Clarification Response issued to all Applicants

Question – Resilience risk is defined as any risk the Licensee and /or its Business Plan may not be able to withstand the stress or pressure induced by events outside the normal course of business (ITA page 49). It relates to catastrophic risks, stresses and shocks (pandemic, financial crisis, natural catastrophes). In Q26, on page 126, the "Impact Type" option "resilience" should be intended as an impact so severe to prejudice the ability of the company to continue operations?

Response – Within their consolidated Risk Register Applicants are expected to outline all risks associated with their response to the ITA as per Q26 (pg 126 of the ITA). It will be up to the Applicant to establish which "Impact type" area the risk falls under. It will also be up to the Applicant to provide the risk rating level and a definition of each level. It is the Applicant's responsibility to establish the severity of the "resilience" impact and record this in their Risk Register. Applicants should note that there is no correlation between the Solution Risk Factor areas of Delivery Risk, Operational Risk, Cost Risk and Resilience Risk and the "Impact type" risk areas outlined for use in the Risk Register under Q26 (pg 126 of the ITA).

Approx 16/02/22 – CQ Ref 268 – Clarification Response issued to all Applicants

Question – The four solution risk areas that will be considered for the SRF are Delivery Risk, Operational Risk, Cost Risk and Resilience Risk (ITA page 49). In Q26, on page 126, the "Impact Type" options are cost, time, quality and resilience. Are the two lists correlated? Delivery Risk = Time impact; Operational Risk = Quality impact, Cost Risk = Cost Impact and Resilience Risk = Resilience Impact?

Response – Applicants should note that there is no correlation between the Solution Risk Factor areas of Delivery Risk, Operational Risk, Cost Risk and Resilience Risk and the "Impact type" risk areas outlined for use in the Risk Register under Q26 (pg 126 of the ITA).

Approx 16/02/22 – CQ Ref 270 – Clarification Response issued to all Applicants

Question – In 8.6.4 Evaluation criteria for Solution Risk Factor, page 52, a Solution Risk Factor of 0%, defined as Minimal Risk is described as "when considering the entire Business Plan, the overall proposal presents minimal incremental risk to one or more of Delivery, Operation, Cost and Resilience".

Does the above means that 0% will be awarded if "mitigation actions" corresponding to individual Solution Risks identified in the Risk Register are considered by the Commission to be conducive to reduce the risk to an acceptable level?

Response – Applicants should note that there is no correlation between the Solution Risk Factor areas of Delivery Risk, Operational Risk, Cost Risk and Resilience Risk and the "Impact type" risk areas outlined for use in the Risk Register under Q26 (pg 126 of the ITA). Applicants will recieve a Solution Risk Factor of 0%, defined as Minimal Risk is described as "when considering the entire Business Plan, the overall proposal presents minimal incremental risk to one or more of Delivery, Operation, Cost and Resilience". There is no direct link between the Risk Register and SRF score as risks may be present in the Business Plan response which are not identified in the Risk Register.

Approx 18/02/22 – CQ Ref 297 – Clarification Response issued to all Applicants

Question – a. In Q26, on page 126 at the end, Solution Risk is defined as a risk that relate to more than one other category OR are related to Breakeven/Upside cases. Hence, a risk is common to Propriety and Protecting Participant Interests, it is a Solution Risk.

b. In 8.6.1 and 8.6.2, page 48 and 49, a Solution (level) Risk is defined as any issue which arises from one or more of the five separate areas of the Business Plan Assessment (Transition, Branding, Portfolio, Channels and Operations). Hence in this case, a risk is common to Protecting Participant Interests and Channels, it is NOT a Solution Risk.

Could you kindly clarify which one is correct between a. and b. ?
In b., “any issue” means “risk”? (usually an “issue” already has occurred while a “risk” is a potential issue that may or may not happen)

Response – Solution Risk Factor (SRF) will review risks and issues which arise from one or more of the five separate areas of the Business Plan assessment (Transition, Branding, Portfolio, Channels, Operations) and Breakeven/Upside Case only. Solution Risk Factor does not take into account Pass/Fail areas.

The text within Q26 (pg 126 of the ITA) states that "Solution Risk (risks that relate to more than one other category OR are related to Breakeven/Upside Cases)". This is a summary in relation to the Risk Register only, with the intention of clarifying that Applicants must outline all risks across their entire proposal (including Pass/Fail areas) within their Risk Register. It is not a definition of SRF.

Applicants should note that there is no direct link between the Risk Register and SRF score as risks may be present in the Business Plan response which are not identified in the Risk Register.

Approx 26/08/21 – CQ Ref 628 – Clarification Response issued to all Applicants

Question – If our response does not appropriately demonstrate / evidence our proposed good causes contributions and revenues, please can you confirm whether you will discount the projected revenue from our submission, reduce our score within a business plan area e.g. Portfolio or score this through the Solution Risk Factor Evaluation?

Response – The Commission will not discount projected revenues from the Applicant's submission. The relevant Business Plan area will be scored according to the evaluation criteria (credibility and deliverability of the Good Causes) when that Business Plan area is evaluated. Please note, in the event that the risk is a solution level risk then it will be considered as part of the Solution Risk Factor evaluation and will not be considered as part of the Business Plan evaluation.

Approx 21/09/21 – CQ Ref 712 – Clarification Response issued to all Applicants

Question – Could the Commission clarify the purpose of the Upside scenario and how the Commission intends that this will be reflected in the Solution Risk Factor (SRF) evaluation in a way that is equitable among bidders. For example, one bidder may, present an Upside scenario that represents an overall 5% increase in revenue, while another may present one that represents a 50% increase in revenue. One of these is inherently likely to have a bigger impact on capacity constraints, so can the Commission confirm how would the evaluation produce a balanced impact on the SRF between the two bidders?

