



ESO Networks Stakeholder Group

3rd November 2020

Agenda

1. Welcome
2. Review of previous minutes and action log
3. Early Competition
4. Break
5. Early Competition Continued
6. Offshore Coordination
7. AOB
8. Close out



Action Log

ID	Description	Owner	Due	Status	Date Raised
1	Send Bio and photo to Alice McCormick	All	28/08/2020	Open	11/08/2020
9	Publish approved version of Terms of Reference on website	Rachel P	09/09/2020	Open	11/08/2020
17	Consider terms of engagement	Alice E	03/11/2020	Open	12/09/2020
18	Work with Hannah to agree timelines, meeting dates and agendas	Alice M	03/11/2020	Open	12/09/2020
19	Create plan for report writing	Alice M	03/11/2020	Open	12/09/2020
20	Review wording of 'refining recommendation from network planning bodies'	Urmi	03/11/2020	Open	12/09/2020
21	Consider the approver role in more detail	Urmi / Sally	03/11/2020	Open	12/09/2020
22	Invite BEIS to attend future ENSG meeting to present about their Offshore Review	Alice E	19/11/2020	Open	12/09/2020
23	Organise separate session to discuss planning body proposals and conflict of interests.	Hannah / Alice M	03/11/2020	Open	12/09/2020

