

Early competition plan

Phase 3 Consultation: Chapter 8, Appendices

December 2020



Contents



1	APPENDIX 1: STAKEHOLDER ENGAGEMENT	4
1.1	Section 1 – Enhanced stakeholder engagement approach	5
1.2	Section 2 – Summary of all events	6
1.3	Section 3 – How stakeholder feedback has shaped our plans	12
1.3.1	Roles and Responsibilities (Chapter 2)	12
1.3.2	Identifying Projects (Chapter 3)	18
1.3.3	Commercial Model (Chapter 4)	24
1.3.4	End-to-End process for early competition (Chapter 5)	34
1.3.5	Early competition and Distribution (Chapter 7)	63
1.4	Section 4 - Engagement approach	65
1.5	Section 5 – Stakeholder list	71
2	APPENDIX 2: ITT STAGE 2 TECHNICAL EVALUATION	72
3	APPENDIX 3: HEADS OF TERMS	74
4	APPENDIX 4: INDUSTRY CODES	75
4.1	Connection and Use of System Code ("CUSC")	76
4.2	System Operator-Transmission Owner Code (STC)	79
4.3	Other Codes, Standards and Considerations	88

5	APPENDIX 5: HIGH-LEVEL IMPLEMENTATION PLAN	89
6	APPENDIX 6: DISTRIBUTION	90
7	APPENDIX 7: GLOSSARY	93
8	APPENDIX 8: RESPONSE PROFORMA	94

1 Appendix 1: Stakeholder engagement

This appendix provides a summary of the key stakeholder feedback received during our Phase 2 and 3 stakeholder engagement, structured by key dimensions. We have shown how stakeholders' views have shaped the development of our Phase 3 consultation proposals on early competition.

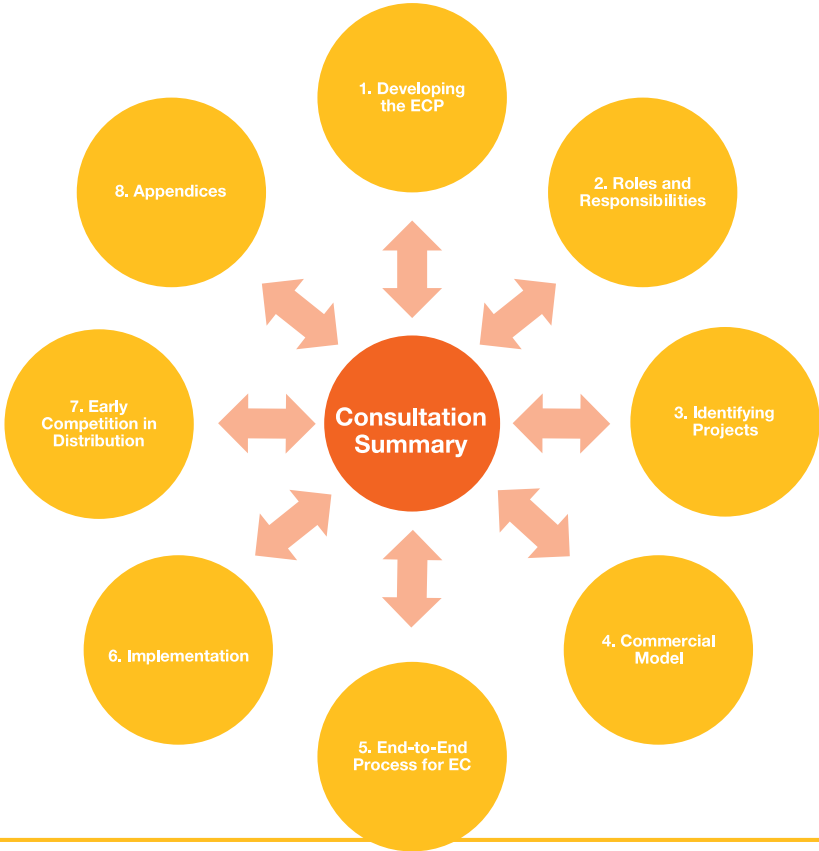
This appendix continues on from the You Said, We Did document published in November on our website¹ which reflects work completed up to October 2020.

The purpose of this document is to provide an update to reflect stakeholder feedback raised during our series of workshops in September/October 2020 and from our Phase 2 consultation. We have updated our 'ESO position ' on previously raised stakeholder feedback to reflect our latest views.

Our current views and proposals in this appendix reflect key messages from chapters of our Phase 3 consultation. We recommend that stakeholders refer to specific chapters for further details.

We have maintained the same structure to this appendix as the previously published You Said, We Did document. The feedback summarised in this document represents one of the key dimensions of early competition as shown in the diagram.

Chapters of our Phase 3 consultation:



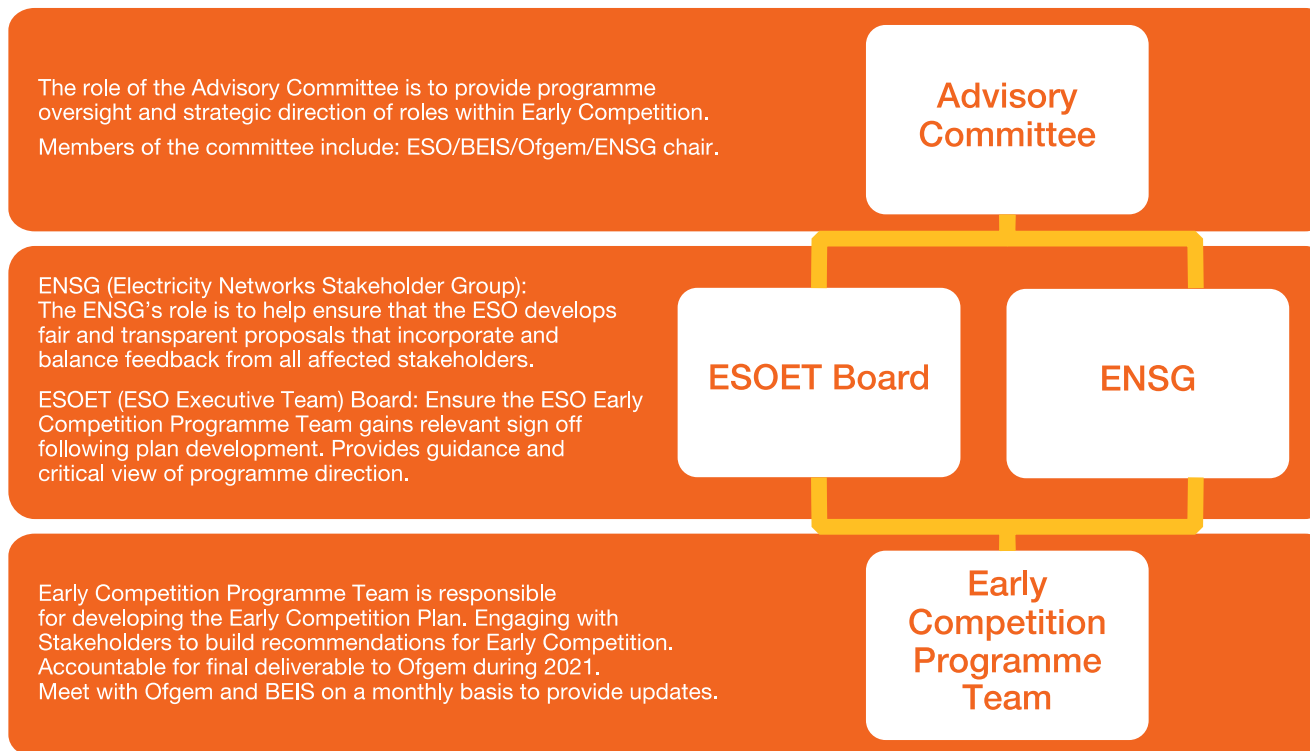
¹ <https://www.nationalgrideso.com/document/179971/download>

1.1 Section 1 – Enhanced stakeholder engagement approach

To ensure we are effectively co-creating the Early Competition Plan with our stakeholders in a fair and consistent way, we are challenged by the following groups:

- Internal ESO – ESO Executive Team (ESOET)
- External - Advisory Committee
- External – ESO Networks Stakeholder Group (ENSG)

Information on how these groups interact, and their role in Early Competition, please refer to the diagram below:



1.2 Section 2 – Summary of all events

i) Phase 1

Channel	Date	No. Attendees	Topics	Purpose of Discussion
Phase 1 Webinar	12 September 2020	20	Introduction to Early Competition	The focus of this webinar was to inform our stakeholders about the Early Competition Plan and how they can get involved
Phase 1 workshop	25 September 2020	15	Early Competition model development	The focus of this workshop was on the development and evaluation of early models of competition for design and build and design only models
Phase 1 workshop	22 October 2020	21	Early Competition model evaluation	The focus of this workshop was on the further refining the outputs from 25 September Workshop in the development of early models of competition for design and build and design only models
Phase 1 workshop	12 November 2020	19	Early Competition model evaluation	The focus of this workshop was on the further refining the outputs from 22 October Workshop in the development of early models of competition for design and build and design only models

Phase 1 Update Webinar	03 March 2020	17	Phase 1 update	To update stakeholders on the Phase 1 update to Ofgem
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ii)Phase 2

Channel	Date	No. Attendees	Topics	Purpose of Discussion
Phase 2 Workshops	04 May 2020	5	Tender Commercial - evaluation of commercial elements of proposals	The focus of this workshop was on the commercial evaluation criteria to assess bidders' proposals
	06 May 2020	4		
	14 May 2020	8		
	19 May 2020	2		
Phase 2 Workshops	04 May 2020	2	Tender Technical - Provision of Information	The focus of this workshop was on provision of network related information to allow tenderers to develop their bids
	07 May 2020	5		
	14 May 2020	4		
Phase 2 Workshops	05 May 2020	5	Tender Commercial - Procurement Process Steps and Timelines	The focus of this workshop was on the procurement process
	11 May 2020	8		
	14 May 2020	7		
	19 May 2020	3		
Phase 2 Workshops	05 May 2020	3	Tender Commercial - What do Winners Win	The focus of this workshop was on what is awarded to the winner of the procurement process and
	07 May 2020	4		
	12 May 2020	9		

	19 May 2020	2		and How is Risk Allocated	the risk allocation between the stakeholders
Phase 2 Workshops	06 May 2020	1		Tender Technical - What Could be Competed	The focus of this workshop was on assessing the eligibility of needs/projects for early competition
	12 May 2020	5			
	15 May 2020	5			
	18 May 2020	4			
Phase 2 Workshops	06 May 2020	2		Solution Delivery and Operations - Construction Works and Commissioning	The focus of this workshop was on the construction and commissioning stages
	13 May 2020	6			
Phase 2 Workshops	07 May 2020	3		Solution Delivery and Operations - Operations, Maintenance and Decommissioning	The focus of this workshop was on the operation, maintenance and decommissioning stages
	15 May 2020	2			
	18 May 2020	2			
Phase 2 Workshops	11 May 2020	5		Tender Technical - Evaluation of Technical Elements of Proposals	The focus of this workshop was on the technical evaluation criteria to assess bidders' proposals
	12 May 2020	5			
	13 May 2020	6			
Phase 2 Workshops	11 May 2020	3		Solution Delivery and Operations - Preliminary Works	The focus of this workshop was on the preliminary works stage. It covered payment options, incentives and risk allocation related to preliminary works
	13 May 2020	7			
	15 May 2020	6			
Phase 2 Consultation Launch	09 July 2020	26		Phase 2 Consultation Launch Webinar	The purpose of this webinar was to provide stakeholders with an

Phase 2 Consultation Launch	23 July 2020	16	Phase 2 Consultation Question & Answer Workshop	overview of our Phase 2 proposals and ask any clarification questions The purpose of this workshop was to provide an opportunity for stakeholders to ask any questions regarding our Phase 2 proposals ahead of consultation closure and / or verbally respond to the consultation
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iii) Phase 3

Channel	Date	No. Attendees	Topics	Purpose of Discussion
Phase 3 Workshops	17 September 2020 23 September 2020	10 9	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

Phase 3 Workshops	22 September 2020 (am)	7	Operational Incentives	The focus of this workshop was on the comparison of the availability-based operational incentives in the context of early competition
	22 September 2020 (pm)	6		
Phase 3 Workshops	23 September 2020	10	Information Provision	This 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
	30 September 2020	2		
Phase 3 Workshops	24 September 2020	7	Risk Allocation and Post-Preliminary Works Cost Assessment	The focus of this workshop was identifying how the proposed Post-Preliminary Works Cost Assessment process could be structured
	25 September 2020	7		
Phase 3 Workshops	24 September 2020	8	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 industry codes
	25 September 2020	7		

Phase 3 Workshops	29 September 2020	16	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
Phase 3 Workshops	1 October 2020 6 October 2020	8 5	ESO Role in Distribution	The focus of this workshop was to understand stakeholder views on what should be the ESO's Role in distribution
Phase 3 Workshops	15 October 2020	5	Interested Persons Process and Indicative Solution Identification Process follow up workshop	To address stakeholders' concerns raised in 29 September Indicative Solution Identification Process Webinar we arranged a follow up workshop with our colleagues from Network Planning. The focus of this workshop was on the Interested Persons process and how early competition will interact with this process

1.3 Section 3 – How stakeholder feedback has shaped our plans

This appendix provides a summary of the key stakeholder feedback received during our Phase 2 and 3 stakeholder engagement, structured by key dimensions. We have shown how stakeholders' views have shaped the development of our Phase 3 consultation proposals on early competition.

