

Early Competition Plan

Phase 3 Stakeholder Workshop Summary

October 2020

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Introduction

As part of the Phase 3 Early Competition Plan (ECP) development, National Grid ESO facilitated a series of virtual workshops in September and October 2020. In total, 13 individual workshops on seven subject areas were held covering a number of topics requiring further development.

The aim of these sessions was to seek stakeholders views on a selected number of topics in order to inform further development of the Early Competition's end-to-end model.

We recognise that stakeholder feedback is critical for the development of Early Competition, and therefore we will review and consider all feedback raised during these workshops. Key stakeholder messages will be reflected in the Phase 3 Consultation, which is due to be published December 2020.

The workshops focused on the following areas:

Phase 3 Workshops

1	Roles in Competition
2	Indicative Solution Identification Process
3	Risk Allocation and Post-Preliminary Works Cost Assessment
4	Operational Incentives
5	Heads of Terms and Industry Code Impacts
6	ESO Role in Distribution
7	Information Provision

This document consolidates key messages from stakeholders for each subject area. The received feedback will be used to further develop these areas and inform the Phase 3 Consultation thinking, where we will document how we arrived at the latest position on the Early Competition's end-to-end model.

Following each workshop, the attendees were also asked to provide feedback on what went well in this series of workshops and what we can improve going forward. Results from the survey are included at the end of this document.

Stakeholders are invited to send any additional feedback or comments to:

box.earlycompetition@nationalgrideso.com

1. Roles in Early Competition

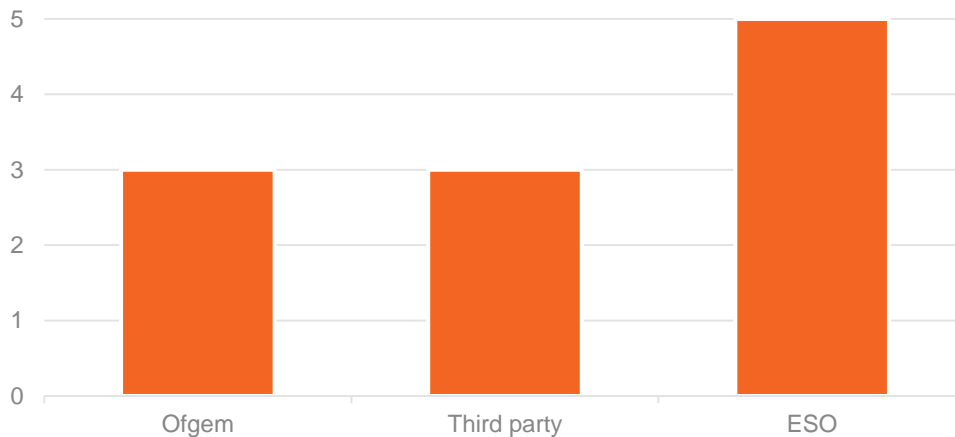
The focus of this workshop was to identify which entities would be best placed to carry out each role and the potential advantages and disadvantages of the selected entities owning key roles in the early competition process. The webinar slides have been also published on the [Early Competition Plan Project](#) website in order to supplement this summary.

Procurement Body



ESO asked stakeholders to express their views on which entity should play the role of a procurement body and what are the potential advantages and disadvantages of Ofgem, third party or the ESO owning this role.

Who do you think is best placed to carry out the procurement body role?



Generally, stakeholders agreed that the procurement body role needs further clarity, particularly in areas around the cost assessment review, tender design, and appeal processes.

A Public Sector Stakeholder suggested that all the proposed parties can be engaged in the process, referencing examples from other regions, e.g. Asia and Latin America.

One of the Transmission Owners (TOs) commented that Ofgem and the ESO should share the procurement body responsibilities, noting that more parties involved in the tender process would provide greater confidence in the process compared to if only one party would run the tenders.

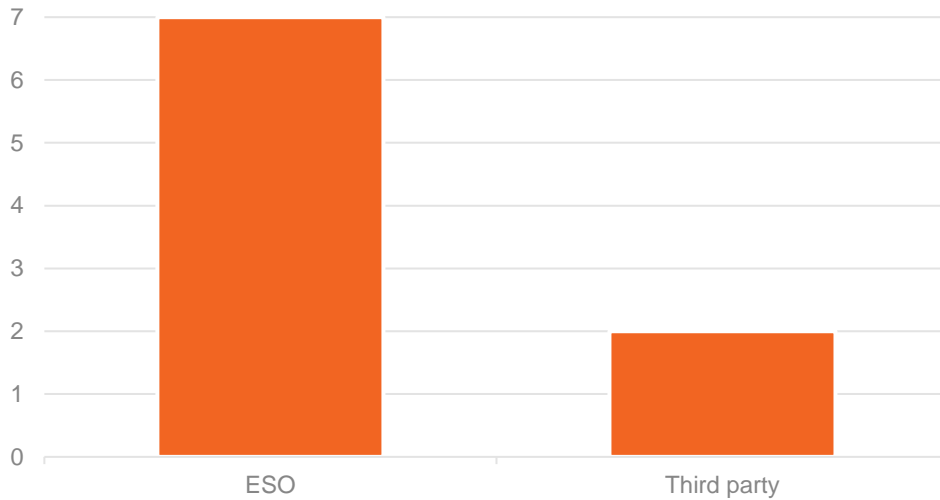
Some potential equity investors highlighted that their views of who is best placed to take on the procurement body role are influenced by their concerns over the ESO's perceived conflict of interest and overreliance on the incumbent TOs in this process.

