

Meeting minutes

ENSG

Date: 26/01/21	Location: Microsoft Teams
Start: 10:00	End: 13:00

Participants

Panel Chair	Dame Fiona Woolf	
	John Greasley (Interconnector)	James Dickson (OFTO)
	Andy Paine (Offshore Developer)	Douglas Allan (Onshore Developer)
	Marko Grizelj (Technology Supply Chain)	Cathy McClay (Existing Service Provider)
	Cher-Rae Fairlie (Ofgem)	Tania Davey (Local Environmental Groups)
	Hedd Roberts (TO)	Lynne Bryceland (DNO)
	William Black (Planning Representative)	
Early Competition Project Team Attendees	Hannah Kirk-Wilson (Network Competition Development Manager)	Rachel Payne (Stakeholder Lead)
	Sally Thatcher (Network Competition Policy Manager)	Mike Oxenham (Policy Development Manager)
Offshore Coordination Project Team Attendees	Rhiannon Marsh (Stakeholder Manager)	
Apologies	James Harris (Planning Representative)	Neil Copeland (Ofgem)
	James Norman (Ofgem)	Richard Clay (Seabed Manager)
	Ed Rees (Consumer Representative)	Darryl Murphy (Asset Investor)

Discussion and details

1. Previous minutes and actions

There were no additional comments on the minutes from the previous meeting.

Rachel requested that anyone who hasn't sent their bio and photo to do as soon as possible as the website is now live.

ACTION – Alice M to share a link to the ENSG website

Actions 9, 20, 21, 24, 28, 29 and 30 were all closed.

2. Early Competition

Hannah gave an overview of the responses to the Phase 2 consultation. It only received 7 written responses, though it had a lot of interest through the workshops. There were a few areas with a difference of opinion, mainly around how TOs compete. Two of the TOs submitted a proposal that it would be more appropriate that they would provide a counterfactual but the ESO position is still that all parties, including the TOs, should compete on the same basis. Some stakeholders have come back with what the role of TO should be and how to manage perceived conflicts of interest. They have said there is a need to understand the impact of any tender bid on the TOs' network without letting the TO influence the project identification/invitation to tender or the outcome in anyway. Some believe the TOs should not be able to compete at all.

There is more detail wanted for the post tender award costs assessment process, so the team provided more detail in the Phase 3 consultation. Not all costs can be passed through, so it is suggested that there is an upward adjustment cap, though the cap level has not been suggested yet.

James D said it would be useful to understand how the Phase 3 consultation has gone so far and what the views are on the engagement as there have been various sessions on the consultation. Hannah said they have been getting positive numbers and the sessions have been going well. 65 people have downloaded the consultation with 300 views of the news articles and 40 people attending the launch webinar. 20-25 people have signed up for each of the upcoming Q&A sessions. For other engagement, the team has worked with IPFA, to target some of the financial community as they were missing from the Phase 2 responses. Twitter is being used to communicate as well. Rachel said they have teamed up with the ESO Future Energy Scenario (FES) team and the ESO Electricity Ten Year Statement (ETYS) team to present how Early Competition may fit in with their annual publications and what the impact could be on the Networks Options Assessment (NOA). The team have asked attendees for feedback on the format of consultation and got a positive response.

James said he attended the IPFA webinar and thought it was good to get more engagement in that particular area.

Fiona said that the Phase 3 consultation is set out in a 'make them read it' format by asking general questions on whether the reader agrees at the end of each section. Fiona asked if there had been any feedback on whether it is a style that is more time consuming to respond to. Hannah said it is not something they have heard to date. They have tried to make questions straight forward to answer with a yes or no, but the team also didn't want to have too many questions. Rachel confirmed there has been no feedback yet and that they have tried to make it clear that respondents can respond with as little or much as they want.

Douglas asked whether it can be seen which individuals have downloaded the consultation, as he has downloaded it 5 times so far, so the 65 might not be individual hits. Rachel said she knows the count doesn't include ESO downloads, but she can find out if it counts individual downloads.

ACTION – Rachel to check how many individuals downloads of Phase 3

Commercial Model

Mike Oxenham led a Q&A on the proposed commercial model.

Fiona asked if everyone in the group was comfortable with the debt competition. James said there may be a risk of bid leakage where a party might be successful in the first stage and may have certain assumptions on what their outturn debt terms will be, but which prove not to be deliverable in the debt

competition. It is not clear how that will be resolved, whether the TRS will be amended or if the process is deemed incomplete and will need to be restarted from the beginning. A two-step process with debt competition could negate any benefit the party may bring in with financial structuring and eliminate any incentive to the preferred bidder to improve on the financing terms set out by the procurement body.