1.3.1 Roles and Responsibilities (Chapter 2)

The table below presents stakeholder feedback on the Roles and Responsibilities issues and how we are using stakeholder feedback to inform and shape our proposals. Feedback has been grouped by key subject areas. For reference, we have also retained our Phase 2 - Phase 3 positions on stakeholder feedback discussed in the November version of the You Said, We Did document. These positions are highlighted in italics below.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
There is a need for the process to be run by a single party from the start to finish to ensure accountability and consistency.	May workshop: <ul style="list-style-type: none"> Procurement Steps and Timelines 	<ul style="list-style-type: none"> TOs 	<p><i>In our Phase 2 consultation, we noted that we expect multiple parties to be engaged in the end to end process. For example, the Procurement Body will be responsible for the tender process and Ofgem will play the role of the Approver and Licence Counterparty. We are currently considering whether some roles can be owned by the same entities and discussing this with internal stakeholders. We also held workshops on the Roles in Early Competition in September and looked at the entities we proposed during Phase 2 and in our Thought Paper.</i></p> <p>We continue to propose in our Phase 3 consultation that either Ofgem, a Third Party or the ESO can carry out the procurement process. Further details are presented in Section 3, Chapter 2 - Roles and Responsibilities.</p>
A ring-fenced bidding entity of a TO will need stringent separation governance and reporting to ensure a level playing field.	May workshop: <ul style="list-style-type: none"> Evaluation of Technical 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>We are exploring the role of the TO and ESO in project identification, and we held workshops with TOs to discuss the role of the TO and what conflict mitigation measures may be required.</i></p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
TOs expect to have a role in the technical assessment and suggested that they could act as a party of last resort.	Elements of the Proposals	<ul style="list-style-type: none"> • TOs 	<p>One of the options we are exploring in our Phase 3 consultation is for TOs to continue to have a role in planning networks with bidding teams preparing TOs' bid teams would be ringfenced with conflict mitigation arrangements to ensure they do not have access to additional information, additional bid preparation time or other bidders' information. Under this option, the ESO would also need to play a strengthened role in reviewing TO proposed solutions in order to ensure they've considered the full range of potential solutions. Further details are presented in Section 6, Chapter 2 - Roles and Responsibilities.</p>
	<p>May workshop:</p> <ul style="list-style-type: none"> • Evaluation of Technical Elements of the Proposals 		<p><i>We noted in our Phase 2 consultation, we do not anticipate that TOs (or any other party) would be required to progress a backstop solution alongside the winning bid. We are, however, exploring the circumstances with the support of stakeholders (e.g. workshops with TOs and workshops on Roles in Early Competition) in which a TO of last resort might be required and how this could work.</i></p>
			<p>We propose in our Phase 3 consultation for TOs to run connections feasibility studies as part of the ITT (stage 1) bid assessment. These studies would be equivalent to the connections review under pathfinders or the optional feasibility study under the connections process. In terms of party of last resort, we currently propose for the 'OFTO of Last Resort' licence conditions and guidance to be extended to incorporate relevant 'CATO of Last Resort' provisions in respect of both tender process failures and issues with network solutions. Further details are presented in Section 5, Chapter 5 - End-to-End Process for EC and Section 4, Chapter 4 - Commercial Model.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
There is potential conflict of interest in relation to the ESO making recommendations on projects which are within the geographic responsibility of NGET.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p><i>The ESO is a separate legal entity from National Grid Electricity Transmission ("NGET") although both sit within the National Grid group. We work independently from NGET and any recommendations on projects will be made on an objective assessment of pre-defined criteria.</i></p>
Expressed concerns regarding the incumbent TOs participating in competitions as a market player as they will be taken outside the realm of the regulatory framework in which they are designed to operate.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p><i>Following our Phase 2 consultation, we held a series of workshops with TOs to explore the role of TO as a bidder and how would this role fit with their current obligations under the regulatory framework.</i></p> <p>We continue to propose that TOs should participate in the same process as other bidders since they are well placed to deliver competitive bids which benefit consumers. Incumbent TOs also have the potential to utilise their existing assets within their bid, which would not be the case if the TO's parent company participates through a separate entity. TOs competing in their non-incumbent area will also help increase competition. We also believe that TOs participating as a 'counterfactual' would present a number of challenges, stemming from the differences between the Revenue=Incentives+Innovation+Outputs ("RIIO") regime and potential competitive regimes. Further details are presented in Section 6, Chapter 2 - Roles and Responsibilities.</p>
TOs have a significant advantage over non-TO participants including connection process, energy cost, cost of capital, user charges, and land and development rights and the ESO should not rely on them for assessing network.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • Generators and other electricity market participants 	<p><i>Following our Phase 2 consultation, we held a series of workshops with TOs to explore the role of TO as a bidder and the potential conflicts of interest and mitigations to ensure that a level-playing field can be achieved.</i></p> <p>We continue to propose that TOs should participate in the same process as other bidders and that all qualified bidders should have access to the same relevant information as is available to the TO ring fenced bid teams.</p> <p>Through workshops, webinars and our Phase 2 consultation we have developed a position that the network related information used today by the ESO and TOs to develop initial</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
The ESO should have greater technical network understanding and data and not be reliant on incumbent TOs when assessing network needs and requirements.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Generators and other electricity market participants 	<p>desktop solutions is the right information and should be available to qualified bidders. Further details are presented in Section 3, Chapter 5 - End-to-End Process for EC.</p> <p>We are considering in our Phase 3 consultation whether some planning activities may need to be transferred to the ESO. Transferring this responsibility to the ESO would require a significant increase in resource and capabilities within the ESO. We also assume that TOs would continue to have planning responsibilities for connections, asset health and for progressing non-competed boundary reinforcement projects and that conflict mitigation arrangements can be put in place to address any advantages the TO may gain from its network planning role. Further details are presented in Section 6, Chapter 2 - Roles and Responsibilities.</p>
Views of who is best placed to take on the procurement body role are influenced by concerns over the ESO's perceived conflict of interest and overreliance on the incumbent TOs in this process.	September workshop: <ul style="list-style-type: none"> Roles in Early Competition 	<ul style="list-style-type: none"> Potential equity investors 	See above.
The Procurement Body or Approver should have the same statutory duties as a TO with respect to its licence obligation to develop an economic and efficient system.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	<p><i>We are having sessions with the Department for Business, Energy & Industrial Strategy ("BEIS") and Ofgem where the roles of the Procurement Body, Approver and the legal and regulatory frameworks are being discussed. We will provide an update of these developments once they are clarified.</i></p> <p>The discussions with BEIS and Ofgem are still ongoing and therefore we are unable to clarify the statutory duties of the Procurement Body and Approver in our Phase 3 consultation. We have, however, developed some initial views on potential regulatory changes no matter who takes on the role of</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
			Procurement Body in Section 3, Chapter 2 – Roles and Responsibilities.
The role of Approver, Licence Provider and Licence Counterparty must be carried out by Ofgem.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	<p><i>We anticipate for Ofgem to carry out the Approver Role and Licence Counterparty role (for network solutions), which also includes the role of Licence Provider.</i></p> <p>Our Phase 3 Consultation continues to support this view.</p>
Expect Ofgem to be the licence counterparty and effectively acting as the payment counterparty, but the payments will be settled by an external entity (ESO).	September workshop: <ul style="list-style-type: none"> Roles in Early Competition 	<ul style="list-style-type: none"> Potential equity investors 	We anticipate Ofgem to carry out the Approver Role and Licence Counterparty roles (for network solutions), while the ESO is minded to carry out the Payment Counterparty role. Further details are presented in in Section 2, Chapter 2 – Roles and Responsibilities.
The roles should be consistent with the ESO’s licence and the existing regulatory regime.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	<p><i>We currently mapped out if licence and code changes may be required in order for early competition to work based on discussions with relevant code bodies.</i></p> <p>We started to consider the potential changes to industry codes which could be required as a result of our early competition proposals. These are set out in detail in Chapter 8 - Appendix 4. Overall, we expect that required changes to industry codes will be 'significant but deliverable'.</p>
Where the ESO does not have a strong understanding of the technical properties of a new solution, an Independent Technical Expert should be used.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Generators and other electricity market participants 	<i>Following this feedback, we worked on specifying what the Procurement Body roles would be and considered whether it may need to rely on third party advisers to complete the evaluation process. Currently we expect that the Procurement</i>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
			<i>Body will have resources and capabilities held in-house to complete technical assessments.</i>
Ofgem and the ESO should share the procurement body responsibilities.	September workshop: <ul style="list-style-type: none"> Roles in Early Competition 	<ul style="list-style-type: none"> TOs 	We are further exploring the role of the Procurement Body and the Approver in our Phase 3 consultation. We are considering whether the activity of independent assurance is required to carry out activities in an objective manner and in the best interest of consumers, as for example, quality assurance of the procurement process. Further details are presented in in Section 3, Chapter 2 – Roles and Responsibilities.
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	September workshop: <ul style="list-style-type: none"> Roles in Early Competition 	<ul style="list-style-type: none"> Potential equity investors 	We consider that either Ofgem, a Third Party or the ESO can carry out the role of Procurement Body. We are currently minded to propose that we take the role of Payment Counterparty and Contract Counterparty, which will reduce the number of parties involved in the process. Further details are presented in Sections 4 and 5, Chapter 2 - Roles and Responsibilities.
Roles should fit and align with Ofgem’s current statutory duties.	September workshop: <ul style="list-style-type: none"> Roles in Early Competition 	<ul style="list-style-type: none"> Public Sector stakeholder 	We propose Ofgem carries out the Approver Role and Licence Counterparty roles (for network solutions), which also includes the role of Licence Provider. We consider these to fit with Ofgem's current statutory duties. Further details are presented in Section 2, Chapter 2 - Roles and Responsibilities.
Credit ratings should also be considered in order to determine appropriate party to carry out the payment counterparty role.	September workshop: <ul style="list-style-type: none"> Roles in Early Competition 	<ul style="list-style-type: none"> TOs 	We considered the need to have an acceptable credit rating to carry out the Payment Counterparty role as one of disadvantages when looking at a Third Party to deliver this role. We propose the ESO is minded to carry out the Payment Counterparty role, subject to the appropriate remuneration, reward and liability framework. Further details are presented in Section 5, Chapter 2 - Roles and Responsibilities.
The ESO should focus on stronger coordination to keep the procurement body and Ofgem	September workshop:	<ul style="list-style-type: none"> TOs 	We are currently proposing that all parties will deliver obligations within their defined roles and work together for the overall success of the early competition. We will consider

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
within the boundaries of their defined roles.	<ul style="list-style-type: none"> Heads of Terms and Industry Code Impacts 		stakeholder feedback on this consultation when developing further details on the Procurement Body and Ofgem's roles in early competition. Further details are presented in Section 2, Chapter 2 - Roles and Responsibilities.

1.3.2 Identifying Projects (Chapter 3)

The table below presents stakeholder feedback on Project Identification issues and how we are using it to inform and shape our proposals. Feedback has been grouped by key subject areas. For reference, we have also retained our Phase 2 - Phase 3 positions noted in the November version of the You Said, We Did document. These positions are highlighted in italics below.

Project Identification

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
The ESO should consider what the project pipeline will look like.	May workshop: <ul style="list-style-type: none"> Early Competition criteria, what could be competed? 	<ul style="list-style-type: none"> Potential equity investors Construction companies TOs 	<p><i>We set out criteria for identifying projects suitable for early competition in our Phase 2 consultation. We held Indicative Solutions and Interested Persons workshops following our Phase 2 consultation with external stakeholders to refine the criteria. We also investigated internally with our colleagues in Network Options Assessment ("NOA") and network planning teams to identify a potential pipeline of projects suitable for early competition.</i></p> <p>The pipeline of projects for early competition is expected to emerge in coming years. In our Phase 3 consultation, for illustrative purposes, we set out a list of projects from NOA 2019 that would meet our certainty, new and separable criteria for early competition (Table 1, Chapter 3 - Identifying Projects). Given legislation is not yet in place for competition, these specific projects may be too far progressed to be competed by the time a competitive regime is in place.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Certainty of the proposed needs should also be considered.	<p>May workshops:</p> <ul style="list-style-type: none"> • Early Competition criteria, what could be competed? • Construction Works and Commissioning 	<ul style="list-style-type: none"> • Potential equity investors • TOs 	<p><i>In our Phase 2 consultation, we noted that projects with greater certainty of need would be better suited to competition to avoid the risk of system needs changing during the competition process. We are therefore considering whether a meaningful assessment of certainty could be developed through our NOA process. We held Indicative Solutions and Interested Persons workshops following our Phase 2 consultation with external stakeholders and internally with our colleagues in NOA and network planning teams to refine criteria for identifying projects suitable for early competition.</i></p> <p>In order to provide sufficient confidence that the network need will not disappear, we propose in our Phase 3 consultation that the project should be required in more than one Future Energy Scenario ("FES") scenario. Further details are presented in Section 2, Chapter 3 - Identifying Projects.</p>
Placing a lower limit is not necessary and schemes which are worth between £10m and £20m can still deliver value for customers.	<p>May workshop:</p> <ul style="list-style-type: none"> • Early Competition criteria, what could be competed? 	<ul style="list-style-type: none"> • Potential equity investors • Generators and other electricity market participants 	<p><i>We agree with this and are not recommending a value limit for early competition. Our pathfinder projects and examples from the US demonstrate that value can be gained from competing low value projects.</i></p> <p>We confirm that we do not recommend imposing a minimum value threshold in our Phase 3 consultation.</p>
Asset replacement projects should not be included in early competition.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p><i>We are considering whether and how early competition could be applied to asset replacement. Following our Phase 2 Consultation, we held Indicative Solutions and Interested Persons workshops with external stakeholders and investigated internally with our colleagues in NOA and network planning teams the potential criteria to identify a potential pipeline of projects suitable for early competition.</i></p> <p>We do not propose to specifically exclude asset replacement projects from the scope of competition. However, asset</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
TOs should have active involvement in the process of assessing the eligibility of projects as they need to ensure that the solutions are deliverable and enable them to continue to meet their licence obligations.	May workshop: <ul style="list-style-type: none"> • Early Competition criteria, what could be competed? 	<ul style="list-style-type: none"> • TOs 	<p>replacement schemes will typically involve utilising existing assets in part and so suitable projects are likely to be rare in early competition as most won't be 'new or separable'. Further details are presented in Section 2, Chapter 3 - Identifying Projects.</p> <p><i>In our Phase 2 consultation, we proposed we expect Transmission Owners ("TOs") to competitively bid into the process and therefore TOs involvement in assessing the eligibility of projects will be limited. Following our Phase 2 consultation, we held a series of workshops with TOs to explore the role of the TO in terms of network planning and as a bidder. We also discussed what the potential conflicts of interest and mitigations could be.</i></p> <p>We propose in our Phase 3 consultation that TOs will continue their role in network planning to propose solutions and propose the ESO will make recommendations to Ofgem on whether the competition criteria have been met. Further details are presented in Section 6, Chapter 2 - Roles and Responsibilities.</p>
Interaction of the Transmission Owner ("TO") and the ESO during the project identification process will be critical.	May workshop: <ul style="list-style-type: none"> • Early Competition criteria, what could be competed? 	<ul style="list-style-type: none"> • Potential equity investors 	See above.
Absolute clarity on which parts of the network will be subject to competition and which won't be key for potential bidders.	September workshop: <ul style="list-style-type: none"> • Indicative Solution Identification Process 	<ul style="list-style-type: none"> • Potential equity investors 	Our Phase 3 consultation sets out our views on which projects could be competed. We anticipate most projects suitable for early competition will emerge through the boundary reinforcement planning process (i.e. the NOA process). These projects would require assessment against our proposed Cost Benefit Assessment ("CBA") approach

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
			once a competitive framework is in place. Further details are presented in Section 2, Chapter 3 - Identifying Projects.

Early verses Very Early Competition

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
The ESO should consider how early competition will fit with stability, voltage processes and with the current pathfinders process.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p><i>Following our Phase 2 consultation we invited stakeholders to our Indicative Solution Identification Process workshop to discuss the interaction between pathfinders, interested persons process and early competition. Stakeholders expressed concerns around the interested persons process and based on this we invited stakeholders back to a further session with experts from the interested persons process.</i></p> <p>We propose that our pathfinder process will be merged with, or aligned to, our early competition process. The extent to which this is appropriate depends on ongoing learnings for both processes. Further details are presented in Section 2, Chapter 3 - Identifying Projects.</p>
The competition should not be limited to non-network solutions. Alternative solutions such as Virtual Transmission Lines can be provided by batteries.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • Generators and other electricity market participants 	<p><i>We are interpreting this stakeholder feedback to refer to both non-network and network solutions. Our Phase 2 consultation position was network and non-networks solutions would be able to compete for the same need, and we consider this to be our final position.</i></p> <p>Our Phase 3 consultation continues to support this view.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
The ESO should not delay efficient solutions by incumbent network companies because of a lack of market appetite.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	<p>We are interpreting this feedback to be directly related to our Phase 2 consultation proposal which stated market appetite and urgency of need form part of the criteria for the timescales required to compete a need. Following this feedback, we have further investigated what criteria may be most appropriate, which we explored with stakeholders at the Indicative Solutions and Interested Persons workshop.</p> <p>We propose that a CBA should be undertaken on each project before a decision is made to compete it. This is to help make sure consumer benefit is gained through the competition. We also propose that market appetite would help inform whether the benefits can be realised. Further details are presented in Section 2, Chapter 3 - Identifying Projects.</p>
The ESO should ensure that sufficient timeframes are set in the planning exercise in order to allow new entrants to participate in the process.	September workshop: <ul style="list-style-type: none"> Indicative Solution Identification Process 	<ul style="list-style-type: none"> Potential equity investors 	<p>We believe that projects should only be competed where there is sufficient time to do so without incurring disproportionate consumer costs. This includes the time taken for market engagement. Our timeframes assume that market engagement will typically take around 12 months for large projects. Further details are presented in Section 2, Chapter 3 - Identifying Projects.</p>
In other regions where there are multiple transmission owners embedded in the market, planning processes are undertaken by independent parties.	September workshop: <ul style="list-style-type: none"> Indicative Solution Identification Process 	<ul style="list-style-type: none"> Public Sector stakeholder 	<p>We propose that the TOs should continue their role in network planning, with a strengthened role for the ESO to review TO proposals and seek stakeholder input. Suitable ringfencing of bidding teams would be required if TOs wish to participate in the competition. We do not think it is proportionate to establish a new organisation to undertake planning functions for the purpose of early competition. Further details are presented in Section 6, Chapter 2 - Roles and Responsibilities.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Exploring the need at a very early stage should not require a substantive amount of investment and time.	May workshop: <ul style="list-style-type: none"> • Provision of Information to Allow Proposal Development 	<ul style="list-style-type: none"> • Generators and other electricity market participants 	Chapter 3 - Identifying Projects, Section 2.3 considers how stakeholder engagement prior to the Network Options Assessment ("NOA") might be undertaken in order to minimise the time required from stakeholders.

1.3.3 Commercial Model (Chapter 4)

The table below presents stakeholder feedback on the Commercial Model issues and how we are using it to inform and shape our proposals. Feedback has been grouped by key subject areas. For reference, we have also retained our Phase 2 - Phase 3 positions on stakeholder feedback discussed in the November version of the You Said, We Did document. These positions are highlighted in italics below.

Commercial Model

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Financial investors' engagement at an early stage will be challenging and there may be low interest in the market if investors will be asked to hold their terms.	May workshop: <ul style="list-style-type: none"> Procurement Steps and Timelines 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation we set out our preferred option on which costs should be fixed at bid stage. We are currently reviewing stakeholder feedback on the funding and revenue arrangements from our Phase 2 consultation, as well as discussing our commercial model with Ofgem.</i></p> <p>The preferred option remains unchanged in our Phase 3 consultation. Stakeholders should refer to Chapter 4 - Commercial Model, Section 3 for further details on the costs proposals.</p>
A licence should be in line with the existing Transmission Owners ("TOs") situation for network solutions, but contracts may be needed for non-network solutions.	May workshop: <ul style="list-style-type: none"> What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> TOs 	<p><i>In our Phase 2 consultation, we noted that further consideration may be required where non-network solutions are being delivered by non-licensees under a commercial contract. Following our Phase 2 consultation, we held workshops on Heads of Terms and Industry Code Impacts.</i></p> <p>Based on stakeholder feedback, we agree in our Phase 3 consultation that alignment between network solutions and non-network solutions requires careful consideration, but we note that we are not seeking to fully harmonise arrangements. In some cases, it might be appropriate for non-network solutions to have different obligations under contract and code than network solutions have under licence and code.</p> <p>Further details are presented in Section 4, Chapter 4 - Commercial Model.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
The duration should be set to a term that is most financially efficient if the aim is to get the lowest financing cost.	May workshop: <ul style="list-style-type: none"> What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we set out options for the length of the revenue period and we identified our preferred option. We are currently reviewing stakeholder feedback as well as discussing our commercial model with Ofgem to determine the appropriate revenue period.</i></p> <p>Our preferred option remains the same as in our Phase 2 consultation, which proposed to set the revenue period equal to the length of the need and to cap the length of any revenue period to 45 years, in line with Revenue=Incentives+Innovation+Outputs ("RIIO")-2. We also consider that it would be appropriate to allow for this to be adjusted on a case-by-case basis for each tender. Further details are presented in Section 2, Chapter 4 - Commercial Model.</p>
Duration beyond 20 years may be challenging for banks, 25 years may be achievable for bonds and longer-term arrangements may be achievable via institutional investors.	May workshop: <ul style="list-style-type: none"> What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> Potential equity investors 	See above.
The revenue period is not related to the length of network need. This could limit the introduction of new technology on the network and reduce value for consumers.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Generators and other electricity market participants 	See above.
If an asset has a longer life than the licence/contract, then it is most likely that bidders will look to recover all their costs in the licence/contract period.	May workshop: <ul style="list-style-type: none"> What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> Potential equity investors 	<i>There is the possibility that at the end of the revenue period the solution will have some remaining technical life. In such circumstances, it may be of value to the consumer to delay the decommissioning (or, potentially, redeployment) of the solution with an extension.</i>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
			Our preferred option proposed in Phase 3 consultation is to set out in the original contract or state as policy with regards the licence the basis on which an extension would take place. This would include agreement on the basis for calculating the new Tender Revenue Stream ("TRS") for the extension period. Further details are presented in Section 2, Chapter 4 - Commercial Model.
Extending contracts should be considered if the asset is longer than the contract life.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Potential equity investors 	See above.
There should be a mechanism to extend the licence/contract.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs Construction companies Potential equity investors 	See above.