If the risk is seen to be around capacity, and responses to variations, and how detailed does the scenario need to be?

This scenario will no longer be assessed under Solution Risk Factor (SRF) and should be answered taking into account the Financial Strength requirements. The Commission refers Applicants to page 25 in the Phase Two Applicant Note published on 16 July 2021.

Response – The purpose of the upside scenario is to understand how Applicants' proposals will deal with an outperformance of their proposed base case. Applicants should consider the circumstances under which this outperformance may occur and the extent to which an outperformance in sales impacts the Surplus generated, costs incurred and financial strength requirements.

The Commission is looking to see what could realistically occur which may impact on an Applicant's ability to deliver, cause a capacity issue or cost impact and that measures will be in place to ensure the financial strength of the organisation is maintained.

These are in effect conceptual scenarios, Applicants are free to determine what a plausible outperformance might be and provide supporting narrative or rationale for this.

<u>Document Entitled "CONSOLIDATED Response to Clarification Questions"</u>

Published 28/05/2020 to all Applicants – Ref 15

Question – How will the Commission ensure that the Solution Risk Factor will not 'double-count' risks within Applicants' Business Plans?

Response - Applicants should note that risks within Business Plan Areas will only be considered within the Area being evaluated and will relate to 'credibility' and 'deliverability' of that Business Plan Area to meet the Good Causes Contribution proposed. The Solution Risk Factor will only consider risks that apply across the entire Business Plan (not specific Business Plan Areas) within the scope outlined in the ITA. There will also be a moderation committee that will be formed to assess Solution Risk Factor that will ensure there is no duplication of risk assessment.

<u>Document Entitled "4NLC Clarification Meeting Minutes (Session 1) Applicant 3 – 20 January 2021"</u>

ITA Process
[Applicant 3] noted that different sections of the Business Plan would be evaluated by different people and asked the Commission to clarify whether reviewers would communicate with each other or whether Applicants should repeat information for each audience.

The Commission confirmed that evaluators will only review their specific areas of the Application and so Applicants should not rely on evaluators reading across the submission.

The Commission noted two exceptions: Solution Risk Factor (SRF) whereby lead evaluators for each Business Plan Area will come together to highlight any solution-level risks, and a SRF panel will review those risks; and pass/fail elements (propriety, protecting participants' interests and financial strength) whereby evaluators may flag risks to pass/fail evaluators for consideration.

In summary, the Commission confirmed that evaluation will be carried out on a siloed basis with read across and escalation routes where appropriate. The Commission therefore confirmed that information should be repeated where it is relevant to more than one Business Plan Area.

Document Entitled “4NLC Clarification Meeting Minutes (Session 2) Applicant 3 – 26 March 2021”

Page 5 – *[Applicant 3] asked the Commission to clarify how the SRF will be determined in relation to the Business Plan Areas and Upside and Breakeven Cases.*

The Commission noted that the ‘credibility’ of a Business Plan Area will be evaluated based on how likely the proposal for that Business Plan Area will meet the Proposed Good Causes Contribution. ‘Deliverability’ will be evaluated based on how likely the proposal for that Business Plan Area will be achieved and successfully delivered. The Commission also noted that the Applicant should provide appropriate evidence in support of their response to demonstrate credibility and deliverability.

The Commission clarified that the Solution Risk Factor will review risks and issues which arise from one or more of the five separate areas of the Business Plan assessment (Transition, Branding, Portfolio, Channels, Operations). The Commission noted that the Upside Case and Breakeven Case will be considered as part of the resilience risk element of SRF but will not be considered in the assessment of Good Causes Contribution.

Page 6 - *[Applicant 3] asked the Commission to clarify whether Phase One Feedback will include an assessment of SRF.*

The Commission clarified that should we identify potential solution level risks in the Phase One Application, we would include this in feedback. The Commission confirmed that Phase One Feedback will be provided in line with the evaluation criteria, including SRF but we will not provide scores.

Document Entitled “4NLC Clarification Meeting Minutes (Session 1) Applicant 7 – 12 January 2021”

[Applicant 7] asked the Commission to confirm whether existing suppliers under the Third Licence would need to be vetted.

The Commission clarified that for the purposes of the Fourth Licence, these suppliers would need to be vetted regardless. However, the Applicant may make an assumption that this is lower risk and vetting could be conducted during the Implementation Period. The Commission confirmed that it would be unlikely that an existing Third Licence supplier that had not yet been through vetting under the Fourth Licence competition would be considered high risk for the purposes of Evaluation at Phase Two. Furthermore, as the Solution Risk Factor (SRF) is designed to consider ‘solution-level risk’, this is unlikely to be a contributing factor to SRF in isolation.

Document Entitled “4NLC Clarification Meeting Minutes (Session 2) Applicant 7 – 14 September 2021”

2. (ii) (Applicant 7) requested clarification on the purpose of the Upside scenario and how the Commission intends that this will be reflected in the Solution Risk Factor (SRF) evaluation in a way that is equitable among bidders. (Applicant 7) provided the example that one bidder may, for example, present an Upside scenario that represents an overall 5% increase in revenue, while another may present one that represents a 50% increase in revenue. One of these is inherently likely *to have a bigger impact on capacity constraints, so can the Commission confirm how would the evaluation produce a balanced impact on the SRF between the two bidders.*

(Applicant 7) noted that, if the risk is seen to be around capacity, and responses to variations, and asked how detailed the scenario needs to be.

The Commission noted that this scenario will no longer be assessed under Solution Risk Factor (SRF) and should be answered taking into account the Financial Strength requirements. The Commission referred the Applicant to page 25 in the Phase Two Applicant Note published on 16 July 2021.