Contract Counterparty



ESO asked stakeholders to express their views on which entity should play the role of a contract counterparty and what are the potential advantages and disadvantages of a third party or the ESO owning this role.

Who do you think is best placed to carry out the contract counterparty role?



Generally, stakeholders suggested that both parties could take on the contract counterparty role. Some of the TOs noted that the ESO would need to also consider how the liabilities and risks would be split between the two entities. A technology stakeholder considered whether Ofgem could fill the role of the contract counterparty. However, it was noted that at present Ofgem is not the contract counterparty for the non-network solutions and Ofgem is not considered to be the best party to own this role.

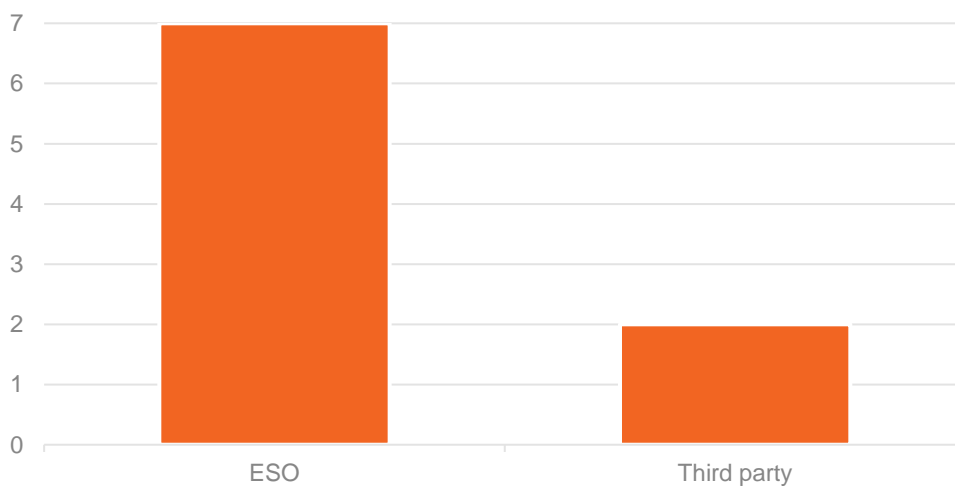
A potential equity investor suggested that the overall process could be simplified by combining some of the roles, leading to fewer interfaces and a smaller amount of parties involved in the management of the entire process.

Payment Counterparty



ESO asked stakeholders to express their views on which entity should play the role of a payment counterparty and what are the potential advantages and disadvantages of a third party or the ESO owning this role.

Who is best placed to carry out the payment counterparty role?



Generally, stakeholders agreed that the ESO should carry out the payment counterparty role. Some potential equity investors explained that they expect the Early Competition's end-to-end model to follow arrangements under the current regime, where Ofgem is the licence counterparty and it is effectively acting as the payment counterparty, but the payments are settled by an external entity (ESO).

One of the TOs highlighted that the entities' credit ratings should also be considered in the bidding process to ensure robustness of the payment counterparties.

Ofgem's Role



ESO asked stakeholders to express their views on the Ofgem's role in early competition.

Generally, stakeholders noted that the procurement body's role should be light touch and focused on the outcomes of the process, for example, Ofgem may want to approve a need case for a tender or approve the Cost-Benefit Analysis (CBA) methodology. A Public Sector stakeholder also noted that these roles should fit and align with Ofgem's current statutory duties.

Network Planning Bodies



ESO asked stakeholders to express their views on how many current network planning roles would need to change for early competition.

Multiple stakeholders agreed that the market may not be fully comfortable with the ESO's separation as it is unclear how the conflicts of interest will be managed if the TOs would be involved in the process.

One of the TOs also highlighted that a potential impact on a TOs activities needs to be considered if Early Competition will require the TOs to bid competitively. It was noted that the TOs are designed to operate under the enduring framework, which influences the way they put forward their business plans. Under Early Competition, the ESO would ask the TOs to go outside the framework in which their investors operate and where investments are assessed on a portfolio basis.

2. Indicative Solution Identification Process

The focus of this workshop was identifying the potential steps required to evolve the Interested Persons Options Submission process in order to enable stakeholders to constructively engage during the initial solution development.

We have scheduled additional workshops on the Indicative Solution Identification Process in order to enable stakeholders to engage on areas which we were not able to discuss due to lack of time, or where points of clarification on processes were required.

We received feedback during this session that the Interested Persons Process is not clear and as a result, we have invited the attendees at this workshop to a follow up workshop on the Indicative solution Identification process. The aim of the follow up workshop is to clarify the Interested Persons Process, in addition to discussing how Early Competition would interact with this process.