Revenues

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
A tender revenue stream ("TRS") model is a simpler and more flexible revenue model.	May workshop: <ul style="list-style-type: none"> What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, our preferred option was the TRS model. We are currently reviewing the arrangements under the Regulated Asset Base ("RAB") and TRS models.</i></p> <p>Based on the stakeholder feedback we reviewed the rationale for a TRS type revenue model and noted in our Phase 3 consultation that we continue to think a TRS type revenue model is best suited to early competition. Further details are presented in Section 2, Chapter 4 - Commercial Model.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
TRS model may be more appropriate for a single/discreet asset or solution, rather than a portfolio of assets.	May workshop: <ul style="list-style-type: none"> What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> Potential equity investors 	See above.
There is no robust justification as to why the TRS type revenue model is the appropriate approach for early competition.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	See above.
Revenue model should provide cost certainty and protect against volatility and be clear enough for bidders to assess costs and anticipated rates of return.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	See above.
All bidders, including those with an existing regulated asset base ("RAB"), should get the same revenue model for any successful bid to ensure a level playing field.	May workshop: <ul style="list-style-type: none"> What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we noted the importance of level playing field for all bidders. We expect that one approach to the revenue stream will be developed and applicable to all bidders. Following our Phase 2 consultation, we are reviewing stakeholder feedback and discussing potential commercial model arrangements with Ofgem.</i></p> <p>Based on the stakeholder feedback we reviewed the rationale for a TRS type revenue model and noted in our Phase 3 consultation that we continue to think a TRS type revenue model is best suited to early competition. Further details are presented in Section 2, Chapter 4 - Commercial Model.</p>
Revenue stream needs to have in-built flexibilities comparable to the TOs' regulatory models to ensure a level playing field.	May workshop: <ul style="list-style-type: none"> Procurement Steps and Timelines 	<ul style="list-style-type: none"> TOs 	See above.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
TOs are designed to operate under the enduring framework, which influences the way they put forward their business plans.	September workshop: <ul style="list-style-type: none"> Roles in Early Competition 	<ul style="list-style-type: none"> TOs 	See above.
Regular, milestone-based payments during preliminary works would help keep costs down.	May workshop: <ul style="list-style-type: none"> Preliminary Works Phase 2 Consultation feedback	<ul style="list-style-type: none"> Potential equity investors TOs Generators and other electricity market participants 	<p><i>We expect that milestone-based payments may be applied to the preliminary works. As considered in our Phase 2 consultation, one option would be to pay a fixed value or proportion set by the procurement body as part of the tender process. Following our Phase 2 consultation feedback, we held discussions with Ofgem on options for the commercial model.</i></p> <p>Our current preferred option is to have some form of revenue for the successful bidder during the preliminary works period. To avoid distorting the tender process, we propose that this revenue would be in a form of fixed payments (set for each tender) at set points during the preliminary works period. Further details are presented in Section 2, Chapter 4 - Commercial Model.</p>
A combination of fixed and flexible payments with a milestone mechanism could be beneficial to a wider range of solutions.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Potential equity investors 	See above.
Starting revenues at operation would strongly incentivise timely completion.	May workshop: <ul style="list-style-type: none"> Construction Works and Commissioning 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we noted that TRS commencing upon commissioning of the works and the solution becoming operational is our preferred option.</i></p> <p>Our view remains the same in our Phase 3 consultation. Please refer to Section 2, Chapter 4 - Commercial Model for further details on the proposed revenue period.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
It may be appropriate to make some payments during construction.	May workshop: <ul style="list-style-type: none"> Construction Works and Commissioning 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we generally do not believe that payments throughout the solution delivery/construction period are necessary. We are keeping this under review as we consider wider stakeholder feedback on the commercial model.</i></p> <p>While we do not think payments during construction period are necessary in most cases, we note in our Phase 3 consultation that for projects with very long delivery periods this may be an option to consider when a tender is launched. Further details are presented in Section 2, Chapter 4 - Commercial Model.</p>
For non-network solutions, the bidders should be able to participate in other revenue streams.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Construction companies Generators and other electricity market participants 	<p><i>Following stakeholder feedback, we have held discussions with internal ESO colleagues to assess in which circumstances this scenario would be applicable to early competition.</i></p> <p>We continue to think that a TRS should be the default revenue model for all bidders, however we do not think adopting this model necessarily prevents bidders from participating in other revenue opportunities. As we develop the details of early competition, we recognise the desirability of the model being able to accommodate revenue stacking opportunities, to the extent possible. Further details are presented in Section 2, Chapter 4 - Commercial Model.</p>

Costs

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Deciding when bidders will need to commit to final costs is key.	May workshop: <ul style="list-style-type: none"> Evaluation of Commercial Elements of the Proposals 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>We agree with stakeholder feedback and considered it in our development of the proposed fixed and variable cost elements within the Tender Revenue Stream in our Phase 2 consultation. Following our Phase 2 consultation, we reviewed</i></p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Bidders need to be incentivised to give accurate costs at bid and cannot have total flexibility to pass through cost increases.	May workshop: <ul style="list-style-type: none"> • What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> • Potential equity investors 	<p><i>stakeholder feedback and held workshops on Risk Allocation and Post-Preliminary Works Cost Assessment.</i></p> <p>We continue to believe that underlying costs should remain 'indicative' (or 'adjustable') at point of award and become fixed (for the most part) through a Post-Preliminary Works Cost Assessment process. Further details are presented in Section 3, Chapter 4 - Commercial Model.</p>
Fixing costs at an early stage of the competition will lead to risk premium as that uncertainty would be priced in the bids.	May workshop: <ul style="list-style-type: none"> • Evaluation of Commercial Elements of the Proposals 	<ul style="list-style-type: none"> • Potential equity investors 	<p><i>We agree with stakeholder feedback and considered it in our development of the proposed fixed and variable cost elements within the Tender Revenue Stream in our Phase 2 consultation. Following our Phase 2 consultation, we reviewed stakeholder feedback and held workshops on Risk Allocation and Post-Preliminary Works Cost Assessment.</i></p> <p>Our current view in the Phase 3 consultation based on stakeholder feedback is that the most appropriate mechanism for the Post-Preliminary Works Cost Assessment process will be a form of 'economic and efficient' review process with some form of upward adjustment cap to contain costs. Where the economic and efficient value of a cost change is allowed there will be a test in relation to the cumulative impact of those changes. Any cumulative costs exceeding the TRS adjustment cap will not be considered and so will not result in further upward adjustment to the TRS. This will provide an incentive to provide accurate costs at bid stage. Further details are presented in Section 3, Chapter 4 - Commercial Model.</p> <p><i>In our Phase 2 consultation we explored what should be the right balance between fixed and variable costs elements that will enable the procuring body to minimise the overall risk of this process. Following our Phase 2 consultation, we reviewed stakeholder feedback and held workshops on Risk Allocation and Post-Preliminary Works Cost Assessment.</i></p> <p>We continue to believe that underlying costs should remain 'indicative' (or 'adjustable') at point of award and become fixed</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
The ESO should develop clear guidance on whether potential future changes to the costs will be categorised into permissible and non-permissible costs.	September workshop: <ul style="list-style-type: none"> Risk Allocation and Post-Preliminary Works Cost Assessment 	<ul style="list-style-type: none"> Potential equity investors 	<p>(for the most part) through a Post-Preliminary Works Cost Assessment process. Further details are presented in Section 3, Chapter 4 - Commercial Model.</p> <p>We agree with stakeholders that it will need to be clear up front how the Post-Preliminary Works Cost Assessment would work so that this could be factored into their bid TRS. We therefore see a need for the Contract and Licence Counterparties to develop a common methodology to publish within common guidance which would be available to potential bidders in advance of the start of a tender process. Further details are presented in Section 3, Chapter 4 - Commercial Model.</p>
'Economic and efficient' assessment of cost is too uncertain and the open book and incentives approaches are better.	May workshop: <ul style="list-style-type: none"> Evaluation of Commercial Elements of the Proposals 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation we set out options for cost assessment and noted that we will further explore them as part of Phase 3 work.</i></p> <p>Whilst we acknowledge this feedback we think that the most appropriate mechanism for the Post-Preliminary Works Cost Assessment process will be a form of 'economic and efficient' review with some form of upward adjustment cap to contain costs. We are proposing a three-stage process whereby any underlying costs within the scope of the cost assessment are considered on a case-by-case basis, whether they relate to an increase or decrease to the relevant costs. Further details are presented in Section 3, Chapter 4 - Commercial Model.</p>
ESO should consider a cost cap for the construction costs, supported by a form of bid bond.	May workshop: <ul style="list-style-type: none"> What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we discussed potential use of caps and bonds in relation to managing cost increases after the bid stage.</i></p> <p>Based on Phase 2 consultation feedback and comments received during Phase 3 workshops, we propose that where the economic and efficient value of a cost change is allowed, there will be a test in relation to the cumulative impact of those changes. Any cumulative costs which exceed the set tender</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
An introduction of a standardised cap, which excludes potential project's nature and complexity, would not be the right approach.	September workshop: <ul style="list-style-type: none"> Risk Allocation and Post-Preliminary Works Cost Assessment 	<ul style="list-style-type: none"> Potential equity investors 	<p>revenue stream adjustment cap will not be considered and therefore will not result in further upward adjustment to the TRS. We also continue to believe that a performance bond or other form of acceptable security will be required up until the solution is commissioned. We do not yet have a view on the appropriate value of a performance bond, but we expect that the value could be different throughout the preliminary works stage than it would be in the solution delivery/construction stage. Further details are presented in Section 3, Chapter 4 - Commercial Model.</p> <p>We consider that the cap should be uniform for all bidders and set as a percentage of the TRS amount bid to allow for the direct comparison of bids. We recognise that different potential solutions will have inherently different levels of uncertainty around their underlying costs, but we think it is of benefit to consumers to push that risk back on to bidders. Further details are presented in Section 3, Chapter 4 - Commercial Model.</p>
It is unlikely that debt finance will hold an offer for a period of longer than 6-12 months and that it is unlikely that the supply chain would hold prices for longer than 3-6 months.	May workshop: <ul style="list-style-type: none"> What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation we proposed that once the preliminary works are completed, and costs are fixed, a debt funding competition would be run to establish actual margins and fees.</i></p> <p>Our preferred option is for the Procurement Body to provide debt assumptions at the bid stage and for a debt competition (followed by Financial Close) to fix final debt terms. We set out key terms that the Procurement Body would need to provide to bidders at Invitation to tender ("ITT") - stage 2 in Table 3 of Chapter 4 - Commercial Model.</p>
Debt funders might be less interested in the early competition model due to additional uncertainty compared to other options.	May workshop: <ul style="list-style-type: none"> What Winners Win and How Risk is Allocated? 	<ul style="list-style-type: none"> Potential equity investors 	See above.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
<p>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.</p>	<p>September workshop:</p> <ul style="list-style-type: none"> Risk Allocation and Post-Preliminary Works Cost Assessment 	<ul style="list-style-type: none"> Potential equity investors 	<p>Our preferred position is to split the technical and commercial assessments. We presented in our Phase 3 consultation that at ITT (stage 1) bidders will submit a conceptual design of needs to demonstrate that it meets the need and confirm the suitability of the proposed technology. At the ITT (stage 2), bidders will be expected to submit initial designs, detailed cost estimates, delivery plans and supply chain strategies based on which the quality of the plans, cost and financing efficiencies will be assessed. Further details are presented in Sections 5 and 6, Chapter 5 - End-to-End Process for EC.</p>

1.3.4 End-to-End process for early competition (Chapter 5)

The table below presents stakeholder feedback on the End-to-End process issues and how we are using it to inform and shape our proposals. The feedback has been grouped by key subject areas. For reference, we have also retained our Phase 2 - Phase 3 positions on stakeholder feedback discussed in the November version of the You Said, We Did document. These positions are highlighted in italics below.

Pre-Tender Launch

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
There will be benefit in market engagement events run by the ESO to help bidder networking in the initial stages of the early competition.	May workshops: <ul style="list-style-type: none"> • Procurement Steps and Timelines • Evaluation of Commercial Elements of the Proposals 	<ul style="list-style-type: none"> • Potential equity investors 	<p><i>In our Phase 2 consultation, we noted that our preferred option is to run project information and networking events. Following our Phase 2 consultation, we considered large UK utility procurement precedents in evaluating the costs and benefits of pre-tender activities.</i></p> <p>We expect that the Procurement Body will run pre-tender market engagement for bidders to develop a detailed understanding of what knowledge they will need to prepare a quality tender submission, including project information and procurement support. Further details are presented in Section 3, Chapter 5 - End-to-End Process for EC.</p>
Market engagement could be started at the very early stage to inform the tender process.	May workshop: <ul style="list-style-type: none"> • Provision of Information to Allow Proposal Development 	<ul style="list-style-type: none"> • Potential equity investors 	<p><i>In our Phase 2 consultation, we noted that there are benefits of running pre-tender market engagement activities, such as greater levels of participation and reduction of a financial burden on potential bidders. Following our Phase 2 consultation, we considered large UK utility procurement precedents in evaluating the costs and benefits of pre-tender activities.</i></p> <p>We propose that market engagement will begin at the 'very early' stage i.e. prior to the Network Options Assessment ("NOA"). Chapter 3 - Identifying Projects, Section 2.3 sets out how this might be facilitated.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
The ESO also needs to consider the balance of additional pre-tender activities and the associated time/cost with the impact of further delay to the commencement of the project.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p><i>Following our Phase 2 consultation, we considered large UK utility procurement precedents in evaluating the skills and resources required for pre-tender activities. These will form part of our costing and implementation plan for early competition.</i></p> <p>We have considered the balance of pre-tender activities and set out in Chapter 5 - End-to-End Process for EC, Section 2.1 the activities that we think are required.</p>
The ESO shall consider and address the level of stakeholder engagement that early competition will entail and ensure that it is properly skilled and resourced to undertake such engagement.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p>See above. Resourcing and skill requirements for these activities will be set out in our final Early Competition Plan.</p>
Expect a detailed assessment of potential market players to be carried out prior to the pre-tender stage in the development of the tender.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p><i>We interpret this feedback to be related to our Phase 2 consultation proposal which stated market appetite will be a key criterion in assessing project suitability for early competition. Following this feedback, we hosted an Indicative Solutions and Interested Persons workshop to further develop how market appetite criteria, including detailed assessment of potential market players, could work in practice.</i></p> <p>We propose that market appetite would be assessed initially during the initial solution development process (prior to the Network Options Assessment ("NOA")). Further assessment would be undertaken during the pre-tender stage. Further details are presented in Section 2, Chapter 3 - Identifying Projects.</p>