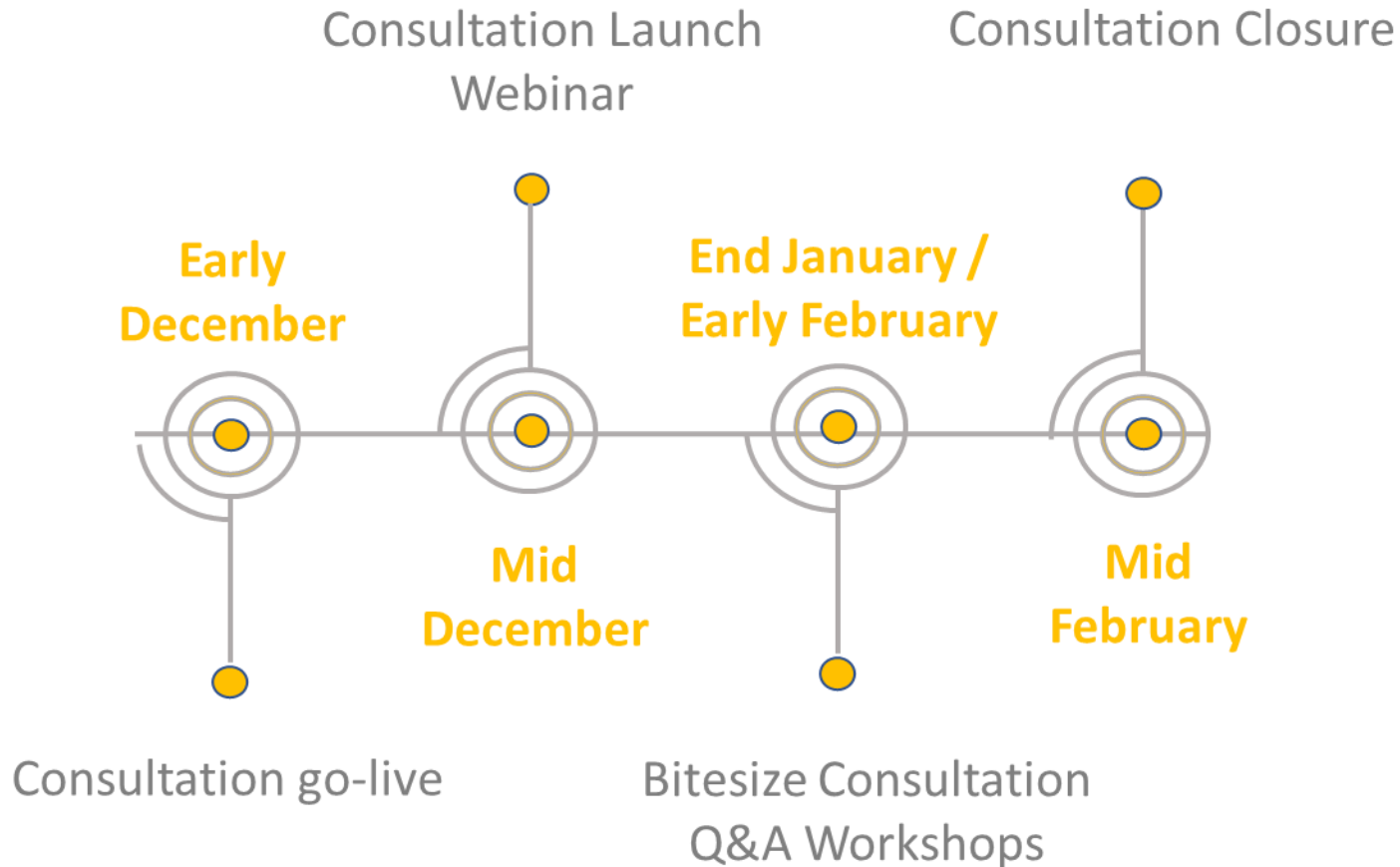


Early Competition Plan

ENSG

nationalgridESO

Phase 3 Engagement

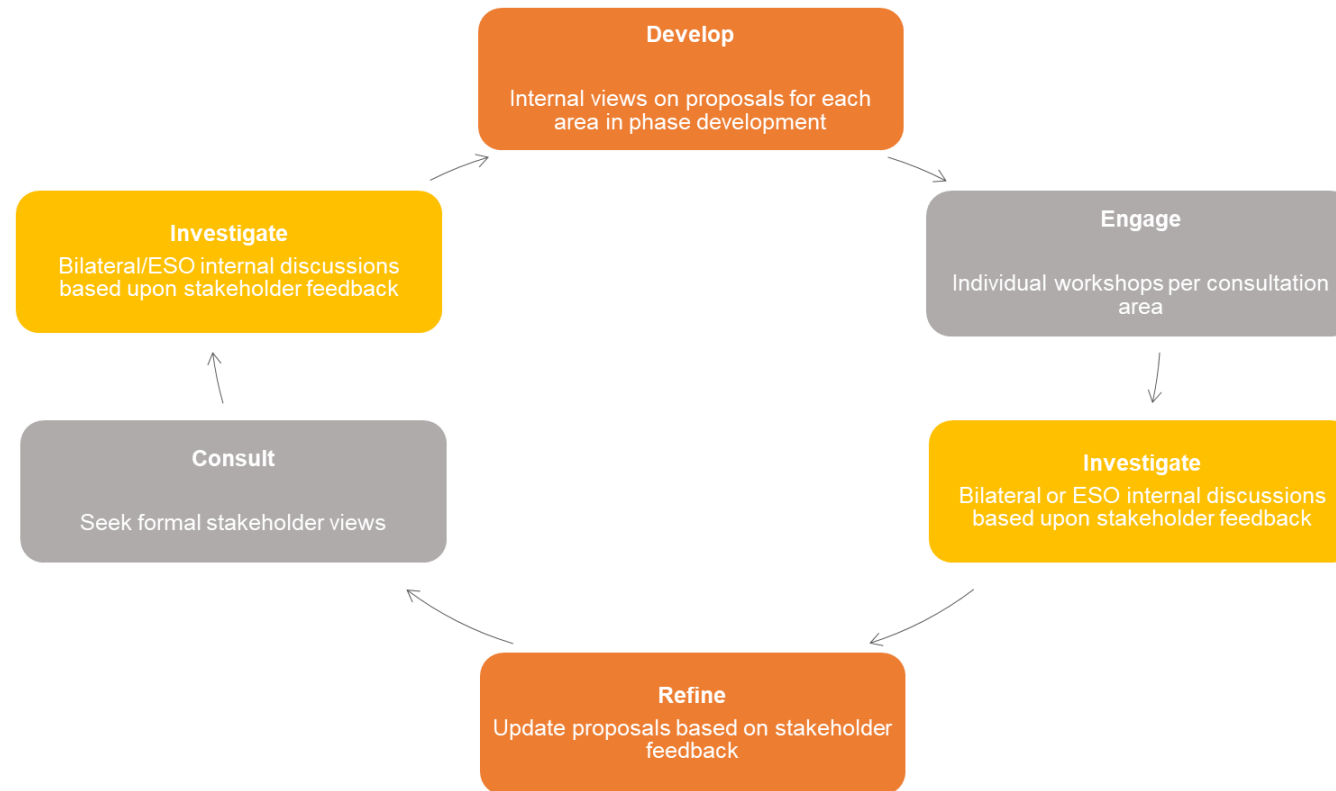


- The consultation period has been extended from 6 to 10 weeks following feedback from the Phase 2 consultation
- Stakeholders can feedback via:
 - Written feedback by email
 - Completing our form
 - Verbal feedback via workshops
 - Verbal feedback via bilaterals

How we have listened to stakeholder Feedback



In Phase 2 and 3 we co-created our proposals with stakeholders by...



“You said, we did”

We listened to all feedback from our stakeholders, and investigated by:

- ESO internal discussions with relevant teams
- Bilaterals with our stakeholders
- Engagement with TOs
- Consulting industry experts, or BEIS and Ofgem
- Exploring industry codes
- Liaising with the Electricity Networks Association (ENA)

“You said, we did”

- We are committed to being transparent with how stakeholder feedback has informed our proposals – we will be publishing details in the near future
- This document will cover all feedback received in Phase 1 and 2, and will detail the following:

Stakeholder feedback	Forum / event	We received feedback from	ESO position (Phase 2 – Phase 3)
Summary of the feedback raised	Where we received the feedback i.e – workshop, consultation, bilateral	Which stakeholder group provided the feedback – i.e TOs, new market entrants, investors	We have detailed how we have investigated feedback, and where appropriate how this has informed current proposals We have also outlined where feedback will not be further progressed stating our reasoning

- An updated version, including updated positions and Phase 3 feedback will be included in the Phase 3 consultation

September workshops



Indicative Solution Identification Process

The focus of this workshop was identifying the best way to evolve the Interested Persons Options Submission process so that stakeholders can input in to the initial solution design.

- Many stakeholders expressed concern with the Interested Persons process, stating timeframes were too short and that it was unclear what their motivation is to participate given it doesn't provide a route to progress their solution