The workshop slides have been published on the [Early Competition Plan Project](#) website in order to supplement this summary.

Interested Persons Process



ESO asked stakeholders to express their views on the current developments of the Interested Persons Process.

Several stakeholders commented that the current process for the Interested Persons, which will feed into Early Competition, is unclear. Stakeholders discussed that the process will need to clearly define requirements, focusing particularly on the network needs. Stakeholders will need to have access to templates which they will be able to use to submit and propose solutions.

Future Developments for Early Competition



ESO asked stakeholders to express their views on how to build on the existing Interested Persons Process.

Several potential investors noted that this is a new process, and stakeholders will need some support from the ESO to understand what capabilities will be needed from a bidder's perspective.

Generally, stakeholders noted that there is little data published around the network needs (for example volume of constraints). Without this information, it will be challenging for the parties to assess whether they are interested in developing potential solutions for the identified network needs. One of the TOs noted that currently there is some data on boundary constraints, but more information is needed in order for the bidders to offer competitive bids which will drive value for customers.

Several potential equity investors are concerned about potential cost recovery. Absolute clarity on which parts of the network will be subject to competition and which won't will be key for potential bidders.

Network Options Assessment (NOA)



ESO asked stakeholders to express their views on how to broaden the range of solutions in the NOA and how to increase transparency in the current process.

A number of stakeholders raised concerns on how the planning process is conducted. Some potential investors highlighted that the ESO should not expect new entrants to have a good understanding of the planning process. Instead, it should ensure that sufficient timeframes are set in the planning exercise in order to allow new entrants to participate in the process.

Some potential investors queried the roles of the planning exercises and the roles completed under the Early Competition can be interchanged. It was discussed that the planning of the network should already ensure that it promotes new technologies. Making this part of Early Competition could be very challenging and

potentially result in reduced value for consumers. A Public Sector Stakeholder noted that in other regions where there are multiple transmission owners embedded in the market, planning processes are undertaken by independent parties.

3. Risk Allocation and Post-Preliminary Works Cost Assessment

The focus of this workshop was identifying how the proposed Post-Preliminary Works Cost Assessment process can be structured. We sought feedback from stakeholders on how this process might work in practice to ensure that the required information is available to bidders and consumers will remain to be adequately protected.

Stakeholders were provided with pre-read material, consisting of an overview of the session and presented with questions and examples to consider prior to the webinar.

The workshop slides have been published on the [Early Competition Plan Project](#) website in order to supplement this summary.

Post-Preliminary Works Cost Assessment Process Interactions



ESO asked stakeholders to express their views on how the Post-Preliminary Works Cost Assessment might work with earlier process steps.

Multiple TOs noted that currently it is their responsibility to ensure that the costs are efficient and they are obliged to defend the process and recommendations to Ofgem. These proposals are then compared by Ofgem with a large database comprising project costs on comparable types of projects.

Post-Preliminary Works Cost Assessment Structure and Parameters



ESO asked stakeholders to express their views on the potential structure of and parameters within the Post-Preliminary Works Cost Assessment.

Some stakeholders noted that the ESO should develop clear guidance on whether potential future changes to the costs will be categorised into permissible and non-permissible costs. These proposed increases should then be assessed on a case-by-case basis. Alternatively, the ESO should predefine, at an early stage of the tender process, which costs bidders will be allowed to change at a later stage.

Generally, stakeholders noted that an introduction of a standardised cap, which excludes potential project's nature and complexity, would not be the right approach. Therefore, having a uniform cap could be too simplistic for the purpose of Early Competition. A potential equity investor suggested to propose flexibility in the process, by giving the ESO an option to remove the cap.

A potential equity investor noted that this will be driven by the quality of the data available in the bidder's data room, which will be only be broadly related to any solution. In a review of the costs, the ESO should ensure that it is not influenced by the price/cost during the assessment of the risks. For instance, the procuring body should enquire why bidders are proposing significantly lower pricing than expected.

Post Post-Preliminary Works Cost Assessment Risk Considerations



ESO asked stakeholders to express their views on how risk sharing could remain relevant after the Post-Preliminary Works Cost Assessment.

Some TOs noted that the ESO's view on the risk considerations is reasonable. Stakeholders also noted that the changes to the pre-commencement and post-construction conditions are relatively consistent across the similar type of projects.

A TO highlighted that the land right will be one of the potential shared risks, but the ESO should consider how much effort should be required from bidders. The time and resources required to complete contract negotiations with landowners may vary and may take more time than expected when landowners are not enthusiastic about the negotiations.

4. Operational Incentives

The focus of this workshop was on the comparison of the availability-based operational incentives in the context of Early Competition.

Stakeholders were provided with pre-read material, consisting of an overview of the session and questions and examples for stakeholders to consider prior to the webinar.

The workshop slides have been also published on the Early Competition Plan website in order to supplement this summary.

Key Design Components



ESO asked stakeholders to express their views on the key design components of the identified availability incentives (Voltage, Stability and OFTO TR6).