Tender Process

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Tender process should be tailored to the project size as 'one size fit all' may not be appropriate for all projects.	<p>May workshops:</p> <ul style="list-style-type: none"> • Early Competition criteria, what could be competed • Procurement Steps and Timelines 	<ul style="list-style-type: none"> • Potential equity investors • TOs 	<p><i>We agree with the feedback that the tender process needs to be proportionate to the projects being tendered, which we also discussed in our Phase 2 consultation. Following our Phase 2 consultation, we ran a series of bilateral sessions to discuss this further with potential bidders.</i></p> <p>We propose in our Phase 3 consultation a standardised approach to the commercial model and bid evaluation framework. We propose the Procurement Body, Network Planning Body and counterparties work collaboratively during the pre-tender period. They would work on reviewing and adjusting the standard bid evaluation framework, weightings of the Technical Adjusted Tender Revenue Stream ("TRS") and commercial arrangements. This is expected to result in maximised consumer value, reduced inefficiencies, minimised transaction costs and maintained level playing field. Further details on the tender process are presented in Chapter 5 – End-to-End Process for EC.</p>
There needs to be some standardisation in the process to build market interest, suggesting some underlying principles are set out but then a tender can be tailored as required.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • Potential equity investors 	See above.
Flexible tender process approach would open the process to a larger group of bidders.	May workshop:	<ul style="list-style-type: none"> • Non-regulated utility companies • Potential equity investors 	See above.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
	<ul style="list-style-type: none"> Procurement Steps and Timelines <p>Phase 2 Consultation feedback</p>	<ul style="list-style-type: none"> Generators and other electricity market participants 	
It will be extremely challenging to flex the procurement and maintain consistency and fairness in evaluation.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	See above.
A two-stage ITT process with a soft boundary between the stages can allow sufficient flexibility in the process to tailor the process for smaller projects.	<p>May workshop:</p> <ul style="list-style-type: none"> Procurement Steps and Timelines 	<ul style="list-style-type: none"> Potential equity investors 	See above.
'Passporting' of prequalification provides efficiency in the procurement process.	<p>May workshop:</p> <ul style="list-style-type: none"> Procurement Steps and Timelines 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we proposed to introduce passporting where efficient. Following our Phase 2 consultation, we are considering how the approach taken under Offshore Transmission Owners ("OFTOs") could be applied to the potential pipeline of projects suitable for early competition.</i></p> <p>We propose in our Phase 3 consultation that passporting should be applied where tenders are run for projects of similar scale and complexity within a close timeframe. However, the implementation of passporting should only be considered once there is a clearer view of the pipeline of potential projects. Further details are presented in Section 4, Chapter 5 - End-to-End Process for EC.</p>
Passporting prequalification may be required for a certain period, however, passporting should	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs Construction companies 	See above.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
reflect not project value but technology type.			
The pre-qualification stage needs to assess credibility but not deter innovative bids.	May workshop: <ul style="list-style-type: none"> Evaluation of Commercial Elements of the Proposals 	<ul style="list-style-type: none"> Generators and other electricity market participants 	<p><i>In our Phase 2 consultation, we presented our preferred option on the pre-qualification process. Following our Phase 2 consultation, we have reviewed comparable precedents (e.g. OFTOs, Thames Tideway Tunnel, Leasing Round 4, Private Finance Initiatives ("PFIs")) and we have considered how the tender evaluation will be proportionate to the need being tendered.</i></p> <p>We propose legal standing, financial and technical capability to be assessed at the Pre-Qualification ("PQ") stage. We have provided greater detail about what we expect bidders to provide and how we will assess it in Section 4, Chapter 5 - End-to-End Process for EC.</p>
Economic and financial standing criteria should not penalise start-up companies.	May workshop: <ul style="list-style-type: none"> Evaluation of Commercial Elements of the Proposals 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we presented our preferred options on the financial and commercial assessment at the PQ and Invitation to Tender ("ITT") processes. Following our Phase 2 consultation, we have reviewed comparable precedents (e.g. OFTOs, Thames Tideway Tunnel, Leasing Round 4, PFIs) and we have considered how the tender evaluation will be proportionate to the need being tendered.</i></p> <p>Our updated preferred option is that sole bidders or consortia would be asked to provide evidence that they have the financial capacity to finance the reference design and evidence that they have financial capacity to secure equity financing solutions that are equal to or more than 120% of the value of the concept design in the Network Options Assessment ("NOA"). This is in line with the requirements for the Offshore Transmission Owner ("OFTO") regime. Further details are presented in Section 4, Chapter 5 - End-to-End Process for EC.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Further evaluation criteria identified should include environmental and social, bonds, financial model or a Tender Revenue Stream ("TRS") revenue model, risks, incentives, assessment, consultation criteria.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs • Generators and other electricity market participants 	<p><i>In our Phase 2 consultation, we presented our preferred options on the financial and commercial assessment at the PQ and Invitation to Tender ("ITT") processes. Following our Phase 2 consultation, we have reviewed comparable precedents (e.g. OFTOs, Thames Tideway Tunnel, Leasing Round 4, PFIs) and we have considered how the tender evaluation will be proportionate to the need being tendered.</i></p> <p>We propose that ITT (stage 1) should be assessed based on the following high-level evaluation criteria: meeting the need; risk to network reliability; deliverability; environmental and social impacts; and cost estimates. The ITT (stage 2) is broken down to technical and commercial evaluation and our current preferred option in terms of commercial evaluation is to ask bidders to provide the same financial inputs as set out in our Phase 2 consultation (i.e. bidders will submit a financial model they have developed calculating the indicative TRS). The preferred option in terms of technical evaluation is an integrated approach which covers a wide range of factors and supports the commercial evaluation. Further details are presented in Sections 5 and 6, Chapter 5 - End-to-End Process for EC.</p>
'Utility Contract Regulations' might not be suitable for the competition process.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p><i>We have highlighted this issue to legal advisers, BEIS and Ofgem to determine if the Utility Contract Regulations are suitable or if new tender regulations are required as part of Competitively Appointed Transmission Owner ("CATO") legislation.</i></p> <p>Our current proposals in our Phase 3 consultation are based on the assumption that the required legislation will be in place from the outset and that such legislation will appropriately facilitate our proposals, or whatever variation of these proposals that Ofgem decide should be implemented in future.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
There should be an invitation for Expressions of Interest ("EOI") that would negate the need to survey the Official Journal of the European Union ("OJEU").	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Construction companies 	See above.
The ITT (stage 2) assessment criteria and weightings must be clearly defined.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Generators and other electricity market participants 	<p><i>Following this feedback, we have investigated how large UK utility procurement precedents have clearly defined weightings and criteria. We also held a series of bilateral meetings with potential bidders to further develop our criteria.</i></p> <p>Our current preferred option in terms of commercial evaluation is to ask bidders to provide the same financial inputs as set out in our Phase 2 consultation (i.e. bidders will submit a financial model they have developed calculating the indicative TRS) and in terms of technical evaluation take an integrated approach which covers a wide range of factors and supports the commercial evaluation. Please refer to Section 6, Chapter 5 - End-to-End Process for EC for more details.</p>
Sharing of a cost benefit analysis tool will be beneficial to provide stakeholders some insight.	<p>May workshop:</p> <ul style="list-style-type: none"> Provision of Information to Allow Proposal Development 	<ul style="list-style-type: none"> Generators and other electricity market participants 	<p><i>We provided our view on the information we expect to be shared with bidders in our Phase 2 consultation.</i></p> <p>In September, we held workshops on Information Provision and in our Phase 3 consultation we confirm that our preferred position remains that the Electricity Ten Year Statement ("ETYS") models used by the Transmission Owners for network planning will be made available to qualified bidders.</p> <p>Where bidders are not licenced or party to the System Operator Transmission Owner Code ("STC"), encryption and non-disclosure agreements will be required. Further details are presented in Section 3, Chapter 5 - End-to-End Process for EC.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Bidders need to provide cost effective solutions and therefore it is important to bring cost analysis early in the process.	May workshop: <ul style="list-style-type: none"> Procurement Steps and Timelines 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we proposed that we are expecting the detailed costs information will be assessed in the ITT (stage 2) and bidders will be only asked to provide initial designs and high-level cost estimates at ITT (stage 1). Following our Phase 2 consultation, we discussed the approach to bid evaluation with potential bidders during bilateral meetings.</i></p> <p>Our preferred option is for bidders to provide robust implementation plans and undertake detailed cost estimates as part of the ITT (stage 2). Further details are presented in Section 6, Chapter 5 - End-to-End Process for EC.</p>

Technical and Project Delivery Evaluation

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Feasibility study should be allowed to be done by a wide range of specialists.	May workshop: <ul style="list-style-type: none"> Procurement Steps and Timelines 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>We did not set out a view on feasibility studies in our Phase 2 consultation. We are currently exploring internally how feasibility studies could be undertaken with our colleagues in network and NOA teams and their impact on creating a level playing field.</i></p> <p>We propose in our Phase 3 consultation that the ESO should conduct shadow studies in parallel to bidders undertaking their own feasibility studies at the ITT (stage 1). More details on feasibility studies are presented in Sections 2 and 5, Chapter 5 - End-to-End Process for EC.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Bidders should be prequalified before they are required to complete feasibility studies.	May workshop: <ul style="list-style-type: none"> Evaluation of Technical Elements of the Proposals 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>Through workshops with stakeholders, Transmission Owners and our internal planning experts we worked on specifying detailed arrangements around feasibility studies. In our Phase 2 consultation, we noted that feasibility studies could be undertaken for proposed solutions.</i></p> <p>We agree with stakeholders and in our Phase 3 consultation, we propose that prequalified bidders will need to undertake their own studies at ITT (stage 1) to submit output on their own service provision feasibility studies. More details on feasibility studies are presented in Sections 2 and 5, Chapter 5 - End-to-End Process for EC.</p>
Some form of technical validation/feasibility study of innovative solutions would be helpful before tender launch for smaller bidders.	May workshop: <ul style="list-style-type: none"> Evaluation of Commercial Elements of the Proposals 	<ul style="list-style-type: none"> TOs 	<p><i>Through workshops with stakeholders, Transmission Owners and our internal planning experts we worked on specifying detailed arrangements around feasibility studies. In our Phase 2 consultation, we noted that feasibility studies could be undertaken for proposed solutions.</i></p> <p>Our updated preferred option in our Phase 3 consultation is the conflicts and costs created by pre-tender feasibility studies are unlikely to be outweighed by the benefits of feasibility studies during the pre-tender stage. Therefore, we will not include these as part of the pre-tender activities for early competition. More details on feasibility studies are presented in Sections 2 and 5, Chapter 5 - End-to-End Process for EC.</p>
Timing and scope of a feasibility study will have a direct impact on the process.	May workshop: <ul style="list-style-type: none"> Evaluation of Technical Elements of the Proposals 	<ul style="list-style-type: none"> TOs 	See above.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
<p>There are some overlaps between the design and engineering evaluation criteria.</p>	<p>May workshop:</p> <ul style="list-style-type: none"> Evaluation of Technical Elements of the Proposals 	<ul style="list-style-type: none"> Non-regulated utility company 	<p><i>In our Phase 2 consultation, we proposed high-level criteria. We discussed this internally with network planning colleagues and externally with potential bidders through a series of bilateral discussions following our Phase 2 consultation. We also considered relevant precedents (e.g. OFTOs, Thames Tideway Tunnel, Leasing Round 4, PFI).</i></p> <p>We confirmed in our Phase 3 consultation that the ITT (stage 1) high-level evaluation criteria are: bidder's ability to meet the need, potential risk to network reliability, deliverability, environmental and social impacts. The weightings of these will be set by the procurement body during the pre-tender stage. Further details are presented in Section 5, Chapter 5 - End-to-End Process for EC.</p>
<p>The key criteria that should be assessed is whether the solution meets the output required.</p>	<p>May workshop:</p> <ul style="list-style-type: none"> Evaluation of Technical Elements of the Proposals 	<ul style="list-style-type: none"> TOs 	<p>See above.</p>
<p>The criteria should balance between innovation and reliability of designs.</p>	<p>May workshop:</p> <ul style="list-style-type: none"> Evaluation of Technical Elements of the Proposals 	<ul style="list-style-type: none"> Potential equity investor 	<p><i>In our Phase 2 consultation, we have proposed a two stage ITT, which we expect to encourage bidders to submit a wide array of innovative solutions in addition to detailed cost information and plans for delivery of the proposed solutions. Following our Phase 2 consultation, discussion with internal and external stakeholders and consideration of relevant precedents (e.g. OFTOs, Thames Tideway Tunnel, Leasing Round 4, PFI).</i></p> <p>We expect this balance to be maintained by requiring all solutions to have a technology readiness level of 8. If</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Qualitative and quantitative assessment may need to be separated to allow designs to be assessed.	May workshop: <ul style="list-style-type: none"> Evaluation of Commercial Elements of the Proposals 	<ul style="list-style-type: none"> Non-regulated utility companies 	<p>technology readiness levels are not available, then we may use a similar approach used in pathfinders for voltage or stability. For voltage we have a defined list of technologies with established definitions of that technology. For stability, bidders are required to undertake a feasibility study to demonstrate that their solution can provide the stability support required. Further details are presented in Section 5, Chapter 5 - End-to-End Process for EC.</p> <p><i>In our Phase 2 consultation, we have proposed a two stage ITT, where ITT (stage 1) will focus on initial designs while ITT (stage 2) will focus on more detailed cost information and plans for the delivery of the solution. Following our Phase 2 consultation, we discussed this internally with network planning colleagues and externally with potential bidders through a series of bilateral discussions. We also considered relevant precedents (e.g. OFTOs, Thames Tideway Tunnel, Leasing Round 4, PFI).</i></p> <p>We continue to support a two stage ITT process in our Phase 3 consultation. We propose a pass / fail approach to ITT (stage 1) based on a minimum threshold score for each criterion. The ITT (stage 2) is broken down to technical and commercial evaluation and our current preferred option in terms of commercial evaluation is to ask bidders to provide the same financial inputs as set out in our Phase 2 consultation (i.e. bidders will submit a financial model they have developed calculating the indicative TRS). The preferred option in terms of technical evaluation is an integrated approach which covers a wide range of factors and supports the commercial evaluation.</p>
Project delivery capability should be added to technical and commercial tests.	May workshop: <ul style="list-style-type: none"> Evaluation of Commercial 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we set out how the projects delivery capability will be assessed. Following our Phase 2 consultation, we have investigated how large UK utility procurement precedents have clearly defined weightings and</i></p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
	Elements of the Proposals		<p><i>criteria. We also held a series of bilateral meetings with potential bidders to further develop our criteria.</i></p> <p>Our preferred option presented in our Phase 3 consultation is for commercial deliverability and delivery plan to be assessed as part of ITT (stage 2) process. Further details are presented in Section 6, Chapter 5 - End-to-End Process for EC.</p>
TO's network proposal should be set as the counterfactual solution against which all market bids are measured.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p><i>Following our Phase 2 consultation, we held a series of workshops with TOs to explore the role of TO as a bidder as well as what could be the potential conflicts of interest and mitigations. We also considered the suggested approach against our Phase 2 preferred option.</i></p> <p>We believe that TOs participating as a 'counterfactual' would present a number of procurement challenges, stemming from the differences between the regulated regime and potential competitive regimes. Further details are presented in Section 6, Chapter 2 – Roles and Responsibilities.</p>
The ESO's proposals in relation to early competition should closely align with Ofgem's proposals (a suite of three Large Project Delivery mechanisms) following the publication of Final Determinations for RIIO-2.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p><i>During Phase 2, we were considering the interactions between early competition and Ofgem's project delivery mechanisms.</i></p> <p>We state in our Phase 3 consultation that whilst there are similarities between our preferred position and the 'reprofiling of allowance' option presented within the RIIO-2 Draft Determinations, we feel it remains appropriate to develop an early competition specific approach to late project delivery whilst continuing to be mindful of the corresponding RIIO-2 proposals leading up to and at Final Determinations.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Maintenance proposals should be part of the delivery assessment.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	<i>We agree with stakeholder feedback, and we noted in our Phase 2 consultation that maintenance capex will be included as part of the ITT stage 2 assessment, and we consider this to be our final position.</i>

Information Provision

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
The ESO should share as much information and as early as possible at the start of the tender.	<p>May workshop:</p> <ul style="list-style-type: none"> Provision of Information to Allow Proposal Development <p>September workshop:</p> <ul style="list-style-type: none"> Information Provision 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we set out our position on information provision, including what information we expect to be shared with bidders. We ran two workshops on Information Provision in September and held internal sessions with technical experts on data and confidentiality requirements.</i></p> <p>In addition to the information specified in the Phase 2 consultation, we propose in our Phase 3 consultation to also include the impact studies conducted on bidders' proposals. These studies will be commissioned by the Procurement Body. Further details are presented in Section 3, Chapter 5 - End-to-End Process for EC.</p>
More detailed technical information will be required at the point of detailed design.	<p>May workshop:</p> <ul style="list-style-type: none"> Provision of Information to Allow Proposal Development 	<ul style="list-style-type: none"> Potential equity investors Generators and other electricity market participants 	See above.
Currently there is some data on boundary constraints, but more information is needed in order for	September workshop:	<ul style="list-style-type: none"> TOs 	See above.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
the bidders to offer competitive bids which will drive value for customers.	<ul style="list-style-type: none"> Indicative Solution Identification Process 		
The scale of the project may require different interactions with the network and different information required from the bidders.	May workshop: <ul style="list-style-type: none"> Evaluation of Commercial Elements of the Proposals 	<ul style="list-style-type: none"> TOs 	See above.
There is a need to protect intellectual property and the use of an incentive mechanism for market participants' engagement costs.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Potential equity investors 	<p><i>Following our Phase 2 consultation, we held two workshops on Information Provision in September and held internal meetings with technical experts on data and confidentiality requirements.</i></p> <p>We consider that where bidders are not Licenced or party to the STC, encryption and non-disclosure agreements will be required. Further details are presented in Section 3, Chapter 5 - End-to-End Process for EC.</p>
The ESO should be responsible for all the information and tools required to identify a network constraint and run a tender process.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Generators and other electricity market participants 	<p><i>In our Phase 2 consultation, we listed information that we expect to be shared with bidders during the tender process. We expect the procuring body will be responsible for the tools and information required to run a tender process. Following the Phase 2 consultation we held workshops on Information Provision to further develop our view on this.</i></p> <p>Our Phase 3 consultation continues to support our Phase 2 consultation views.</p>
Concerns regarding the Electricity Ten Year Statement ("ETYS") models' sensitive information can easily be solved by signing a non-disclosure agreement that is then superseded by any licence.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Construction companies 	<p><i>We noted in our Phase 2 consultation, our preferred option will be to only supply the ETYS models to bidders who are not licensed and/or signed up to the STC, once the bidder has signed an appropriate Non-Disclosure Agreement. We ran two workshops on Information Provision following our Phase 2</i></p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
			<p><i>consultation, we also held internal sessions with technical experts on data and confidentiality requirements.</i></p> <p>Our preferred position remains that the ETYS models used by the TOs for network planning will be made available to qualified bidders. Where bidders are not Licenced or party to the STC, we are exploring whether encryption and non-disclosure agreements are sufficient to release the full ETYS models to them. Further details are presented in Section 3, Chapter 5 - End-to-End Process for EC.</p>
The ESO should consider how the data provided by bidders will be assured, quality controlled, and what course of action will be taken against parties liable and what action will be taken to protect the parties affected.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	<p><i>We are interpreting this feedback as referring to the information provision at the bid evaluation stage, and we expect that the information provided by the bidders will be assessed as part of the bid evaluation process.</i></p> <p>Our Phase 3 consultation continues to support this view.</p>
Whether the information is adequate or not will depend on the evaluation process, bidders' access to data and the nature of reinforcement work.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Potential equity investors 	<p><i>We have discussed bid evaluation and information access internally with our data, network and planning colleagues, in bilateral conversations with potential bidders, we also considered relevant UK precedents (e.g. PFI).</i></p> <p>Our current position is that all qualified bidders (including TO ring fenced bid teams) should have access to the same information. Through workshops, webinars and our Phase 2 consultation we have developed a position that the network related information used today by the ESO and TOs to develop initial desktop solutions is the right information and should be available to qualified bidders. Further details are presented in Section 3, Chapter 5 - End-to-End Process for EC.</p>
Data exchange obligations need to be clearly defined for all parties	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Potential equity investors 	<p>We are undertaking a detailed review of code impacts as well as discussing this with relevant code bodies (TCMF, GCRP,</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
considering the different codes under which each would operate.			STC ²). Following our Phase 2 consultation we also held workshops on Heads of Terms and Industry Code Impacts. We are currently producing a more detailed assessment of the sources and nature of the information contained in the ETYS models to clarify how much is already publicly available and how much is sensitive based on existing codes, Licence obligations and legislation. Further details are presented in Section 3, Chapter 5 - End-to-End Process for EC.
Provision of information should be codified and the ESO should make study datasets available in a recognised format.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Potential equity investors 	<p><i>Following this feedback, we held workshops on Information Provision and we are currently in the process of identifying what information bidders will require to develop bids and what should be the arrangements to share this information with bidders.</i></p> <p>We are currently producing a more detailed assessment of the sources and nature of the information contained in the ETYS models to clarify how much is already publicly available and how much is sensitive based on existing codes, Licence obligations and legislation. Further details are presented in Section 3, Chapter 5 - End-to-End Process for EC.</p>
Some commercially sensitive data may be required to be published on anonymised basis with all parties.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Potential equity investors 	See above.
Some User data in the ETYS is not easily protected. The ESO should provide further detail on	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	See above.