To address stakeholders concerned we arranged a follow up workshop with our colleagues from Network Planning to cover the Interested Persons process and how Early Competition will interact with this process. At that workshop we explored various processes that could be used to gain stakeholder input into initial solution design.

At the follow up workshop the following points were raised:

- Stakeholders queried how the ESO would manage intellectual property challenges, including conflicts of interests if the TOs are involved in the solution assessment process
- Stakeholders highlighted the need for consistent governance around the process and the assessment. The process should also include a process where stakeholders could formally raise cases for assessment
- While stakeholders continued to express concern about motivation to engage with this process, they agreed that it is worth trying to find a way to make this process work
- Overall, stakeholders felt that, while the Interested Persons process needs improvement, the fundamental concept was preferable to the alternatives options we explored

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.

- Stakeholders told us guidance on future changes to costs should be provided
- Stakeholders noted that an introduction of a standardised cap, which excludes potential project's nature and complexity, would not be the right approach
- A TO highlighted that the land right will be one of the potential shared risks, but the ESO should consider how much efforts should be required from bidders in risk considerations

Operational Incentives

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

- Stakeholders thought that the ESO should consider how incentives should be set, based on known issues of the existing availability incentives in transmission
- 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
- 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

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 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
- 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
- Generally, stakeholders agreed with the ESO's proposed position on potential obligations for CATOs. Planning is considered to be a crucial element of the CATOs