Generally, stakeholders thought that the ESO should consider how incentives should be set, based on known issues of the existing availability incentives in transmission. For example, issues around the integrated networks and non-network solutions and how the ESO plans to identify and locate the cause if there is a shortfall in the availability of an integrated network.

A public sector stakeholder also noted that to a great extent the structure will depend on the defined length of a contract or a licence. One potential investors noted that the reference to network infrastructure is sensible, but it will depend on the technical and performance requirements, which should be embedded in either a contract or a licence.

Potential Early Competition Incentive Design



ESO asked stakeholders to express their views on the potential structure of an availability incentive for early competition.

A potential equity investor noted that the tender documents will need to be clear on what is the minimum performance requirement, what are the incentives in place and what is the monitoring system to track the performance. Investors are expected to factor all these uncertainties and risks into their pricing. Probably in the case of the innovative solutions or more integrated solutions, the incentive design will require further consideration, as the relevant parties may not have available data to assess the performance.

A public sector stakeholder highlighted that there has been a lot of work done in developing the OFTO regime in order to make the ownership boundaries clear to all stakeholders and to set these out in the STC and in relevant arrangements governing interactions between parties. The key part of the work for the Early Competition incentive design will be to understand whether there are any arrangements which could be set out in the codes or elsewhere that will help to define areas of responsibility.

Environmental and Timely New Connections Incentive Proposals



ESO asked stakeholders to express their views on the environmental and the Timely New Connections incentive proposals presented in the Phase 2 Consultation.

This section was not directly discussed with stakeholders. We encourage stakeholders to send us specific comments on these incentive proposals.

5. Heads of Terms and Industry Code Impacts

The focus of this workshop was on the development of the potential licence or contract heads of terms as well as the potential impacts and changes required to the industry codes.

Stakeholders were provided with pre-read material, consisting of an overview of the session and presented with questions and examples to consider prior to the webinar.

The workshop slides have been published on the [Early Competition Plan Project](#) website in order to supplement this summary.

Potential Early Competition Contract Complexities



ESO asked stakeholders for their views on the current proposal and identify where potential changes may be required in respect of early competition.

Generally, stakeholders commented that the standard contract should be sufficiently flexible to cater for instances where non-network solutions can rely on the existing contracts to develop a potential bid solution for a new need. Stakeholders assume that the requirements that are subject to competition will be clearly stated and defined, so the competition will not include any additional elements.

Potential investors commented that the debt competition needs a well-developed version of the heads of terms to be shared with the capital market at an early stage of the tender process.

A construction stakeholder commented that there are concerns about the proposal of the performance bonds, particularly around the extent of bidders' liabilities under the performance bonds. It was noted that the performance bonds would reflect lack of trust between the ESO and the bidders. Currently, TOs are not required to provide this security. If under Early Competition, other bidders would be required to provide performance bonds, then this could potentially create an unlevel playing field if TOs would be also exempt of providing this security under Early Competition.

A technical stakeholder and a public sector stakeholder noted that the heads of terms should set out obligations in such a way that would not hinder development of new connections.

Industry Code Impacts



ESO asked stakeholders for their views on where industry code changes could be required in respect of early competition.

Some TOs noted that the classification of the expected changes required to be applied to the industry codes is reasonable.

A public sector stakeholder highlighted that in order to effectively facilitate the review panel, the ESO should clearly divide the required changes into two groups. One group would consider which changes are required in consequence of introducing a new regime. The second group would consider which changes would be substantive and would involve a reconsideration of the fundamental objectives of the relevant provision.

Potential Competitively Appointed Transmission Owner (CATO) System Operator-Transmission Owner Code (STC) Obligations



ESO asked stakeholders to express their views on what could be potential obligations for CATOs in the future in respect of the STC obligations.

Generally, stakeholders agreed with the ESO's proposed position. Planning is considered to be a crucial element of the CATOs. One of the TOs suggested that the ESO should focus on stronger coordination to keep the procurement body and Ofgem within the boundaries of their defined roles to have a process that doesn't undermine the current and future planning as well as the TO's operations. Planning is expected to become more fragmented and the ESO will have a much stronger role in system planning.

Some TOs raised concerns about incorporating CATOs into the governance panel as there may be too many parties voting, however the voting power may not be proportionate.

6. ESO Role in Distribution

The focus of this workshop was to understand stakeholder views on what should be the ESO's role in distribution.

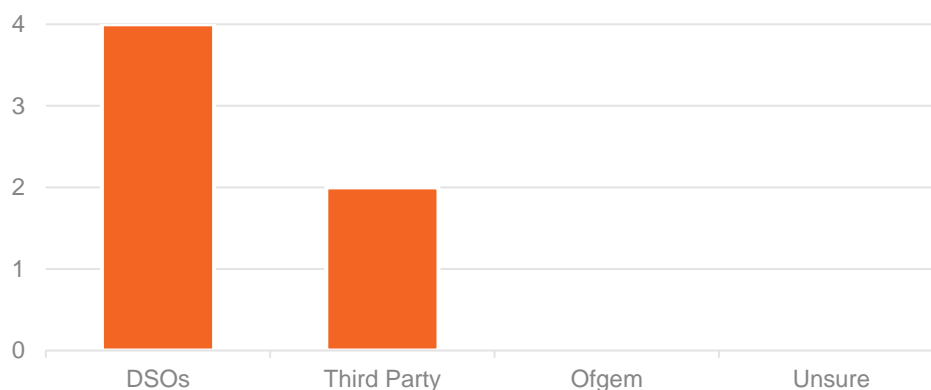
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Procurement Body



ESO asked stakeholders to express their views on which entity should play the role of a procurement body and what are the potential advantages and disadvantages of Ofgem, third party or the DSO owning this role.