² Transmission Charging Methodologies Forum ("TCMF"); Grid Code Review Panel ("GCRP"); System Operator – Transmission Owner Code ("STC")

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
whether important information will be shared.			
There may be a need for bilateral agreements in order to enable document sharing between the parties linked to the current processes.	September workshop: <ul style="list-style-type: none"> • Information Provision 	<ul style="list-style-type: none"> • Potential equity investors 	See above.
Punitive penalties, instead of financial penalties, should be introduced for misuse of confidential information.	September workshop: <ul style="list-style-type: none"> • Information Provision 	<ul style="list-style-type: none"> • TOs 	See above.
A single process for managing pre-tender information requests and a single point of contact are easier to manage.	September workshop: <ul style="list-style-type: none"> • Information Provision 	<ul style="list-style-type: none"> • Potential equity investors 	We consider that limited parties will be responsible for managing information. We proposed in our Phase 3 consultation that in terms of project information, the Procurement Body, with support of the Network Planning Body, will present all the technical details of the need. In terms of procurement support, the Procurement Body would host events to ensure that bidders were appropriately prepared to develop their bids and go through the procurement process. Further details are presented in Section 2, Chapter 5 - End-to-End Process for EC.

Post Tender Award

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
A commercial contract can provide greater ability to ensure that providers deliver on their obligations as there are legally enforceable terms and conditions.	May workshop: <ul style="list-style-type: none"> Solution Delivery and Operations 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>In our Phase 2 consultation, we noted that our preferred option is to ensure level playing field of terms under licence and contracts for network and non-network solutions. We are currently assessing the licence and contract arrangements applicable for the early competition based on Phase 2 consultation stakeholder feedback and discussing this with Ofgem.</i></p> <p>We continue to propose that suitable contracts and licences can be developed which will mitigate risks that are foreseen. Our views on the proposed risk allocation between a successful bidder and the consumer to be delivered through a contract or a licence are further discussed in Chapter 8 - Appendix 3.</p>
All parties involved in operating the onshore transmission system must be held to an identical standard, either via codes or licence.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	<p><i>As considered in our Phase 2 consultation, bidders without a Competitively Appointed Transmission Owner ("CATO") licence may be required to comply with other relevant industry codes. Following our Phase 2 consultation, we held workshops on Heads of Terms and Industry Code Impacts as well as undertook a detailed review of code impacts based on discussions with relevant code bodies.</i></p> <p>We continue to propose that suitable adaptations can be made to the industry codes and that suitable contracts and licences can be developed which will mitigate risks that are foreseen. We expect CATOs will generally have the same obligations as incumbent TOs. Further details are presented in Section 9, Chapter 5 - End-to-End Process for EC.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
CATO and TO licence regimes should be closer aligned.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Potential equity investors 	See above.
The successful party must accede the relevant industry codes.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	<p>We agree with stakeholder feedback, and we set out our views in the Phase 2 consultation that the process for commissioning both network and non-network solutions should be aligned with and underpinned by the provisions outlined within existing industry codes. We also stated that code modifications may be required to account for CATO as a new type of transmission licensee. Further details are presented in Section 9, Chapter 5 - End-to-End Process for EC.</p> <p>Our Phase 3 consultation continues to support this view.</p>
Do not support the requirement for bid-bonds at the point of contract award and the process can be managed through the requirement of post-tender milestones.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> Generators and other electricity market participants 	<p><i>We will take this feedback into consideration when developing further details on the post-tender award terms.</i></p> <p>Based on stakeholder feedback, we continue to believe in our Phase 3 consultation that a performance bond (previously referred to as a bid bond) or other form of acceptable security will be required. We now think that in addition to a performance bond being required for the preliminary works period this security will also be required for the solution delivery / construction period i.e. until the solution is commissioned. Further details are presented in Section 3, Chapter 4 - Commercial Model.</p>
The proposal of the performance bonds, particularly around the extent of bidders' liabilities under	September workshop:	<ul style="list-style-type: none"> Construction stakeholder 	Whilst we acknowledge that some stakeholders have concerns about the fairness and efficiency of any requirement for a performance bond, we believe in our Phase 3

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
the performance bonds, concerns stakeholders as this would reflect lack of trust between the ESO and the bidders.	<ul style="list-style-type: none"> Heads of Terms and Industry Code Impacts 		consultation that one is necessary until the conclusion of the Post-Preliminary Works Cost Assessment (and the Debt Competition and Financial Close have occurred) to reduce the risk of walking away from an unsatisfactory Post-Preliminary Works Cost Assessment outcome. Further details are presented in Section 3, Chapter 4 - Commercial Model.
It is unclear why commissioning would be different between a late or an early competition project that requires a licence.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	<p><i>We agree with this stakeholder feedback, we are having ongoing discussions with Ofgem on their development of the late competition model to align the processes where efficient and fair.</i></p> <p>Our view that the process for commissioning should be aligned with and underpinned by the provisions outlined within existing industry codes remains unchanged in our Phase 3 consultation. Further details are presented in Section 9, Chapter 5 - End-to-End Process for EC.</p>
The heads of terms should set out obligations in such a way that would not hinder development of new connections.	September workshop: <ul style="list-style-type: none"> Heads of Terms and Industry Code Impacts 	<ul style="list-style-type: none"> Technical stakeholder 	We considered a list of proposed risk allocation between a successful bidder and the consumer which are expected to be delivered via a contract or a Transmission Licence with Ofgem in our Phase 3 consultation. A new connection to the transmission system is one of the activities considered in our head of terms and we propose that if the solution is a network solution then statutory obligations to provide a connection to third parties will exist. However, this obligation is not expected to apply in the case of non-network solutions. Further details are presented in Chapter 8 - Appendix 3.

Risk allocation

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
It is not efficient for the bidder to carry all preliminary works risks	May workshop:	<ul style="list-style-type: none"> Potential equity investors 	<i>In our Phase 2 consultation, we presented an initial allocation of risks between the bidder and consumers.</i>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
and that it may be better value for money for consumers to take on some risks.	<ul style="list-style-type: none"> • Preliminary Works 		Based on stakeholder feedback we have updated views in our Phase 3 consultation on risk allocation as per Table 2 in Section 3, Chapter 4 - Commercial Model. We noted that Consents, Land Rights, Design, Ground Conditions and Construction Costs risks are expected to be shared at the preliminary works stage.
The risk profile would be very different for an integrated and a radial solution to the transmission need, especially in relation to interface risks.	May workshop: <ul style="list-style-type: none"> • Construction Works and Commissioning 	<ul style="list-style-type: none"> • TOs 	See above.
Bidders should be able to take on certain risks, including some of the consenting risk, compliance, design, subcontractor failures, commissioning process failures, and financing.	May workshop: <ul style="list-style-type: none"> • Construction Works and Commissioning 	<ul style="list-style-type: none"> • Potential equity investors 	See above.
Consenting is the biggest risk, as the process can take a long time.	May workshop: <ul style="list-style-type: none"> • Preliminary Works 	<ul style="list-style-type: none"> • Potential equity investors • Technology companies 	<i>In our Phase 2 consultation, we noted this will be a significant undertaking for the successful bidder and will involve extensive preparatory activities, including robust stakeholder engagement and consultation.</i>

We consider that consenting will be undertaken as part of preliminary works before a final consented design is known and before final costs of the proposed solution and the TRS are fixed via the Post-Preliminary Works Cost Assessment. From this point, the TRS will no longer be adjustable other than for prescribed reasons e.g. Income Adjusting Events.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
			Further details are presented in Section 3, Chapter 4 - Commercial Model.
The land rights should be one of the potential shared risks, but the ESO should also consider how much effort will be required from bidders.	September workshop: <ul style="list-style-type: none"> Risk Allocation and Post-Preliminary Works Cost Assessment 	<ul style="list-style-type: none"> TOs 	We consider land rights as one of the risks that could be potentially shared between bidders and consumers through the Post-Preliminary Works Cost Assessment process as they will be obtained as part of preliminary works before final solution costs and the TRS are fixed. However, we expect that risk allocation will need to be reviewed on a case-by-case basis in future as part of pre-tender planning and in respect of each tender process given that risk allocation may need to be adapted depending on the network need and/or solution in question. Further details are presented in Section 2, Chapter 5 - End-to-End Process for EC.
The key 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.	September workshop: <ul style="list-style-type: none"> Operational Incentives 	<ul style="list-style-type: none"> Public Sector stakeholder 	We have started to consider the potential changes to industry codes which could be required as a result of our early competition proposals. These are set out in detail in Chapter 8 - Appendix 4. Overall, we expect that required changes to industry codes will be 'significant but deliverable'.

Rewards and Incentives

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Incentives should be tangible and measurable.	May workshop: <ul style="list-style-type: none"> Construction Works and Commissioning 	<ul style="list-style-type: none"> Potential equity investors 	<i>In our Phase 2 consultation, we presented high level options for potential availability incentive structures. Following our Phase 2 consultation, we are reviewing stakeholder feedback and comparable sectors (including Offshore Transmission Owners ("OFTOs") and Revenue=Incentives+Innovation+Outputs ("RIIO")-2) to form our view on incentive arrangements. We are specifically</i>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
<p>Incentive regime must be technology neutral and not be seen to favour network or non-network solutions.</p>	<p>May workshops:</p> <ul style="list-style-type: none"> • What Winners Win and How Risk is Allocated • Preliminary Works 	<ul style="list-style-type: none"> • Potential equity investors 	<p><i>looking at whether incentives will be weighted and on what basis, what should be the incentive value/penalty range and whether there will be any caps and/or collars.</i></p> <p>We propose four incentives in our Phase 3 consultation (stakeholder engagement, availability, environmental and timely new connections incentives). Each incentive should have tangible and measurable requirements - for example, an obligation to provide and publish a report or penalties/rewards that are below/above certain thresholds. We also propose that the specific parameters associated with these incentives (including maximum reward and penalty) would be further developed in any implementation period. Further details are presented in Section 10, Chapter 5 - End-to-End Process for EC.</p> <p><i>In our Phase 2 consultation we expect operational incentives to apply to both network solutions and non-network solutions. We are reviewing stakeholder feedback and investigating comparable sectors as we develop further detail on incentive arrangements.</i></p> <p>We propose four incentives in our Phase 3 consultation (stakeholder engagement, availability, environmental and timely new connections incentives). Each incentive should have tangible and measurable requirements - for example, an obligation to provide and publish a report or penalties/rewards that are below/above certain thresholds. We also propose that the specific parameters associated with these incentives (including maximum reward and penalty) would be further developed in any implementation period. Further details are presented in Section 10, Chapter 5 - End-to-End Process for EC.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
<p>Preliminary works incentives would not be required considering the same party will go on to undertake solution delivery works at the next process stage.</p>	<p>May workshop:</p> <ul style="list-style-type: none"> • Preliminary Works <p>Phase 2 Consultation feedback</p>	<ul style="list-style-type: none"> • Potential equity investors 	<p><i>In our Phase 2 consultation, we noted that the agreed tender revenue stream will commence upon commissioning of the works and the solution becoming operational. We believe this provides a strong incentive on the provider to complete the works in a timely fashion, but also to the required standards and therefore no preliminary works incentive is required. Following Phase 2 consultation, we reviewed stakeholder feedback and investigating comparable sectors.</i></p> <p>We still agree that for the most part explicit preliminary works and solution delivery incentives are not required for early competition. However, due to stakeholder concerns raised about the potential impacts on the quality of stakeholder engagement, we are now proposing a stakeholder engagement incentive. The successful bidder will be obligated in licence or contract (as appropriate) to publish a proportionate stakeholder engagement report within three months of the conclusion of the preliminary works stage. Further details are presented in Section 9, Chapter 5 - End-to-End Process for EC.</p>
<p>Incentives should be around managing risk effectively during the preliminary works phase.</p>	<p>May workshop:</p> <ul style="list-style-type: none"> • Preliminary Works 	<ul style="list-style-type: none"> • TOs 	<p><i>We are investigating comparable sectors and reviewing the stakeholder feedback we have received which will feed into our Phase 3 consultation.</i></p> <p>We still agree that for the most part explicit preliminary works and solution delivery incentives are not required for early competition. However, due to stakeholder concerns raised about the potential impacts on the quality of stakeholder engagement, we are now proposing a stakeholder engagement incentive. The successful bidder will be obligated in licence or contract (as appropriate) to publish a proportionate stakeholder engagement report within three months of the conclusion of the preliminary works stage.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Penalties similar to the RIIO-2 mechanism being considered by Ofgem for late delivery might deter bidders.	May workshop: <ul style="list-style-type: none"> • Preliminary Works 	<ul style="list-style-type: none"> • Technology companies 	<p>Further details are presented in Section 9, Chapter 5 - End-to-End Process for EC.</p> <p><i>We are investigating comparable sectors and reviewing the stakeholder feedback we have received which will feed into our Phase 3 consultation.</i></p> <p>We propose that where there is a delay to the project delivery, some form of reprofiling of the TRS should be applied across the remaining revenue period. Where there is a delay for an unacceptable reason the TRS adjustment would ensure the successful bidder is not held whole for their lost equity return and that they do not benefit from the delay. However, where there is a delay for an acceptable reason, the TRS adjustment would ensure the successful bidder is held whole for their lost equity return but that they do not benefit from the delay. Further details are presented in Section 9, Chapter 5 - End-to-End Process for EC.</p>
It may be difficult to apportion blame for a project delay.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • Potential equity investors 	<p><i>We are investigating comparable sectors and reviewing the stakeholder feedback we have received which will feed into our Phase 3 consultation.</i></p> <p>We propose in our Phase 3 consultation that where there is a delay for an unacceptable reason the TRS adjustment would ensure the successful bidder is not held whole for their lost equity return and that they do not benefit from the delay. In relation to what circumstances constitute an 'acceptable reason' for delay (e.g. Force Majeure) this will need to be further considered when developing the standard contract and licence terms during implementation. This will also need to further consider the insurance market and whether the foreseen role of insurance in relation to delay is efficient and</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
			practicable. Further details are presented in Section 9, Chapter 5 - End-to-End Process for EC.
The ESO should consider whether incentives would work as effectively as implied in the consultation where there are competing priorities between incumbent TOs/DNOs/OFTOs and CATOs.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	<p><i>We are investigating comparable sectors and reviewing the stakeholder feedback we have received which will feed into our Phase 3 consultation.</i></p> <p>We continue to believe that our proposed operational incentives are appropriate for early competition. We expect the environmental and timely new connections incentives to mostly replicate the RIIO-2 proposals and the availability incentive can be based on the current offshore availability incentive. Further details are presented in Section 10, Chapter 5 - End-to-End Process for EC.</p>
Any penalties and incentives that are set should ensure minimal disruptions to consumers and be aligned where possible to existing incentives.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	See above.
The operational incentive regime for early competition should be limited.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs 	See above.
An incentive to complete tasks early may be appropriate but bidders will also require protection where delays are outside their control.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • Potential equity investors 	See above.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
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.	September workshop: <ul style="list-style-type: none"> Operational Incentives 	<ul style="list-style-type: none"> Potential equity investors 	We consider tender documents to be a part of implementation plan activities that will be further developed based on stakeholder feedback to this consultation.