ESO Role in Distribution

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

- Stakeholders generally agreed with the options set out for which parties could perform the Roles and the advantages and disadvantages of these options
- There was very little support for 3rd Party/ESO involvement in any Roles outlined
- Procurement Body and Network Planner generated the most discussion, however the general feedback was that the DNO/DSOs will be best placed to fulfil these Roles. Some key themes stakeholders highlighted where the complexity and perceived cost of moving procurement and particularly network planning to a 3rd party. Also featuring heavily was the different drivers, time-scales and value at distribution level
- Potential conflict of interest in the Procurement Body and Network Planner Roles was mentioned. However, possibly due to the perceived complexity/cost of moving these Roles, most stakeholders who raised this concern suggested that Ofgem as Approver was mitigation. Also, the relationship between DNO/DSO functions for ED2 is unknown until Summer 2021 at the earliest
- Most stakeholders noted that DSOs would be the most suitable Contract Counterparty and Payment Counterparty
- Stakeholders agreed Ofgem would be best placed to perform the Approver Role and Licence Counterparty as it is a regulated authority
- Stakeholders generally indicated that for the additional Roles suggested for Distribution level competition, while there may be some value, existing mechanisms were best placed to perform them. One area of note was some stakeholders thought an independent third party could audit the whole process and suggested the national Audit Office

Information Provision

The workshop sought feedback on a range of topics: Potential need for network impact studies; Non-Disclosure Agreements; Pre-submission reviews; Event Communications Channels; Post Award data exchange

- 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
- Most stakeholders indicated that network studies would need to be conducted and commissioned by the Procurement Body once bidders' proposals were known, as the nature of the studies are unique to the proposal. It is not practical/possible to provide enough information in advance to bidders to remove the need for studies
- The nature of sanction for breaching NDA's brought mixed and inconclusive feedback
- Stakeholders expressed a strong preference for a dedicated procurement portal to be used to run events, including all communications
- There was strong agreement with our position not to offer individual pre-submission reviews to bidders. Our proposal is that a clarification process will be in place to answer any questions from bidders and evaluators. Questions and responses will be assumed public and shared with all bidders, although there will be provision for confidential Q&A where appropriate
- Generally, stakeholders agreed with the detail of the proposed mechanisms to manage the information exchange between the winning bidder and other relevant parties. Stakeholders noted that they believe some changes to the codes will be required



Network planning roles and responsibilities

Purpose of session & content

The role of TOs within network planning is a particularly challenging element of the Early Competition Plan.

This session is to **help ENSG better understand and agree the issues to be addressed**. In due course, ENSG will be asked for an informed view on whether the ESO has properly and fairly incorporated stakeholder views in its proposals.

Content

- What is **the issue**
- **TO participation**
 - TO participation
 - Incumbent TO participation options
 - Stakeholder engagement so far
- **Conflicts of interest**
 - Current network planning roles and responsibilities
 - Conflicts of interest
 - Options being explored to address conflicts

There are two related issues

1) Whether and how TOs should be able to provide potential solutions for competed projects

TO parent companies should not compete

Incumbent TO entity should not compete (parent company & non-incumbents could compete)

Incumbent TO entity can compete alongside other bidders

Incumbent TO doesn't 'compete' but provides RII02 counterfactual

2) If TO participates, their network planning roles could give them an advantage in competitions

Specific roles in question are:

- Boundary reinforcement needs identification
- Initial solution development
- Connection and interface assessments

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TO Participation

TO participation

- Three categories:
 - **Incumbent TOs** within geographical area
 - TOs **outside of geographical area**
 - **TO parent companies.**
- **Incumbent TOs** could potentially offer good solutions for consumers because of a) their **knowledge and expertise** and b) ability to **utilise existing assets** particularly given nature of the network.
- TOs competing **outside geographical area** or **parent companies** can potentially offer good solutions for consumers because of a) their **knowledge and expertise**.
- However, **some other bidders may then be less inclined to participate** because a) they feel the TOs will be **difficult to beat** and b) the incumbent TOs may have **unfair advantage** due to their network planning role.