Mike said the procurement body will need to do some market soundings and research and will provide bidders with assumed terms of debt. Any change through the debt competition would be to the benefit of (or borne by, if there is adverse change) consumers. The current proposal limits the ability to differentiate between financial structuring. Mike said this approach may limit the competitive element for this aspect of the model but it remains the preferred approach. The team will be taking into account financial plans with a score and adjustment to TRS.

Fiona asked whether they are taking input from focussed infrastructure banks. Mike said they have had input from them and are hoping to get some responses from them to the detailed proposals. Mike confirmed they have been having conversations with the banks throughout the year to help inform their proposals. The banks didn't respond to the previous consultation. Uncertainty in the proposal is stemming from having one part fixed and another not fixed, but it does come down to bidders and equity providers.

Will asked if planning terms and performance bonds will allow a third party (e.g. funder) to step in and provide services. If someone installs a large set of infrastructure and walks away then someone else needs the right to step in to remove or operate it. This has been done for onshore windfarms but how would it be done more widely as part of Early Competition. Mike said if something goes significantly off plan, they could ensure there is some form of security to support the network need being met and to protect consumers, but they are finding it challenging to set an appropriate security level and that it needs more thought on how to get to the right number.

Douglas asked how incumbent TOs deal with risk. Mike said it is a slightly different risk, so there is no need for performance bonds. The ESO has securities in place with the generator but not with the TOs. The risk is mitigated in a different way as the incumbent TO can't walk away. Hedd agreed that it is not comparable.

James asked how Early Competition would be implemented in the context of project financed SPVs delivering this as the recipient of the TRS; is the expectation that this is essentially additional cash that is raised and put in a bank account as collateral to deliver the performance bond and has the team looked at what the implication might be to the project finance terms. Mike replied that in their proposal they set out a performance bond or some other equivalent form of security. The team have used the phrase bond but are not sure whether that means bond alone or whether something more similar to what exists for offshore is appropriate. For offshore, there is already a form of performance bond through the construction period in the codes set at 20% of the capital. It can be considered whether that is the correct number. For how securities are provided currently, it depends on the organisation's credit rating; at a certain level there is no need to provide security, otherwise there would be a need to provide a letter of credit or escrow, for example. Mike said there is the potential for doubling counting where the party may need to secure with their debt provider for the same risk, so it needs to be explored whether more than that which is necessary is being asked for.

Hedd asked about the length of need and asked if it will be adjusted on case by case basis for more innovative technologies and approaches coming along or for the finance (debt or equity) available. Mike said there are certain things that they need to continue to explore prior to the Ofgem decision. It needs to be considered further how to make the decision on how long the need is. The needs case will have the biggest influence on revenue stream length.

Project Identification and End to End Process

Sally led a Q&A on proposed project identification and the end-to-end process.

Hedd said he is concerned that the situation only becomes certain closer to the need identification and when the lead time has an impact on consumers. There is a risk that we get to the position where nothing is ever identified as we are waiting for things to become more certain and then it is too late. Sally said they will be looking at the FES scenarios as well as the NOA but it is an area that will be kept under review. They will consider what is coming through each year and will be trying to strike a balance between certainty of the need and identifying projects early enough for Early Competition.

Andy said the lack of certainty on deliverability has the risk of delivery, therefore extension management mechanisms are needed. So, there is a question of how you frame that and how certain you can get to the point of something going to external competition with net zero ambitions. Andy asked if there is a value threshold on the works for Early Competition. Sally said there are no value criteria proposed on the basis they don't have a reason to set a particular limit. As thinking continues to develop and costs of competing are better understood, it may lead to suggestions of a minimum value. Another angle is that the ESO is already running competitions for network Pathfinders and trying to learn from those processes.

James asked how it is envisaged to manage the process to fit in with the cyclical process of NOA, FES and ETYS on an annual basis and how these processes will interact with the process that will be done with Ofgem to launch a competition for a particular project. If it is longer than a year, the documents will be out of date. Sally said the pre-tender process will fit with NOA cycles. The process will be to identify that the project meets the criteria in the first year NOA, then by the second year NOA, assuming no major change, launch the ITT and the project will be frozen in the NOA in essence and will not be considered with further options as the ESO need to commit to high level solutions.

Fiona asked whether environmental and social implications are being considered. Sally said that she expects that their impacts will be a key feature of what is assessed.

James asked if comparing the winning bid against a more conventional RIIO model (counterfactual) solution is still being considered. Sally said they don't think that is a workable option; it would be difficult to have an option developed outside the competitive process.