Operation & Maintenance and Decommissioning

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
Decommissioning arrangements should be aligned with Ofgem's future decision on the OFTO regime.	May workshop: <ul style="list-style-type: none"> Operation, Maintenance and Decommissioning 	<ul style="list-style-type: none"> Potential equity investors 	<p><i>We will continue to keep development in the offshore regime under review. In our Phase 2 consultation, we noted that our preferred option is a procurement framework which evaluates bidder decommissioning plans and costs as part of the tender process. It would also require bidders to maintain such plans and hold decommissioning security once operational. Based on stakeholder feedback and discussions held with our ESO colleagues and Ofgem.</i></p> <p>After further considering whether decommissioning obligations should be underpinned by legislation and whether there should be an obligation to decommission we have reflected on stakeholder feedback and do not believe this would be proportionate. We will continue to keep developments in the offshore regime under review. Further details are presented in Section 11, Chapter 5 - End-to-End Process for EC.</p>
The ESO should consider the option of providing handover to the incumbent ("Transmission Owner") TO.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> TOs 	<p><i>We proposed end of revenue period options in our Phase 2 consultation, i.e. handover to TOs and potential for an extended revenue period, which was our preference. We have continued to investigate this through meetings with TOs and internal planning teams.</i></p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
			<p>We think the successful bidder should remain responsible for their solution at the end of the revenue period and any process to transfer that solution to a third party at the end of the revenue period would add significant complexity and hence we are not further considering this option. Further details are presented in Section 2, Chapter 4 - Commercial Model.</p>
Decommissioning costs form part of a project life cycle and should also be considered as part of the procurement process.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • TOs • Generators and other electricity market participants 	<p><i>Our view is that bidders would be required to set out their indicative decommissioning costs as part of their bids</i></p> <p>Our views on decommissioning costs remain unchanged in our Phase 3 consultation. Further details are presented In Section 11, Chapter 5 - End-to-End Process for EC and Section 3, Chapter 4 - Commercial Model.</p>
As with TOs and OFTOs, early competition projects should only be subject to the decommissioning requirements of relevant landowners and consenting authorities as reserving for decommissioning can be otherwise inefficient.	Phase 2 Consultation feedback	<ul style="list-style-type: none"> • Potential equity investors 	<p><i>We will take stakeholder feedback into consideration in addition to discussions held with our ESO colleagues as well as Ofgem.</i></p> <p>After further considering whether decommissioning obligations should be underpinned by legislation and whether there should be an obligation to decommission, we do not believe legislation is required. Whilst bidders will still be responsible for decommissioning, the existing provisions and processes will remain suitable e.g. with landowners, consenting authorities and under the codes. Further details are presented in Section 11, Chapter 5 - End-to-End Process for EC.</p>

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
<p>If there is a change in law which requires the decommissioning to incur additional costs other than what was originally planned, these costs should be allowable as a pass-through cost.</p>	<p>Phase 2 Consultation feedback</p>	<ul style="list-style-type: none"> • TOs 	<p><i>Our view is that change in law should be a shared risk (as detailed within our Phase 2 consultation). Following our Phase 2 consultation, we held discussions with our ESO colleagues as well as Ofgem.</i></p> <p>We believe that bidders are best placed to manage risks associated with solution decommissioning costs/timescales except in limited circumstance. We expect that there will be an element of risk sharing through the Income Adjusting Event proposed in relation to decommissioning obligations. Further details are presented in Section 11, Chapter 5 - End-to-End Process for EC and Section 3, Chapter 4 - Commercial Model.</p>

1.3.5 Early competition and Distribution (Chapter 7)

The table below presents stakeholder feedback on the Early competition and Distribution issues and how we are using it to inform and shape our proposals. The feedback has been grouped by key subject areas. For reference, we have also retained our Phase 2 - Phase 3 positions on stakeholder feedback discussed in the November version of the You Said, We Did document. These positions are highlighted in italics below.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
There should be a periodic review of the early competition process if it is applied to distribution sector needs, and how well the system is working.	September workshop: <ul style="list-style-type: none"> ESO Role in Distribution 	<ul style="list-style-type: none"> DNOs 	We will consider stakeholder feedback in the development of further thinking on the potential ESO role in distribution level early competition. These will form part of our thought piece on distribution that the ESO will be sharing with Ofgem as part of our Early Competition Plan submission in April 2021
Network planner should have visibility of the value assessment for the proposed solutions and monitor bidder's accountability.	September workshop: <ul style="list-style-type: none"> ESO Role in Distribution 	<ul style="list-style-type: none"> DNOs 	We will consider stakeholder feedback in the development of further thinking on the potential ESO role in distribution level early competition. These will form part of our thought piece on distribution that the ESO will be sharing with Ofgem as part of our Early Competition Plan submission in April 2021. Based on stakeholders views we have set out the key advantages and disadvantages of different parties fulfilling roles. Please see Section 3 Chapter 7 – Early Competition in Distribution of the Phase 3 Consultation for more detail.
If possible, the role of contract counterparty should be taken by one entity.	September workshop: <ul style="list-style-type: none"> ESO Role in Distribution 	<ul style="list-style-type: none"> DNOs 	See above.
The ESO should consider who should process the payment transactions and with which entity there would be a minimum number of handoffs.	September workshop: <ul style="list-style-type: none"> ESO Role in Distribution 	<ul style="list-style-type: none"> DNOs 	See above.

Stakeholder feedback	Forum / Event	Feedback from	ESO position (Phase 2 – Phase 3)
<p>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.</p>	<p>September workshop:</p> <ul style="list-style-type: none"> • ESO Role in Distribution 	<ul style="list-style-type: none"> • DNOs 	<p>We are seeking stakeholder views in our Phase 3 Consultation on a role of an Auditor. Where stakeholders express support for this role we are also requesting views of which party they would prefer to perform the role. Further details are presented in Section 3, Chapter 7 - Early Competition in Distribution.</p>

1.4 Section 4 - Engagement approach

In addition to capturing your views on the development of the end-to-end model we are also committed to ensuring our stakeholders experience is positive and we flex to ensure we meet their needs. Therefore, throughout each phase of Early Competition so far, we have sought guidance and feedback on our approach, we have detailed below feedback received and how we have acted upon this.

i) Phase 1

As part of Phase 1 stakeholder engagement, we worked with our stakeholders to investigate how they would like us to approach our stakeholder engagement for the project. Therefore, no formal feedback on our Phase 1 engagement was sought, however stakeholders told us the following:

Stakeholder Comment	How have we addressed this
Both formal and informal consultation is needed. It is important to seek views from a variety of entities, and the workshops held thus far have been good at doing this	To ensure stakeholder feedback can be effectively incorporated into the Early Competition Plan, we have incorporated two consultations. The first consultation was launched in July 2020, where we sought views on the end to end process prior to further developing our proposals in this consultation. The aim of this consultation is to further define the Early Competition Plan, ahead of final submission to Ofgem in April 2021.
Need to be clear on roles of different groups and who is involved in each. E.g. how will stakeholders involved in the Advisory committee, ENSG and the various working groups be sufficiently different to avoid an actual or perceived conflict of interest?	The advisory committee and ENSG both have Terms of Reference, which were established prior to commencing which details their responsibilities. We have published in annexe 1 how the ENSG and Advisory committee interact with each other
Should consider adding a workstream on models (i.e. data models / grid models) that is made up of individuals with this specific expertise	We have looked into this feedback and decided upon the following workstreams as part of early competition: Roles and Responsibilities, Commercial Model, Project Identification, End to End Process, Implementation and ESO Role in Distribution
There is a balance between breaking down areas into small tasks to make it easier for stakeholders to manage and making sure that areas are not too small such that they are hard to coordinate and integrate	To ensure we enabled our stakeholders to share their feedback in Phase 2 we ran 31 individual 1 hour workshops, covering 9 different topic areas. We received feedback that breaking down into smaller areas in Phase 2 was effective. Therefore, we repeated similar for our Phase 3 workshops
Past experience is that stakeholder engagement works best when the head of the workstream has sufficient time to prepare materials for the meeting and then collates the outcomes of the meeting. Preparing content in advance to respond to helps to facilitate conversation	We have, where possible, sought to provide pre-reads for our workshop in advance to allow our stakeholders to digest information prior to providing feedback at our workshops

It would be useful to coordinate working groups. The number of stakeholders per working group will differ across the different groups, but approximately six members per group seems about right

As a result of the Covid-19 pandemic, formal face to face working groups were not established as part of the Early Competition Engagement approach. Instead, we have run multiple virtual workshops through each phase to ensure all stakeholders have the opportunity to feed into the development of the model

An element of flexibility should be embedded in the plan as may find once start that more or less engagement is required

We have endeavoured to be flexible where possible in our engagement approach for early competition. For example, following stakeholder feedback at each phase we have altered our approach in order to better meet our stakeholders needs and expectations

ii) Phase 2

Phase 2 workshops

Stakeholder participation was high throughout May. In addition to the high number of attendees at majority workshops, there was also a significant amount of participation and engagement throughout the sessions. Following the sessions, we surveyed participants to ask for feedback.

13 stakeholders responded to our question "*Were the joining Instructions easy to follow?*", with 76% agreeing they were, and 3% disagreeing due to difficulties finding the details to join. Following issues with joining we sent reminders of the webinars to participants on the day of the meetings.

We also asked, "*Did the sessions explore the topics you were expecting?*", with 46% agreeing they did. For future events we will ensure we are clearer with regards to the session content, and our expectation of interaction in the sessions.

Stakeholders also called out some of the following useful feedback for us to improve our future workshops:

Stakeholder Comment

How we have addressed this

It may be worthwhile setting a roadmap clearly defining the scope of each of the 3 consultation groups to ensure that discussions are focused on the specific issues pertained to the stage of the project lifecycle

We will endeavor to provide more detailed descriptions of any future events on the early competition and clearly set out differences between the future events

More time allowed, increase the number of participants in the session and send materials earlier than we sent through

As we held more sessions, we increased the participant level, we had set it to 7 when promoting the event to ensure there weren't so many stakeholders in each session that not all could contribute. However, what we found was that although the sessions were at capacity people couldn't always attend

Some sessions felt rushed. Also, seemed like a last-minute request for webinar. Not sure if necessary, stakeholders were all present in the sessions

The webinar details were included with the reminder of the event via Eventbrite, a reminder of the details was sent prior to the event based on feedback from earlier sessions

Phase 2 Consultation launch webinar

At the event 26 stakeholders joined us on the call. We asked for feedback between our presentation of the consultation content and question and answer session. This was to encourage as much feedback as possible.

15 stakeholders responded to our question, *"Have you found this session useful?"* with 93% agreeing they had, following this feedback we will repeat this type of session when Phase 3 is launched in late Autumn. The participants on the call also called out some useful feedback for us to improve the session.

Stakeholder Comment

How we can address this for future events

More clarity on uncertain areas. Q&A very useful

In the Phase 3 consultation the end to end model will be further addressed and therefore further clarity can be provided

It would be helpful for the ESO to document and share its development of its thinking on policy. The approach Ofgem takes is an example of best practice

We have noted this point for future presentations and publications

Some of the speakers need to slow down so you can read the slides and listen

Slides will be sent out ahead of event to allow pre-reading and speakers will slow down for future events.

More two-way engagement would be helpful - this question has been asked prior to any 2 way Q&A. Also avoiding a day where there is a significant regulatory publication for RIIO-T2 would be appreciated in the future

In Phase 3 consultation webinar we will ensure sufficient time is allocated to allow for greater audience participation. In addition, we endeavour to avoid coinciding with other industry publications / events where possible

We also asked the participants, *"Would you like to see this type of presentation for future Early Competition consultations?"* 16 participants responded, 100% would like us to repeat for Phase 3.

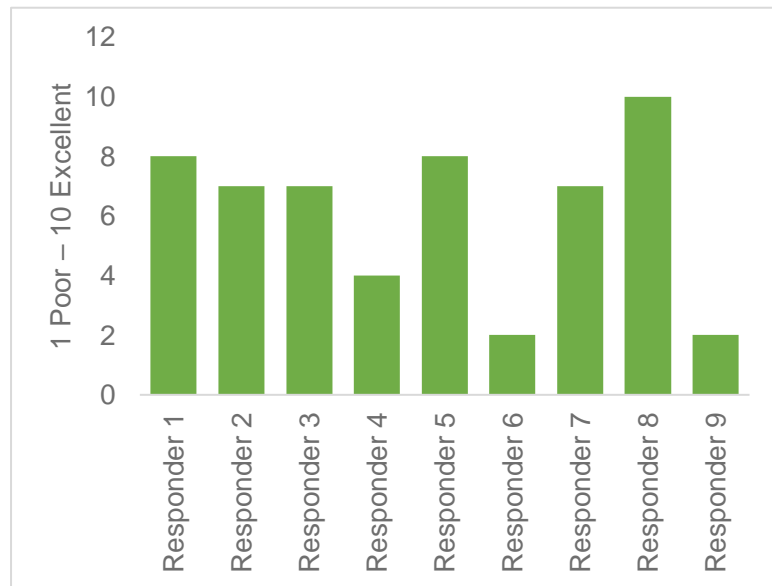
Phase 2 Consultation Q&A feedback

Overall stakeholders found the session informative, they enjoyed the openness of the ESO, and the interaction with other stakeholders. However, they felt we could have explained how the session would operate prior to joining and some felt they hadn't had time to absorb what was in the document prior to the session so couldn't contribute as fully as they would have wished to. A suggestion made was that when we repeat these sessions for phase 3 to make them bite sized chunks. From this feedback we have taken an action to be clearer on our communications and committed to sending out any pre read material a week ahead of the sessions. Our original timeline anticipated a four week consultation window and following feedback from stakeholders the window was extended to 6 weeks. When the extension was agreed the dates for the two webinars had already been advertised meaning the Q&A session was in the middle of the six week window, whereas ideally it would have been at the end.

Phase 2 Consultation process

We recognise the importance of stakeholder engagement and feedback in developing a successful Early Competition Plan. We have therefore sought to engage with a broad range of stakeholders throughout each phase. There have been good levels of diversity and attendance at our workshops and webinars. The number of responses to the consultation was lower than anticipated with only 7 responses. To ensure we are enabling stakeholders to participate effectively, and to improve our stakeholders experience for the Phase 3 consultation we surveyed stakeholders who attended our Phase 2 launch events. In total 35 surveys were distributed, from which we received 9 responses from stakeholders, 6 of which indicated they had responded to the consultation.

When asked to score between 1 -10, 10 being outstanding and 1 poor to rate the quality of the consultation package. This is including the two July webinars and the document, 6 graded us a 7 or above and 3 scored 4 and below.



Some stakeholders identified the length of the document and volume of questions had made it more difficult to respond due to their time constraints.

Someone also highlighted due to the volume of information it sometimes made it hard to understand what we were consulting on and suggested we split the Phase 3 document.

Another stakeholder felt that we should use the same format which has been adopted by government bodies. One of the stakeholders who scored us a 2 felt the timing of the document as well as size was an issue. This is due to our document conflicting with the draft determinations send out by Ofgem, they also voiced a concern about the timeline of the remainder of the project.

However, stakeholders liked the structure of the meetings and the availability of the team to ensure questions were answered. Another stakeholder also highlighted they liked that the consultation feedback wasn't so rigid as were able to raise issues that the ESO may not have been aware of.

Stakeholders were also asked what their expectations of the ESO are as we move into Phase 3 of the project, which are summarised in the following table.

We have taken these into account in our planning for Phase 3.

Expectation/feedback	How we addressed for phase 3
We now need clarity on what the project pipeline is likely to look like and clear criteria for whether projects will go 'non-compete', early competition or late competition	We have organised a series of workshops in September/early October one of which covers project criteria
It would be much helpful if the ESO could confirm in liaison with Ofgem consistency and alignment of this process with other relevant proposals on this matter consulted on with the Industry e.g. RIIO-2	We are having regular update meetings with Ofgem
An online central repository for all competition policy documentation. The way in which material on pathfinders is documented is particularly difficult to navigate	We have recently added a key documents page to our Early Competition Web page to ensure all Early Competition published documents are easy to find. We will look into an online central repository for documentation for once Early Competition is implemented
A clear explanation around how Pathfinders might inform early competition (or not)	We have regular meetings scheduled with Pathfinders team to ensure we share best practice between the teams and discuss solutions to challenges we are facing. In the longer term we are looking if and how the two processes could be combined
Workshops are really good (structured and opportunity to engage with questions and comments)	Have arranged further workshops and will be further engaging when Phase 3 consultation is published
As before, we need ESO to state and evidence what problem they are trying to solve	We will follow up with the stakeholder to understand the issue further
Risk and impact assessment. We would like to see more consideration of the possible unintended consequences and mitigating actions	We will investigate this further, with an update in Phase 3 Consultation
Raises concerns on whether Phase 3 can be successfully undertaken in limited time available	We are currently reviewing timelines and will discuss further with Ofgem
Review the current program time to understand whether it is realistic to be able to complete	We are currently reviewing timelines and will discuss further with Ofgem
















































































iii) Phase 3

Following the webinars, we asked the participants to complete a short survey, to better understand how we can improve for future events. We asked a series of yes/no and open questions summarised below.

Most stakeholders agreed that the Phase 3 workshop sessions were useful, all topics stakeholders expected were discussed and workshops were well explained and discussed. One of the stakeholders also noted that they feel that the ESO have listened to their feedback.