Incumbent TO participation options

Option for participation	Pros	Cons
<p>TO formal bidder in competition</p>	<ul style="list-style-type: none"> Fair and transparent procurement process as everyone following the same process. 	<ul style="list-style-type: none"> TO currently set up to operate under RIIO framework, not via competitive bidding process
<p>TO provides 'counterfactual' solution. Other bidders must put forward a better offer than the counterfactual.</p>	<ul style="list-style-type: none"> TOs solution will always be provided as an option. TOs continue to operate under established RIIO process. Allows some level of comparison between competitive and regulated solutions. 	<ul style="list-style-type: none"> RIIO2 arrangements different to the competitive regime (e.g. scope of post-tender change, duration of need assumptions). More challenging to evidence that a fair, transparent process, with a level playing field, has been applied as two separate processes running. TO restricted in what they can propose.

Stakeholder engagement so far

Phase 1:

- Touched briefly on potential conflicts during workshop discussions.

Phase 2 development:

- Initial discussions on network planning roles and potential conflicts (solution identification webinars)
- Discussed participation and conflict mitigation options with TOs
- Reviewed Ofgem's late model stakeholder engagement feedback

Phase 2 consultation:

- Set out view that TOs should be able to compete as bidders (with suitable conflict mitigation arrangements in place)

Phase 3 development:

- Considered consultation responses
- Sought views during two Roles & Responsibility webinars
- Discussed participation options and conflict mitigation options with TOs

Phase 3 consultation:

- Will set out view on TO participation and appropriate conflict mitigation.

Phase 2 consultation Stakeholder Feedback

TO comments

Non- TO
comments

Supportive of ESO position

One TO agreed with the TO bidding in as a market participant.

Agreed with the TO bidding in as a market participant.

Support for TOs having the option not to compete if they don't wish to.

Ringfencing arrangements required if TOs to provide tender support or involved in shaping tender specification.

TO bidding activities should not be funded via their RIIO frameworks.

Expertise and experience paid for by consumers should be made available on an equal basis to all bidders.

Opposed to or less supportive of ESO position

Two TOs felt they should submit solutions as the counterfactual to the rest of the bidders.

Conflict of interests could undermine the integrity of the competition and affect the overall outcomes.

Ringfencing challenging to implement and would impact TO resources and abilities to execute licence responsibilities effectively.

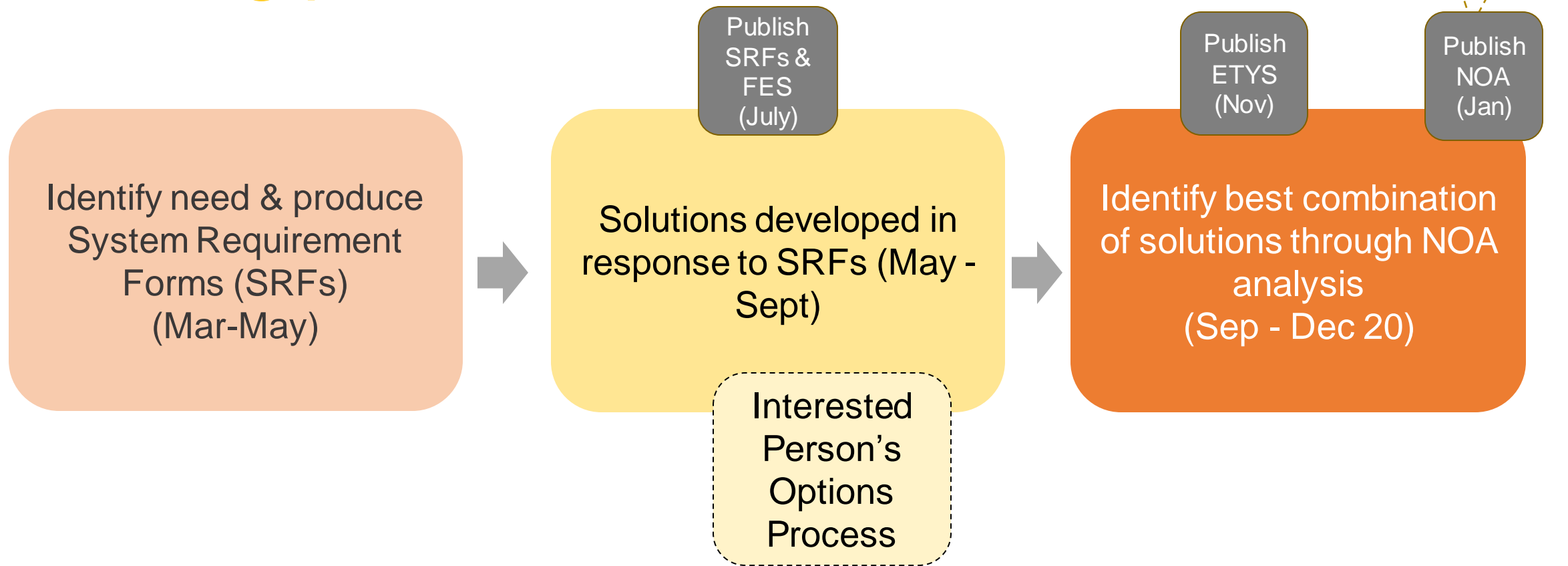
Competition is an alternative to the regulated delivery of network assets and TO participation should be ruled out on this basis.