Which party do you feel is best placed to perform the procurement body role during ED2?



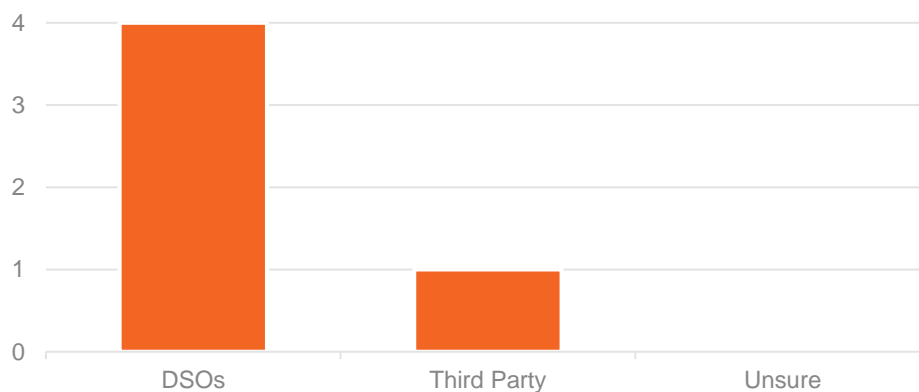
Stakeholders generally agreed with the ESO's view that the roles of a procurement body can be fragmented across multiple entities, and this is also consistent with the timescales in which distribution needs to evolve. Some DNOs commented that there should be a periodic review of if and how well the system is working.

Network Planner



ESO asked stakeholders to express their views on which entity should play the role of a network planner and what are the potential advantages and disadvantages of a third party or the DSO owning this role.

Which party do you feel is best placed to perform the network planner role during ED2?



A DNO noted that the network planner should have visibility of the value assessment for the proposed solutions and monitor bidder's accountability. As the ownership of the value assessment may change

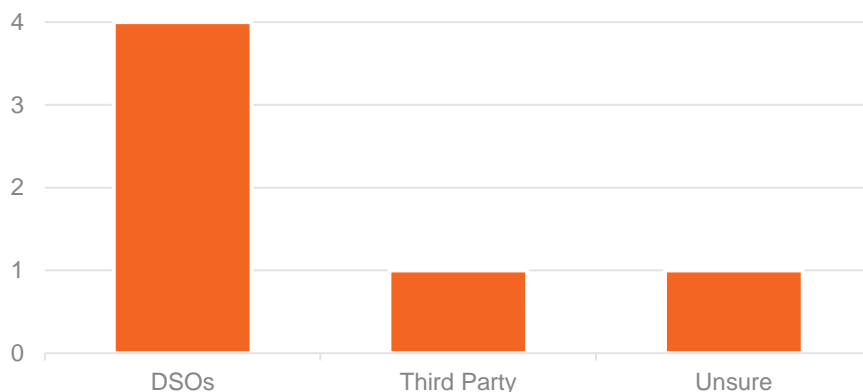
throughout the tender process and there needs to be a counterparty who has the visibility of how the value changes. Other stakeholders agreed with this view and commented that a DNO and DSO will be best placed to make these decisions. There is a risk of a conflict of interest, but it will be balanced out by the strength of the licence framework with a number of mechanisms in place that mitigate this risk.

Contract Counterparty



ESO asked stakeholders to express their views on which entity should play the role of a contract counterparty and what are the potential advantages and disadvantages of a third party or the DSO owning this role.

Which party do you feel is best placed to perform the contract counterparty during ED2?



A majority of stakeholders noted that DSOs would be the most suitable party, however some stakeholders' views were fragmented. One of the DNOs noted that, if possible, they would prefer the role of the operating and the contract counterparties to be taken by one entity.

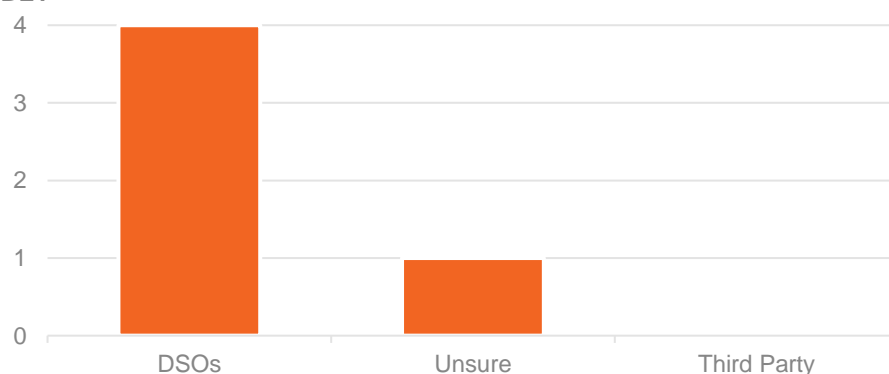
A construction stakeholder noted stakeholders would prefer to operate under licence arrangements due to a route to escalate any issues.