Expectation/feedback	How we will address
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	This feedback was received at our 29 September Indicative Solution Identification Process Workshop. To immediately address concerns, we set up a follow up workshop with attendees and ESO experts. The aim of the session was to address concerns with the Interested Parties process and how Early Competition will interact with this process
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	We appreciate this feedback and will endeavour to ensure participants are enabled to engage at future events
Give a clearer outline of the ESO's ideas and proposals rather than ask everyone else what they think.	At the time of the time of the September and October Workshops the ESOs proposals for Phase 3 were not formed. The aim of the workshops was to seek feedback from stakeholders in order to inform our proposals. Phase 3 Proposals are detailed within the main body of this consultation document. In addition, we will be giving a verbal overview of proposals at our Consultation Launch Webinar on 15 December
I think it might 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	We appreciate the feedback, however due to previous feedback from multiple stakeholders we found multiple events on different sections work well for the majority of our stakeholder. We understand the time commitment involved, and therefore to ensure narrative can be followed we are committing to publishing summary documents, detailing the discussion held, for all of our workshops

1.5 Section 5 – Stakeholder list

	Phase 1	Phase 2	Phase 3
TO's	   	   	   
Technology & Design Companies	  	      	
Generators			
Construction	  	 	  
Consultants / Advisors	    	     	
DNOs			  
Regulatory / Public Body	  	  	  
Investors / Funders / Finance		    	
OFTOs	  	 	
Other	 	   	    

2 Appendix 2: ITT stage 2 technical evaluation

As set out in Chapter 5, Section 6, Bidders would be expected to provide the following:

Deliverability and delivery plan

This should set out at a minimum:

- A detailed project timeline including milestones, timescales, interdependencies and any underlying assumptions
- The delivery plan should set out the expected steps from contract/licence award through preliminary works, mobilisation, site selection and land purchase, site preparation works, detailed design, consenting and planning, cost assessment, debt competition and construction
- Internal governance and approval arrangements
- Approach to stakeholder engagement including TO's, planning bodies, local stakeholders
- A review of the design in relation to the need being tendered
- Analysis of the likelihood of the solution to gain all require consents and elements of planning permission
- Analysis of the engineering and technical aspects of the project including technological precedents in the UK and in comparable jurisdictions
- Analysis of the operational aspects of the project in particular in relation to any operational incentives set out in the contract or the minimum availability levels (including in relation to any possible connection restrictions, etc)
- Approach to connecting with the existing network (Connections Agreement application is not submitted until the PB stage)
- Assessment of whether the design meets good quality engineering design practices and the design and construction standards specified in the Grid Code, STC and SQSS (as appropriate)
- High-quality evidence for this element would include a Third Party report from an organisation with appropriate technical or engineering

credentials verifying that the design meets industry standards and addresses the need

- Approach to risk management and approaches to dealing with change

Supply Chain Strategy

This should set out at a minimum

- The objectives and vision for the management of the supply chain across the project lifecycle
- A description of the expected contractual arrangements clearly setting out which party is expected to undertake which activity and how the bidder will manage them e.g. consortia, SPV sub-contractors
- Key geographical and economic considerations for supply chain management e.g. site access, price fluctuations of input materials, competition in the market etc
- The approach to risk allocation and management through the supply chain
- Supply chain implementation plans
- The monitoring and reporting requirements of the supply chain
- High-quality evidence would involve a Third Party report verifying that the steps and assumptions underlying the supply chain strategy are reasonable and justified

Contract (EPC & O&M)

This should include as a minimum:

- Heads of terms of the EPC contractor
- Heads of terms for the O&M contractor(s)
- Contracts for legal, technical and financial advisors
- Commitment margins
- Governing documents of the consortia

- High-quality evidence for each would involve the final signed contracts for the key sub-contractors identified in the delivery plan

Financing Strategy

This should include as a minimum:

- Equity commitment - including an Internal Rate of Return (IRR)
- A financing adviser who has developed a strategy
- Exploration of the sources of debt finance
- Acceptance of the assumed level of leverage in the financial model
- Potential refinancing opportunities
- Description of the current debt market and expected structure of debt
- Description of any lifecycle or debt service reserve accounts or facilities
- High-quality evidence for this would involve a Third Party report from an entity with financial credentials verifying the approach and underlying assumptions of the financing strategy

Planning and consenting strategy

This should include as a minimum:

- The expected planning route i.e. Development Consent Order or Town and Country
- Identification of the key elements to be addressed as part of the Environmental Impact Assessment (EIA) based on local ecological and environmental considerations
- Any rail or road crossings that will require consent through Network Rail or Highways England
- Expected timescales of planning and consenting processes
- Any public engagement that is expected to support these applications
- Key areas of challenge as part of the planning and consenting process such as an Area of Outstanding Natural Beauty ("AONB"), sensitive ecological considerations

- If relevant, any regional planning or consenting specificities are reflected in the bids
- High-quality evidence for this would involve a Third Party report from an organisation with consenting or planning credentials verifying the approach and underlying assumptions

Environmental impact

This should include as a minimum:

- Estimate of residues and emissions from the construction, operation and decommissioning
- Estimates of the environmental constraints and opportunities of the concept design
- Assessment of the likely impacts of the development
- Plan for undertaking an EIA - highlighting key challenges and mitigations
- High-quality evidence for this would be a Third Party report from an organisation who specialise in EIA and a low overall impact following mitigations
- Environmental Action Plan and approach to development of an Annual Environmental Report

Approach to costing

This should include as a minimum:

- The benchmarks used to cost the different stages of the project lifecycle
- The assumptions underlying the approach
- High-quality evidence for this element would include a Third Party report from an engineering or economic consultancy verifying the approach taken and underlying assumptions used to develop the cost estimates

3 Appendix 3: Heads of Terms

Please see the accompanying Womble Bond Dickinson annex for the initial views on the Heads of Terms.

4 Appendix 4: Industry Codes

This appendix starts to consider the potential changes to industry codes which could be required as a result of our proposals.

This is a new topic which we did not include in our previous consultation. However, we stated we would provide views as part of our Phase 3 consultation and that we will include a position in our Early Competition Plan. We are therefore setting out our initial views to gather stakeholder insight and feedback on our initial thinking in relation to industry code change.

It is important to note that this appendix is based upon a high-level review of the codes and is based on our current model proposals. Any future code change will require more detailed analysis against the model to be implemented and the code background at that point in time. Therefore, whilst we would appreciate your views on this appendix please note that content remains subject to future refinement and change.

In addition, in undertaking a high-level review of the codes a set of high-level assumptions were made as follows.

- That where any form of licence or licence amendment is required it will be in place from the point of tender award e.g. for all network solutions and for all relevant non-network solutions.
- That where a contract is required (potentially in addition to a licence or licence amendment) it will be in place from the point of tender award e.g. for all non-network solutions.
- That where a party is not already acceded to the relevant codes at the point of tender award they will need to do so in parallel or shortly afterwards i.e. through the relevant code connection and accession processes.
- That offshore concepts related to Generator Build (such as Offshore Transmission System User Assets) will not be required for early competition i.e. in most cases the successful bidder will have the relevant licence and/or contract in place and will have acceded to the correct codes from the point of tender award.

4.1 Connection and Use of System Code ("CUSC")

This sub-section sets out our initial views on the potential impacts on the CUSC.

In undertaking a high-level review of the CUSC some assumptions were made as follows.

- That non-network solutions will need to be a CUSC Party in respect of connection to and/or use of the Transmission System.
- That CUSC obligations will remain mostly unchanged for CUSC Parties, even those providing non-network solutions.
- That non-network solutions will be provided via a commercial contract, which may be a Commercial Services Agreement.
- That there will be no new category of CUSC Party required in respect of the provision of non-network solutions.
- That network solutions will instead be provided with a Transmission Licence and will accede to the System Operator Transmission Owner Code.
- That CUSC Party obligations remain in place even where a commercial service is being provided for early competition e.g. User Commitment will still be required if necessary to facilitate a connection to provide the service.

We have set our initial views on potential changes to the CUSC based on the above assumptions as below.

Code Section	Potential Impact
Section 11	Potential changes to definitions of Onshore Transmission Licencee, Transmission Interface Point and Transmission Licence to include references to Competitively Appointed Transmission Owners ("CATOs").
Section 14	Potential changes to charging arrangements as a result of CATOs e.g. in respect of the costs of network solutions being used in the calculation of (and recovered through) TNUoS charges, or in respect of the costs of non-network solutions being used in the calculation of (and recovered through) BSUoS charges.
Schedule 2 (Exhibit 3 and Exhibit 3A) Construction Agreement and Offshore Construction Agreement	Potential changes to the standard terms related to time, cost and scope for any required provisions in relation to a connection being dependent upon onshore works which are to be undertaken by a CATO.

In addition, in exploring greater alignment between the connections process and the tender process (as discussed in Chapter 5, End-to-End Process) further impacts may be identified in respect of the connection and modification elements of the CUSC.

We therefore think that there will be minimal change required for the CUSC. The reason is that non-network solutions will simply become an existing party category and any rights and obligations related specifically to early competition will be included within their contract. There will however be minimal changes as a result of the existence of CATOs e.g. to code definitions.

Grid Code

This sub-section sets out our initial views on the potential impacts on the Grid Code.

In undertaking a high-level review of the Grid Code some assumptions were made as follows.

- That non-network solutions will need to be a Grid Code Party in respect of connection to and/or use of the Transmission System and will continue to become one via accession to the CUSC.
- That Grid Code obligations will remain mostly unchanged for Grid Code Parties, even those providing non-network solutions.
- That there is no new category of Grid Code Party required in respect of the provision of non-network solutions.
- That we do not believe the Grid Code fundamentals are being changed by early competition.
- That main differences will be that some of the parties bound by the Grid Code may be providing non-network solutions for early competition under a contract in future and that there may be new Transmission Licencees (i.e. CATOs) in future.

We have set our initial views on potential changes to the Grid Code based on the above assumptions as below.

Code Section	Potential Impact
Glossary and Definitions	<p>As there are currently many references to the three incumbent Transmission Owners ("TOs") and their onshore systems there will be changes to definitions to include references to CATOs.</p> <p>For example, Onshore Transmission Licencee, Relevant E&W Transmission Licencee, Relevant Scottish Transmission Licencee, E&W Transmission System, Scottish Transmission System, Small Power Station, Medium Power Station and Large Power Station.</p> <p>In addition, the concept of an offshore transmission system to an onshore transmission interface exists but not an onshore transmission system to onshore transmission system interface so there may need to be changes in respect of the introduction of an onshore interface point i.e. a TO to CATO interface.</p> <p>For example, Interface Point, Interface Point Capacity and Interface Point Target Voltage/Power Factor.</p>
Planning Code PC7	Potential change to 'Access Periods' and 'Transmission Interface Circuits' as a result of CATOs.
Planning Code Appendices C and E	Potential change to include clarity on technical design criteria as a result of CATOs.

Code Section	Potential Impact
Connection Conditions Appendix 1	Potential change to include pro-forma Site Responsibility Schedules in respect of connecting to CATOs.
Connection Conditions A5.5	Potential change in relation to scheme settings as a result of CATOs.
Operating Code OC8	Potential change to expand safety co-ordination requirements to include CATOs.
Operation Code OC9	Potential change to expand contingency planning requirements to include CATOs.
Balancing Code BC2	Potential changes to expand post-gate closure process requirement to include CATOs.
General Conditions Annex and GCA.1.3	Potential change to include clarity on technical standards as a result of CATOs.
Governance Rules	<p>As Panel Members include an Onshore Transmission Licencee representative there will be questions on code governance as a result of the introduction of CATOs.</p> <p>For example, will a CATO representative be part of the onshore category or will they require a separate panel seat in a similar manner to Offshore Transmission Owners ("OFTOs")?</p>

We therefore think that there will be minimal to moderate change required for the Grid Code. The reason is that non-network solutions will simply become an existing party category and any rights and obligations related specifically to early competition will be included within their contract. There will however be several changes as a result of the existence of CATOs e.g. to code definitions and to provide clarity in respect of applicable design standards.

4.2 System Operator-Transmission Owner Code (STC)

This sub-section sets out our initial views on the potential impacts on the STC.

In undertaking a high-level review of the STC some assumptions were made as follows.

- That network solutions will need to be an STC Party as becoming a Transmission Licencee.
- That STC obligations will remain mostly unchanged for TOs and OFTOs.
- That early competition will only apply 'onshore' and as such CATOs will become an Onshore Transmission Licencee.
- That not all rights and obligations related to Onshore Transmission Licensees will however be appropriate for CATOs so the rights and obligations of CATOs and TOs may in some cases diverge and STC will need to make such distinction. For example, we expect that obligations in relation to Service Capability Specifications and other general TO obligations in respect of the Electricity System Operator will also apply to CATOs.
- That the concept of Embedded Transmission (and associated concepts) will not be relevant to early competition.
- That many of the STC rights and obligations expected to apply to CATOs will be applied in proportion to the size and criticality of their current and future Transmission System e.g. processes related to new connections will apply but will likely be rarely utilised, etc.

We have set our initial views on potential changes to the STC based on the above assumptions as below.

Code Section	Potential Impact
Section B3.2 Governance	There will be questions on the party entry process in relation to CATOs. In the event a Transmission Licence is granted in parallel to the conclusion of the tender process then CATOs will need to accede to STC (including concluding associated STC derived agreements) in parallel and a party entry process will need to be created which aligns with the tender process.
Section B6 Governance	There will be questions on code governance in relation to CATOs. At present, up to two people are appointed per onshore TO with one vote per onshore TO. In addition, up to two people for OFTOs are appointed collectively via election with one cumulative vote. Alternates are also either appointed for onshore TOs or elected for OFTOs.
Section C3.3 (Part 1) Transmission Services and Operations	Clarity will be required in respect of Site Responsibility Schedules and this is likely linked to the above CATO Party Entry Process. A TO-CATO Site Responsibility Schedule will be required.
Section C3.3 and C3,7 (Part 3) Transmission Services and Operations	Clarity will be required in respect of Transmission Interface Agreements and this is likely linked to the above CATO Party Entry Process. A TO-CATO Transmission Interface Agreement will be required.

Code Section	Potential Impact
Section D2.1.2 and D2.1.3 (Part 1) Planning Coordination	Clarity will be required in respect of Transmission Investment Plans and whether CATOs have obligations the same as or similar to TOs or OFTOs.
Section D2.2.6 (Part 1) Planning Coordination	Clarity will be required in respect of Planning Assumptions in respect of provision to CATOs.
Section D2.3 (Part 1) Planning Coordination	Clarity will be required in respect of Transmission Investment Plan Coordination in respect of CATOs.
Section D2 and D3.3 (Part 2) Planning Coordination	Clarity will be required in respect of process for CATOs in respect of Construction Applications and Construction Planning Assumptions.
Section D4.13 (Part 2) Planning Coordination	Additional content will be required in respect of new investment policy for CATOs. (At present a cap of 20% additional expenditure for new connections is stated for OFTOs.)
Section D7.1 (Part 2) Planning Coordination	Clarity will be required in respect of Reasonable Charges for CATOs.
Section D8 (Part 2) Planning Coordination	Clarity will be required in respect of CATO Construction Securities. (As present arrangements exist for OFTOs in relation the value and acceptable forms of securities.)
Section D17 (Part 2) Planning Coordination	Clarity will be required in respect of Disconnection in the context of CATOs.
Section E2 and E3 plus Appendix 10 Billing and Payment	TO Charges and NGESO Charges will need to be updated in respect of CATOs e.g. the addition of provisions in relation to CATO of Last Resort Charges on a comparable basis to OFTO arrangements.
Section F Communications and Data	There may potentially be changes to data exchange in respect of tender process facilitation.

Code Section	Potential Impact
Section G General Provisions	There may potentially be changes to some general provisions as a result of early competition.
Section H Disputes	The scope of dispute resolution processes may need to be extended in respect of any new processes.
Section J Interpretations and Definitions	<p>Multiple definitions will need to be added or amended in respect of the introduction of CATOs and the associated policy and process. For example:</p> <ul style="list-style-type: none"> - Concepts such as Commissioning Programme and TI Commissioning Programme will need to be updated to reflect that CATOs will be involved in commissioning and compliance activities. - Concepts such as the Default Planning Boundary will need to be reviewed in relation to CATOs. - Concepts such as the Interface Point, Interface Point Capacity and Transmission Interface Agreement will need to be updated as a result of a TO-CATO interface - this facilitates Site Responsibility Schedules, Transmission Interface Agreements and Transmission Interface Site Specifications. - Consents such as Party Category and Onshore Transmission Owner will need to be updated to reflect that CATOs will accede to code and become a form of onshore TO. A new definition of a CATO will therefore also need to be introduced. <p>In addition, other new concepts will likely need to be introduced such as CATO Construction Securities, CATO Compensation Payments, Forecast CATO Construction Cost, CATO Construction Completion Date, CATO Construction Secured Amount and potentially CATO Tender Regulations. It is likely all can be substantially based on the current definitions for OFTOs except where a policy difference.</p>
Section K Technical, Design and Operational Criteria and Performance Requirements (Offshore Transmission)	Whilst no changes are required to Section K as it relates to any OFTO to TO interfaces there is likely a requirement for new comparable 'Section L' (for example) in respect of future CATO to TO interfaces.

In addition, in exploring greater alignment between the connections process and the tender process (as discussed in Chapter 5, End-to-End Process) further impacts may be identified in respect of the connection and modification elements of the STC.

We therefore think that there will be moderate to high change required for the STC. The reason is that network solutions will become CATOs and as such there will be several changes as a result of the existence of CATOs e.g. to code definitions and to provide clarity on their obligations. In addition, there may be changes to STC required as a result of the implementation of early competition which are required for all solutions i.e. process facilitation.

The STC schedules will also need to be updated, such as in relation to the creation of a CATO Construction Agreement, as will the majority of STCPs. In addition to the above and based on the same above assumptions we have also set out our initial views on potential impact on the STCPs below.

Reference	Title	Initial Position
STCP01-1	Operational Switching	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP02-1	Alarm and Event Management	Expect to apply in full noting minor amendments to introduce CATOs would be required and noting some elements are specific to OFTOs.
STCP03-1	Post Event Analysis and Reporting	Expect to apply in full noting minor amendments to introduce CATOs would be required.
SCTP04-1	Real Time Data Change Management	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP04-2	Real Time Data Link Management	Expect to apply in full noting minor amendments to introduce CATOs would be required. Further consideration would be required in respect of creating or amending appendices.
STCP04-3	Real Time Data Provision	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP04-4	Provision of Asset Operational Information	Expect to apply in full noting minor amendments to introduce CATOs would be required. Further consideration would be required in respect of creating or amending appendices.

Reference	Title	Initial Position
STCP04-5	Operational Telephone	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP04-6	Offshore Datalink Functional Specification for Telecontrol Communication Interface	Expect does not apply but potential a comparable STCP (e.g. STCP04-7) could be required for CATOs.
STCP06-1	Black Start	Expect to apply in part i.e. in respect of any onshore transmission system owned by a CATO which is designated as to be part of a Local Joint Restoration Plan.
STCP06-2	Desynchronised Island Management	Further consideration is required on whether this would or could be applicable to CATOs.
STCP06-3	System Incident Management	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP06-4	Contingency Arrangements	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP08-1	Protection Testing	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP08-2	Circuit Live Trip and DAR Tests	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP08-3	Operation Tests and System Tests	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP08-4	User Tests	Expect to apply in full noting minor amendments to introduce CATOs would be required.