Unsure whether businesses that are regulated by existing licence obligations and duties, can fairly compete in an open market.

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Conflicts of Interest

NOA network planning process



Current TO and ESO roles

Note: TOs also perform other planning activities (connections assessment, asset-health related activities etc.)

ESO

Combines TO power system models along with FES data to produce complete power system models for the GB network

Identifies boundary transfer requirements and publishes SRFs

Conducts 'shadow' studies of some boundary analysis performed by the TOs to corroborate the TOs' analysis

Reviews reinforcement options and their cost estimates that the TOs propose

Develops options including but not limited to operational options, commercial agreements and Offshore Wider Works

Runs cost-benefit analysis studies and recommends options for further development

Publish NOA (Jan)

TO

Submits power system models of own network to the ESO for each year being modelled

Completes technical analysis of boundary capabilities of the base network and uplifts from reinforcement options

Proposes and develops reinforcement options and reduced-build options. Provides:

- technical information;
- cost information;
- outage and system access requirements;
- environmental information;
- consents and deliverability information.

TOs are given visibility of the alternative options developed by the ESO and they provide comments to these.

TO and ESO together agree option combinations to be included in NOA cost-benefit analysis

Conflicts of interest

Do ENSG agree with these conflicts?

- **TOs are already obliged to act fairly:**
 - Section 9 of the Electricity Act 1989: obligates TOs to provide non-discriminatory connections
 - Condition D5 of the electricity transmission licence: prohibits TOs from engaging in preferential or discriminatory behaviour.
- However, **those obligations do not address the following conflicts:**
 - TOs currently design the initial solution and will therefore have **influence over the tender specification**. TOs could unintentionally favour their own solutions, because that's what they're most familiar with.
 - TOs will have **advanced knowledge of the likely tender specification** (as their initial solution design with have driven the spec).
 - The TO may have **access to additional information** not available to other bidders.
 - **RIO funded resource** would be preparing the bid. This means TOs don't have to take the bidding cost risks that other bidders have to take.
 - TO will have **sight of other bidders proposals** in order to do feasibility assessments.

Conflict mitigation options

Are we considering the right options?

Transfer planning responsibility to the ESO

This would transfer responsibility for NOA needs identification & solution development.

It would also have implications for connections & interface assessment, and other planning functions (asset health, compliance).

Pros

Removes the conflicts.

Cons

Requires significant shift of responsibility and upskilling of the ESO.

Duplication, as TOs would need to retain skills in order to develop non-competed projects.

Ringfence TO bidding teams

Bidding teams must have:

- Managerial separation, no employees who are involved in the planning works.
- Info restrictions (restricted IT access, no access to other bidders info, physical restrictions).
- No RIIO funding.

ESO planning role strengthened for challenge of TO initial solutions, including involving stakeholders

Pros

Limited changes in roles and responsibilities.