Roles & Responsibilities and Early Competition in Distribution

Fiona said that allowing the TOs to compete enables them to offer their incumbent advantages, which could benefit consumers. There is added activity for the ESO coupled with ring fencing of the TOs' bidding teams. The TOs influence over the planning process is an issue. Fiona asked who currently does what in the NOA process. Sally said currently the TOs design connection agreements and carry out asset replacements. For the NOA process, the needs are identified by the ESO with input from the TOs. The ETYS process shows where the gaps are. The TOs then create a suite of options with input from the ESO. The Interested Persons Process fits in here. The team are starting to look at how stakeholders can put forward options in this options development process. Options go through the NOA assessment to see which combination of options produces the most economical solution. This then goes to the NOA committee where TOs also attend. The TOs should continue in this process as they have the expertise of their networks and planning teams. Fiona remarked that the ESO does not seem to have seriously considered building up the Network Planner capability to conduct this role independently, and that if there is an issue that the TOs believe the ESO is missing, no doubt they would bring this to the ESO's attention.

Fiona asked the group if they are in agreement on the ESOs proposals on TO conflict mitigation. James said the group had raised concerns regarding this in the past (which were not worth repeating again) however it is important to consider what the views of prospective bidders are in light of this approach to

include TOs and what this may do to their appetite to participate in the competition process. This will define the success of the proposed competition.

Hannah asked the group if there are any thoughts or views on the consultation in general. Lynne said from distribution prospective she agrees with what has been discussed so far. However, she is not clear on the roles of the ESO and DNOs (which are transitioning) in Early Competition, so the discussion needs to continue on this. For the TOs there doesn't seem to be any difference from Phase 2 to Phase 3 and that no rationale for this had been adequately provided. Lynne said that very recently the ESO has been engaging with them on what a counterfactual approach might be like and it would have been good if this had been put in the consultation. Sally said the ESO in their first consultation talked about the manner of TO competition, whereas the second consultation looked more at TO conflict mitigation. Lynne said SSE's and SPT's position is that they would prefer a counterfactual and it would have been good to explore it in the consultation to allow them to provide comments.

Fiona said in relation to the risks of conflict mitigation, it would be good to understanding better the opportunities for the risks to arise where the TOs could distort the level playing field in their favour. This could be by the way they take part in the process, how the Approver interacts and the way the ringfencing will work. This is to be debated at the next meeting.

ACTION – To discuss the role of the TO in Early Competition in the next meeting

3. Offshore Coordination Consultation Update**Phase 1 Report discussion**

Rhiannon gave an overview on the current position on Phase 2, where the ESO has funding until March 2021. The team are working closely with Ofgem and BEIS to agree the scope, responsibilities and deliverables for April 2021 onwards, and the ENSG report on Phase 2 scope has been shared with Ofgem as part of funding conversations. There have been some changes to the Phase 2 scope - the CBA has been removed after discussion with Ofgem. The time will be redirected to more value-add activities on the other workstreams. The workstreams have been restructured to align with OTNR. The workstreams are:

- Early opportunities
- Pathway to 2030
- Enduring regime
- Multipurpose interconnectors (work on this topic will span the other three workstreams)

Andy said it was good to see the workstreams aligned with OTNR and asked who sat on the Advisory Group. Rhiannon said she will send an email detailing the OTNR groups.

ACTION – RM to send email clarifying the ONTR groups

John said that the Expert Advisory Group seems to provide the same input for the OTNR as the ENSG for Offshore Coordination so the ESO should use the OTNR Expert Advisory Group.

Rhiannon went through slides 14 to 20 to give an overview of the Phase 1 stakeholder engagement to feed into the ENSG Offshore Coordination report.

Fiona asked Tania if she is happy about the way in which the environmental groups have been consulted. Tania said she was happy and had been engaged for Phase 1 and Phase 2. Tania also confirmed the OTNR Expert Advisory Group has environmental representatives. Tania also said that she had agreed

with the ESO to convene a meeting of relevant attendees for Phase 2 as was done for Phase 1. Tania said she was happy to support organising the meeting.

ACTION – ESO and Tania D to organise a Phase 2 environmental meeting.

Andy asked if the engagement strategy of Phase 2, will fall within the scope of this group (ENSG) until April or will it go to OTNR. Rhiannon said she doesn't know the detail of it yet but will take it away and come back to the group. Andy said that they don't want to get differing views of direction so there is some need for coordination.

Fiona said it would be good to clarify what the plans for engagement with ENSG are and that she can see that for both projects, Offshore Coordination and Early Competition, the need for ENSG to input could die away. Early Competition comes to an end with the final report due in April and OTNR and its governance structure does not need duplication through ENSG.

ACTION – Rhiannon to clarify what will be in scope of ENSG for Offshore Coordination input

James said that there is a suite of new projects coming along imminently, so how does the Phase 2 work plan to interact with the process for these new projects? Rhiannon said they will most likely get picked up in the early opportunities workstream and the team will be considering where upcoming projects can find benefit in coordination.

ACTION - Rhiannon to talk to Luke W about upcoming projects and feedback.

4. AOB

There was no AOB.

Fiona thanked the group members for attending and said she looked forward to the next meeting. Alice M confirmed the next two meetings are on 2nd March and 30th March.