Reference	Title	Initial Position
STCP09-1	Safety Co-ordination Between Parties	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP09-2	Site, Public and Environmental Safety	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP10-1	Asset Nomenclature	Expect to apply in full noting minor amendments to introduce CATOs would be required. Further consideration is required in respect of nomenclature for CATOs.
STCP11-1	Outage Planning	Expect to apply in full noting minor amendments to introduce CATOs would be required and noting some elements are specific to OFTOs.
STCP11-2	Outage Data Exchange	Expect to apply in full noting minor amendments to introduce CATOs would be required and noting some elements are specific to OFTOs.
STCP11-3	TO Outage Change Costing	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP11-4	Enhanced Service Provision	Further consideration is required in respect of approach for CATOs.
STCP12-1	Data Exchange Mechanism	Expect to apply in full noting minor amendments to introduce CATOs would be required and noting some elements are specific to OFTOs. An equivalent to Appendix C would likely need to be created for CATOs.
STCP13-1	Invoicing and Payment	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP13-2	SIF and LARF Methodology	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP14-1	Data Exchange for Charge Setting	Expect to apply in full noting minor amendments to introduce CATOs would be required and noting some elements are specific to incumbent TOs and others to OFTOs.

Reference	Title	Initial Position
STCP14-2	Data Exchange for Charging Consultations	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP14-3	Customer Charging Enquiries	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP16-1	Investment Planning	Expect to apply in full noting minor amendments to introduce CATOs would be required. Potential for changes in respect of incumbent TOs and process facilitation.
STCP17-1	Feasibility Study	Expect to apply in full noting minor amendments to introduce CATOs would be required. Potential for changes in respect of incumbent TOs and process facilitation.
STCP18-1	Connection and Modification Application	Expect to apply in full noting minor amendments to introduce CATOs would be required and noting some elements are specific to OFTOs.
STCP18-2	Use of System Application	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP18-3	TEC Changes	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP18-4	Request for a Statement of Works	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP18-6	Variations to Agreements	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP19-2	Construction Process and Scheme Closure	Expect to apply in full noting minor amendments to introduce CATOs would be required.

Reference	Title	Initial Position
STCP19-3	Operational Notification and Compliance Testing including Compliance Checklist	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP19-4	Commissioning and Decommissioning	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP19-5	Offshore Transmission System Compliance Process and Testing	Expect to apply in full noting minor amendments to introduce CATOs would be required. A new comparable STCP (e.g. STCP19-5B) would likely be required in respect of the CATO interface with the existing onshore Transmission System.
STCP19-6	Application Fee and Refresh Template	Expect to apply in full noting minor amendments to introduce CATOs would be required.
SCTP20-1	Electricity Ten Year Statement	Expect to apply in full noting minor amendments to introduce CATOs would be required. Potential for changes in respect of incumbent TOs and process facilitation.
STCP21-1	Network Options Assessment	Expect to apply in full noting minor amendments to introduce CATOs would be required. Potential for changes in respect of incumbent TOs and process facilitation.
STCP21-2	NARMS Data Exchange Guidance and Data Exchange Forms	Do not expect to apply to CATOs.

Reference	Title	Initial Position
STCP22-1	Production of Models for GB System Planning	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP23-1	Offshore Party Entry Process	Does not apply to CATOs. A new comparable STCP (e.g. STCP23-2) would likely be required in respect of the CATO Party Entry Process.
STCP24-1	Revenue Forecast Information Provision	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP25-1	Significant Code Review Process	N/A - applies to code governance
STCP25-2	Send Back Process	N/A - applies to code governance.
STCP25-3	Fast Track Self Governance Process	N/A - applies to code governance
STCP26-1	Active Network Management	Expect to apply in full noting minor amendments to introduce CATOs would be required.
STCP27-1	System Performance Monitoring	Expect to apply in full noting minor amendments to introduce CATOs would be required.

In addition to the potentially new STCPs detailed above there may also be a need for a new STCP28-1 (for example) in respect of early competition process facilitation i.e. the role of the Electricity System Operator and incumbent TOs in respect of network need identification, tender process, data exchange, etc.

4.3 Other Codes, Standards and Considerations

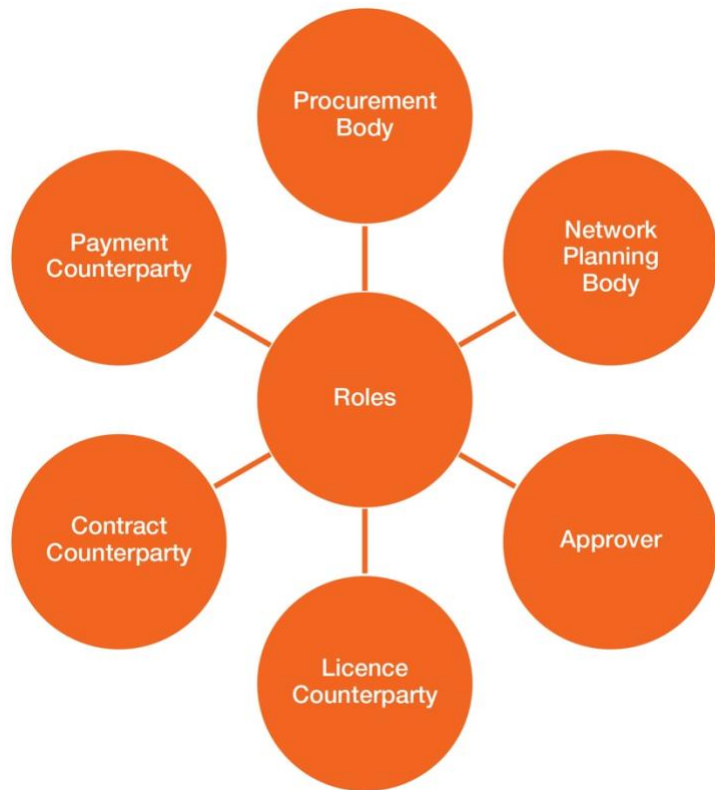
This sub-section sets out our initial views on the potential impacts on the other codes and standards.

- With regard to the System and Quality of Supply Standards ("SQSS"), our current understanding is CATOs will (in accordance with their licence) comply with SQSS and will be incorporated into SQSS as an Onshore Transmission Owner rather than an Offshore Transmission Owner. Therefore, at a minimum, changes will be required to introduce the concept of a CATO (as an Onshore Transmission Owner) into the SQSS e.g. in a handful of cases there are references to specific TOs or geographic standards which will need to be adapted in respect of CATOs. However, further consideration is also required in respect of the potential impact of non-network solutions on network compliance and how such standards consider and interact with any non-network solutions which could be contributing to or interacting with SQSS compliance for TOs, including OFTOs and CATOs. This could result in further changes being required to the SQSS in future.
- With regard to the Distribution Code, our current understanding is that there will be minimal changes although this remains to be discussed and validated with the code administrator for this code. For example, some of the above elements which likely need further consideration in respect of the Grid Code will also need to be considered for the Distribution Code such as in respect of large, medium and small power stations.
- With regard to the Balancing and Settlement Code, our current understanding is that there will be minimal (if any) changes although this remains to be discussed and validated with the code administrator for this code.
- With regard to the Distribution Connection and Use of System Agreement, our current understanding is that there will be minimal (if any) changes although this remains to be discussed and validated with the code administrator for this code.
- Further consideration will be required once the outcome of both the Energy Codes Review and the Engineering Standards Review are known as these projects could change the baseline upon which the industry code and standard impacts related to early competition are considered in any future implementation period.

6 Appendix 6: Distribution

A - Roles Outline

Figure 1: Early Competition Roles



Procurement Body: Responsible for the design of the procurement structure and process. The development of tender and contractual documents.

Network Planning Body: Accountable for identifying needs, initial solution development, market engagement to explore options, assessing option combinations and determining which needs might be suitable for competition.

Approver: Makes the formal decision to conclude a stage of early competition.

License Counterparty: Will manage and monitor any obligations placed on any successful bidder that is issued a CADO or has a distribution license.

Contract Counterparty: Will manage and monitor any obligations placed on any winning bidder who will hold a contract for any solution not performing the function of electricity distribution (non-network).

Payment Counterparty: This entity will manage financial transactions between the winning bidder and the other counterparties.

B - Key advantages and disadvantages

Table 1: Advantages and disadvantages of Ofgem, DSO and a third party taking on the early competition roles in distribution

Role	Ofgem		DNO/DSO		3 rd Party	
	Advantage	Disadvantage	Advantage	Disadvantage	Advantage	Disadvantage
Procurement Body	<ul style="list-style-type: none"> • Experience of conducting tender process • Independent • Well placed to consider interests of existing and future consumers 	<ul style="list-style-type: none"> • Lack of technical knowledge of systems • Limited construction procurement exp. • Resource to deal with high volume? 	<ul style="list-style-type: none"> • Experience running procurement activities • In-depth knowledge of the electricity system • Building on existing capabilities • Existing Licence framework (DNO) encouraging forms of competition 	<ul style="list-style-type: none"> • Potential for variable processes due to multiple Procurement Bodies – more complex for bidders • Potential perceived conflict of interest (same party runs event, competes, decides winner) 	<ul style="list-style-type: none"> • Potential to create synergies, creating an 'expert' body covering Transmission and/or Distribution early competitions • Consistent process • Potentially perceived as more independent 	<ul style="list-style-type: none"> • Limited knowledge of distribution systems • Potentially very high cost & complexity of set up • Regulatory change to introduce new party into distribution
Network Planner	N/A	N/A	<ul style="list-style-type: none"> • Extension of current role with Subject Matter Experts in-house • Detailed knowledge of networks • Retain existing process of majority of network planning 	<ul style="list-style-type: none"> • Potential for perception of unlevel playing field on information • Potential perceived conflict of interest as shaping and actively involved in competition 	<ul style="list-style-type: none"> • Potentially easier to set more standard process • Potentially perceived as more independent 	<ul style="list-style-type: none"> • Limited knowledge of distribution planning • Potential cost/complexity of set up • Significant Regulatory change required

Role	DNO/DSO		3 rd Party	
	Advantage	Disadvantage	Advantage	Disadvantage
Contract Counterparty	<ul style="list-style-type: none"> DNO/DSO hold operational risk Experience contracting services Extension of current activities – less time to upskill and resource Current relationships with some potential bidders 	<ul style="list-style-type: none"> Potentially greater level complexity than used to Potential perceived conflict of interest if developing the contract terms and the DNO is competing 	<ul style="list-style-type: none"> Potentially perceived as more independent 	<ul style="list-style-type: none"> Doesn't hold the operational risk Potentially high set up costs – acquire relevant skills and experience
Payment Counterparty	<ul style="list-style-type: none"> Extension of exiting role of DNOs – experienced and trusted Excellent understanding of charging regime Direct relationship between customer and service provider 	<ul style="list-style-type: none"> Potential that under/over recovery of early competition related cost could introduce a new cashflow risk to DNO/DSO 	<ul style="list-style-type: none"> Potentially able to provide greater financial security e.g. if Government backed Single payment counterparty might be more cost effective for consumers 	<ul style="list-style-type: none"> Potentially high set up costs Regulatory change may be required No/limited detailed knowledge of payment regime and its history Need to secure acceptable credit rating

7 Appendix 7: Glossary

• BAFO	Best and Final Offer	• Ofgem	Office of Gas and Electricity Markets
• CATO	Competitively Appointed Transmission Owner	• OJEU	Official Journal of the European Union
• CBA	Cost Benefit Analysis	• PB	Preferred Bidder
• CPI	Consumer Prices Index	• PFI	Project Finance Initiative
• CPI-H	CPI including owner occupiers' housing costs	• PIN	Periodic Indicative Notice
• CUSC	Connection and Use of System Code	• PPP	Public Private Partnerships
• ECP	Early Competition Plan	• PQ	Pre-Qualification
• EIA	Environmental Impact Assessment	• RPI	Retail Prices Index
• EISD	Earliest In Service Date	• STC	System Operator – Transmission Owner Code
• ESO	National Grid Electricity System Operator	• TOCA	Transmission Owner Construction Agreement
• ETYS	Electricity Ten Year Statement	• UC	Unitary Charge
• FC	Financial Close for third party debt	• RAV	Regulatory Asset Value
• GB	Great Britain	• RIIO	(Revenue = Incentives + Innovation + Outputs) Ofgem's performance-based framework to set price controls
• FES	Future Energy Scenarios	• RIIO-2	RIIO price control for 2021-2026
• IRR	Internal Rate of Return	• RV	Residual value
• ITT	Invitation to Tender	• TO	Transmission Owners
• ITPR	Integrated Transmission Planning and Regulation	• TRS	Tender Revenue Stream
• NDA	Non-Disclosure Agreement	• UC	Unitary Charge
• NOA	Network Options Assessment		
• NPV	Net Present Value		
• OFTO	Offshore Transmission Owners		

8 Appendix 8: Response Proforma

As set out in the Consultation Summary, you can respond to our consultation in a number of ways. Below is a proforma that could be used, summarising the questions highlighted in our consultation. Completed proformas should be sent, by the closing date, to box.earlycompetition@nationalgrideso.com

Name of organisation:

Sector:

Contact name:

Contact email:

Status of response (please select one): Strictly Confidential / Partially Confidential / Confidential / Public

Chapter 2: Roles and Responsibilities

Question	Yes/No (if applicable)	Response
1. Do you agree with the activities of the Approver we are proposing? Please tell us why.		
2. What do you think the checks, that make up the other activities, should look like? Should they be a formalised process?		
3. Who do you think is the most appropriate party or parties to perform the Procurement Body role?		
4. Taking into consideration the role of the Approver, do you think an Independent Assurance activity is needed?		

5. Do you agree with our position on the Contract Counterparty role? Please tell us why.
6. Do you agree with our position on the Payment Counterparty role? Please tell us why.
7. Do you agree with our proposed approach to conflict mitigation?
8. Do you agree with the key differences between early competition and these case studies? And do you agree that the key differences would limit the lessons that can be learnt for the purposes of developing the model for early competition?

Chapter 3: Identifying Projects

Question	Yes/No (if applicable)	Response
1. Do you agree that only competing projects that appear in at least two FES scenarios will provide sufficient confidence that the project will go ahead?		
2. Do you agree with our proposed approaches for different drivers of network investment? Are there ways single party connections could be identified as having sufficient certainty to compete?		
3. Do you agree that continuing to develop the Interested Persons Options process is the best way to engage stakeholders in initial solution design?		

Chapter 4: Commercial Model

Question	Yes/No (if applicable)	Response
1. Do you agree with the partial indexation of the TRS and the adoption of CPIH as the index? Why?		
2. Which of the options for extending the revenue period do you think are most appropriate? Why?		
3. Do you agree with the preferred option of a fixed payment to the successful bidder upon the delivery of key milestones during the preliminary works period? Why?		
4. Do you agree with our revised views and preferences in respect of the Post Preliminary Works Cost Assessment, Performance Bond and Income Adjusting Events? Why?		
5. Do you agree with our preferred option regarding margins and overheads? Why?		
6. Are there any additional measures a Procurement Body could take to further drive value for consumers in securing debt finance?		
7. Do you agree with our current preferred option with regards to equity? Why?		

8. Do you agree with our views on indexation? Why?
9. Do you agree with our updated views on licence/contract and industry codes? Why?
10. Do you agree with our views on need change or disappearance? Why?
11. Do you agree with our views and preference in respect of the 'provider of last resort' arrangements? Why?

Chapter 5: End to End process for early competition

Question	Yes/No (if applicable)	Response
1. Do you agree with our preferred position on pre-tender activities? Please explain your answer.		
2. Do you agree with our preferred position on impact studies?		
3. Is there anything in our approach to sharing network information that you believe is unworkable? If yes, please provide details?		
4. Do you agree that individual pre-submission reviews should not be offered to bidders during the tender process if the clarification question process is in place?		

5. Do you agree with our preferred position on the Pre-Qualification assessment and process? Please explain your answer.
6. Do you agree with our preferred position on Invitation to Tender stage 1 assessment and process? Please explain your answer.
7. Do you agree with our preferred position on Invitation to Tender stage 2 assessment and process? Please explain your answer.
8. Do you agree with our updated views in respect of late project delivery? Why?
9. Do you agree with our updated views on the preliminary works / solution delivery incentive regime being proposed for early competition? Why?
10. Do you agree with our updated views on the operational incentive regime being proposed for early competition? Why?
11. Do you agree with our revised views and amended preference in respect of decommissioning securities? Why?

Chapter 6: Implementation

Question	Yes/No (if applicable)	Response
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1. Do you think Table 1 is a comprehensive list of high-level implementation plan activities? If not, what has been omitted?
2. Do you agree with our proposed timing and sequencing for implementation plan activities? If not, what would you change?
3. Do you agree with the 'potentially advanceable' implementation plan activities? If not, what would you change?
4. Do you agree with our views on early competition prior to early competition legislation? Why?

Chapter 7: Early competition and Distribution

Question	Yes/No (if applicable)	Response
1. Is there any issue with the high-level early competition process being developed that means it could not be used for distribution sector needs? If yes, please specify the issue(s) and why they make the process unusable.		
2. Which party is best placed to perform each of the key roles at distribution level? Where a third party is chosen please specify who you think this could be and why?		
3. Should any of the additional roles be created as specific roles? If yes, please set out who you think is best placed to perform the role and why?		