Payment Counterparty



ESO asked stakeholders to express their views on which entity should play the role of a payment counterparty and what are the potential advantages and disadvantages of a third party or the DSO owning this role.

Which party do you feel is best placed to perform the the payment counterparty role during ED2?



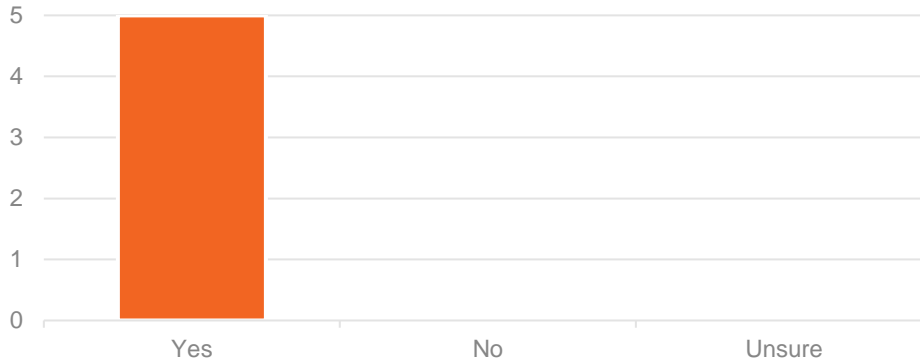
One of the DNOs noted that the ESO should consider who processes the payment transactions and with which entity there would be a minimum number of handoffs.

Ofgem's Role



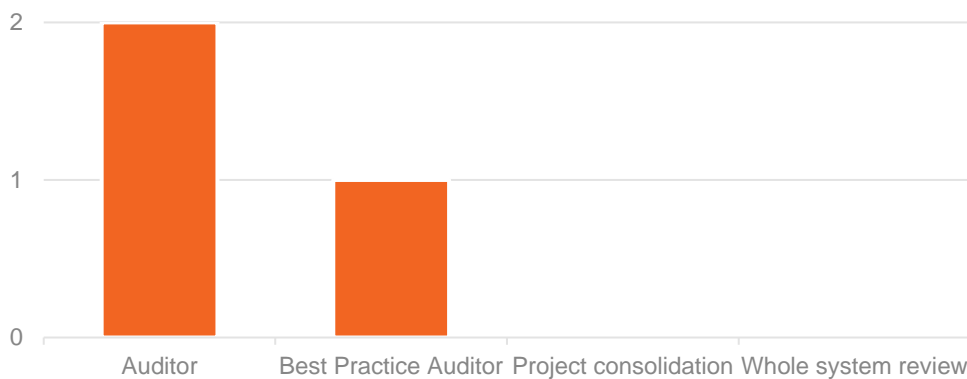
ESO asked stakeholders to express their views on the Ofgem's role in distribution.

Should Ofgem perform Approver and license counterparty roles if early competition is introduced?



Stakeholders agreed Ofgem would be best placed to perform the Approver role as it is a regulated authority. Some DNOs highlighted that Ofgem will need additional support from third parties to gain wider perspective. There is a need for independent and proportionate review and perspective of Ofgem's role (such as approver and supervisory) and decisions in order to ensure that the value for money objective is maintained.

Which of the following roles do you feel Ofgem is best placed to perform?



The diagram above presents results from a stakeholder poll. In total one stakeholder responded, suggesting that Ofgem is best placed to perform the auditor's role.

Other Potential Roles



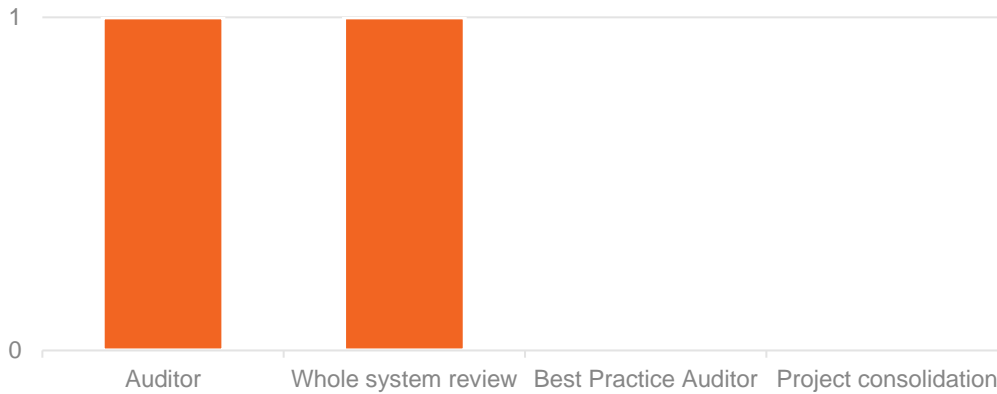
ESO asked stakeholders to express their views on the potential roles in distribution that would add value for consumers.