Cons

TOs would retain a role in network planning and some stakeholders may continue to be concerned about conflicts of interest.

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Offshore Coordination

- Proposed ENSG paper and current thinking on Phase 2





Proposed ENSG paper

For agreement

Context and request for ENSG

At the last meeting a question was raised on whether ENSG could add value to the offshore coordination project by producing a report to go to BEIS and Ofgem. The following slide sets out a proposal for that report and timings.

A decision on whether to progress with the proposed report is invited from ENSG.

Proposed ENSG Offshore Coordination report

Overall aim of report:

Recommendations from ENSG for the ESO's phase 2 – for use by the ESO, BEIS and Ofgem

Scope of the report

The report would be based on ESO presentations on the proposed scope and ENSG's views of where the ESO should focus its efforts next.

It would cover the priority areas ENSG sees for the ESO to progress and any indications of timing from the group.

Timing of the report

It would be ideal if the report is completed by the end of November, if this fits with Alice McCormick's other work commitments. We will supplement the high level view of Phase 2 presented alongside this item at the 3 November meeting with a more detailed discussion at the 19 November meeting. We propose ENSG's report is written on the back of the 19 November discussion, during which clear messages and recommendations for it are developed.

The driver for this timing is that we are hoping to agree the scope of phase 2 and funding with BEIS and Ofgem by the end of November so would find the report most valuable within those timescales to feed into those discussions. We see there would still be value beyond this point to help shape our work, but a view on the overall scope would add most value in November.

BEIS will also be presenting on the Offshore Transmission Network Review at the 19 November meeting. ENSG could share a flavour of the discussions on Phase 2 with them in that meeting too.



Current thinking on Phase 2 scope

For discussion and feedback – ENSG's views are invited on the current thinking on the following two slides

Proposed deliverables for Phase 2

We've received verbal feedback via consultation, workshops and other routes:

- Indicates support for further work on the detailed changes needed to realise the benefits of offshore coordination
- Stakeholders are expressing the need to progress at pace and in a coordinated way in order to minimise impacts on coastal environments and communities

Phase 1 delivers a vision

Establishes conceptual network designs and the costs and benefits

Phase 2 delivers a plan or 'roadmap of actions'

Expands on technical analysis and cost benefit analysis

Explores tactical coordination opportunities

Establishes decisions and industry changes needed to achieve the vision

Proposed scope for Phase 2 (work in progress)

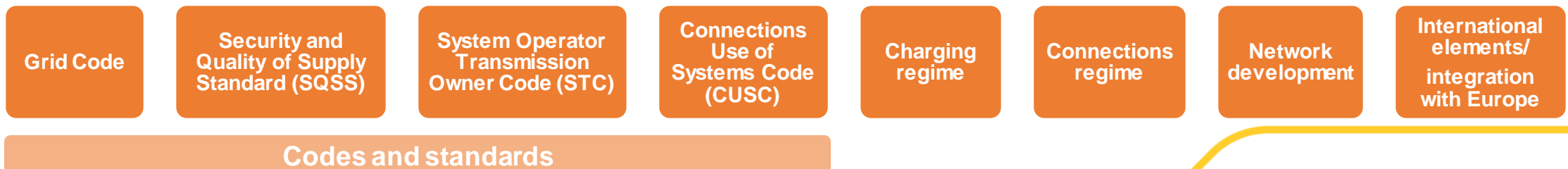
Overarching stakeholder engagement, including alignment with BEIS OTNR

1. Deliver further analysis and tactical coordination opportunities

- a. **More detailed technical work:** planning, coordination and operational studies
- b. **Extension to the cost benefit analysis from Phase 1:** assuring assumptions from Phase 1 and targeting greatest benefits
- c. **Tactical coordination opportunities** involving inflight connections

2. Through a roadmap of actions, establish necessary changes to codes and frameworks to achieve the vision set out in Phase 1

- a. Mapping out the details of changes and decisions that can be explored further at this point in time
- b. Identifying changes and decisions that require greater clarity on the end state for the integrated offshore regime, to be explored in more detail when that clarity is available



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