Which of the following roles do you think will add value for consumers?



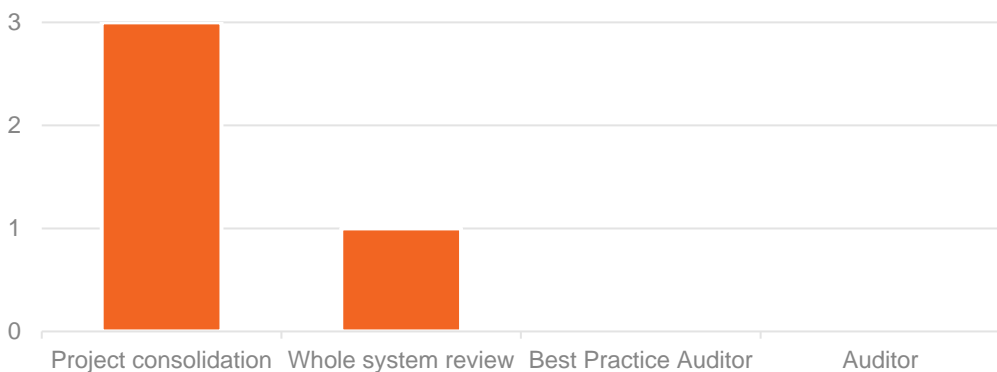
The diagram above presents results from a stakeholder poll. In total four stakeholders responded, suggesting that the roles of auditor, project consolidation and whole system review will add value for consumers.

Which of the following roles do you feel a third party is best placed to perform?



Stakeholders noted that Ofgem is best placed to lead the role of an auditor and project consolidation, however an independent third party will need to complete a whole system review.

Which of the following roles do you feel is best performed by the existing mechanism in place?



Stakeholders noted that there could be a benefit if the ESO would decide to introduce a role of best practice auditor. This role, however, would be only successful if the best practice auditor were to standardise processes that would improve transparency and consistency. A potential example of an entity that is providing this role at a very high standard is the Energy Networks Association.

7. Information Provision

The focus of this workshop was on identifying the type of sensitive and confidential information shared at different stages of the tender process, and what the appropriate protection measures could be.

Stakeholders were provided with pre-read material, consisting of an overview of the session and presented with questions and examples to consider prior to the webinar.

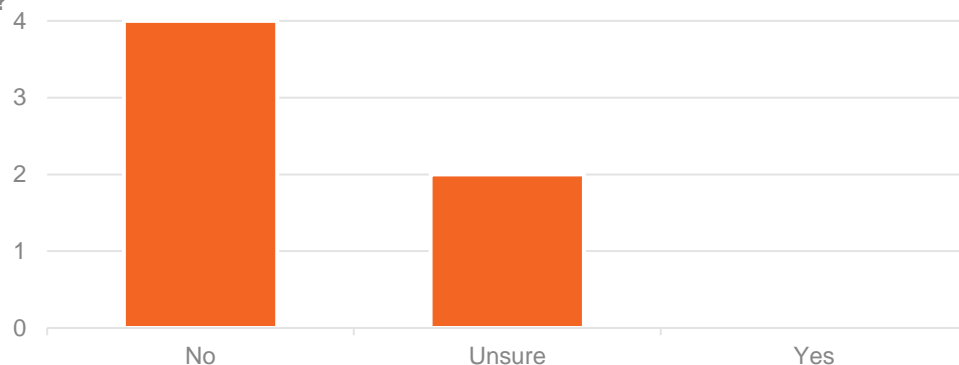
The workshop slides have been published on the [Early Competition Plan Project](#) website in order to supplement this summary.

Pre-Tender Information Requirements



ESO asked stakeholders to express their views on what information should be shared with the market prior to a launch of the early competition tender process.

Is it possible/practical to provide information to bidders before they start development of their technical proposal that removes the need for an impact study?



Some potential equity investors noted that the information at the pre-tender stage should include the needs case, a high-level scope, well defined assessment criteria and pre-qualification conditions. Stakeholders considered that the Expression of Interest or Request for Information could include voltage, geographical constraints, indicative solution, assumed in-service date and need case strength.

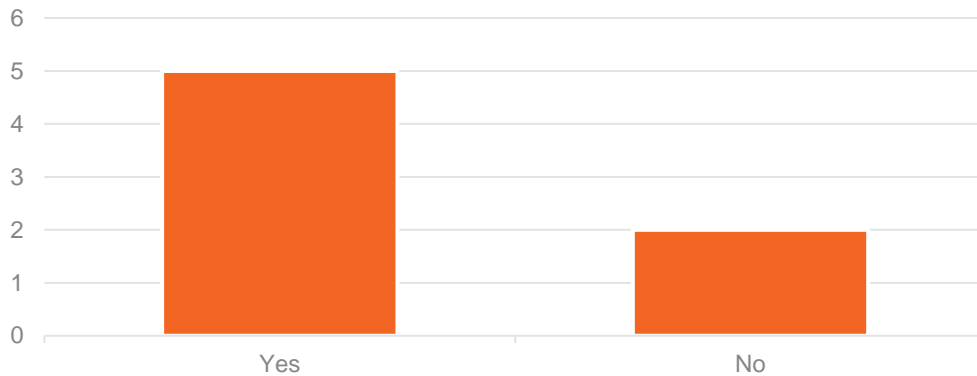
Some potential investors noted that a single process for managing requests and a single point of contact are easier to manage. It would also be difficult for the information to be shared ahead of a single solution being put forward as a lot of studies would need to be undertaken.

Tender Information Requirements



ESO asked stakeholders to express their views on the use and protection of potentially sensitive and confidential information during the tender stage.

Do you agree with our current thinking on presubmission review?



Generally, stakeholders noted that a right level of detail will need to be shared with the bidders. Some issues can be mitigated by providing as much information as early as possible in order to allow bidders to develop mitigation options. In some cases, however, the issue may occur because the information belongs to other network users (including the TOs), which will not be disclosed to the market and therefore leading bidders to make assumptions that increase the level of uncertainty.

Stakeholders believe that there may be a need for bilateral agreements in order to enable document sharing between the parties linked to the current processes. Some TOs suggested that punitive penalties, instead of financial penalties, should be introduced for misuse of confidential information.

Post-Award Information Requirements



ESO asked stakeholders to express their views on the potential mechanisms to manage the flow of potentially sensitive and confidential information between the winning bidder, ESO and TOs.

Do you believe changes will be required to codes?



Generally, stakeholders agreed with the detail of the proposed mechanisms to manage the information exchange between the stakeholders and noted that some changes to the codes will be required. The diagram above presents results from a stakeholder poll. In total one stakeholder responded, suggesting that changes to the codes will be required.

Workshop Stakeholder Feedback

In total, we held 13 stakeholder workshops following the Phase 2 Consultation to understand stakeholder views on 7 specific subject areas being currently developed for the Phase 3 Consultation. At the end of the webinar, participating attendees were asked to complete a short survey on the quality of the hosted workshops.

Overall workshop participation provided feedback on what else the ESO can do to meet their needs.

Indicative Solution Identification Process

- I feel like there was a lack of preparation on the side of National Grid ESO. For example, a lack of understanding of the existing processes such as the Interested Parties and the NOA process, how these interact and then the impact of them. I know it is hard to do a remote workshop, and I believe the team did manage to successfully get a discussion going from everyone who wasn't necessarily the loudest. So well done on this point. I think it might be helpful to do overall fewer sessions to keep engagement high. It is a lot of commitment to attend all of these and it is difficult to follow the narrative without attending them all.
- Give a clearer outline of the ESO's ideas and proposals rather than ask everyone else what they think.

Operational Incentives

- We support the availability incentive concept. OFTO would be a good starting point. Exceptional event clarity knock on impacts from another TO, and short term incentives e.g. no current OFTO incentive short term to avoid a windy day.
- Understanding the ambiguity around an exceptional event would be good so that risk for the provider can be understood and weighted against the commercial underpins of the contract. Moreover, clarity about how this could be managed and arbitrated to a successful and acceptable outcome would help greatly. Clarity about monitoring performance, transparency on any limitations of this and how a resolution can be sought in the inevitable grey areas that would exist would support practical, dare I say, simpler day to day contact management.

How we will improve

We have scheduled additional workshops in cases where the original timescales were not sufficient to discuss all points with stakeholders, or where points of clarification on processes were required.

We will also endeavor to clarify the outstanding points raised by the stakeholders in the upcoming Phase 3 Consultation.

In regards of any future targeted stakeholder discussions, where possible, we will try to limit the number of webinars on the same topic to ensure the greatest level of engagement from all stakeholders.

Workshop Attendees

The table below presents a list of companies and the stakeholder groups represented at the workshops.

Company	Stakeholder type/group
Balfour Beatty	Construction Company
BEIS	Public Sector Stakeholder
Electricity Networks Stakeholder Group	Public Sector Stakeholder
Electricity Power Network Consultants	Advisers
Highview Power	Construction Company
Hydro Power Storage	Technology Company
Iberdrola	Generator
National Grid Ventures	Non-Regulated Utility Company
National Grid Electricity Transmission	TOs
NW Energy	Potential Equity Investors
Ofgem	Public Sector Stakeholder
Schneider Electric	Technology Company
Scottish Hydro Electric Transmission	TO and DNOs
Scottish Power	TO and DNOs
Shemar Power Engineering	Technology Company
Siemens	Generator
Smart Energy Networks	Design Company
SmartWires	Technology Company
Societe Generale	Potential Debt Investors
Storelectric	Construction Company
SP Energy Networks	TO and DNOs
SSE	TO and DNOs

Transmission Investments

Potential Equity Investors

Western Power Distribution

DNOs

Faraday House, Warwick Technology Park,
Gallows Hill, Warwick, CV346DA

nationalgrideso.com

nationalgridESO