



ESO Networks Stakeholder Group

12th October 2020

Agenda

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



Action Log

ID	Description	Owner	Due	Status	Date Raised
1	Send Bio and photo to Alice McCormick	All	28/08/2020	Open	11/08/2020
5	Confirm England planning representative and consider inviting Local Government Association	Hannah KW	02/09/2020	Open	11/08/2020
6	Create programme of content for the ERSG meetings to cover for Group to approve	Alice M	12/10/2020	Open	11/08/2020
9	Publish approved version of Terms of Reference on website	Rachel Payne	09/09/2020	Open	11/08/2020
11	Consider how Crown Estate should be represented in ToR	Alice M / Fiona	16/10/2020	Open	2/9/2020
14	Contact Natural England about whether they would have enough time to respond to the consultation with the current timeline.	Alice E	16/10/2020	Open	2/9/2020
15	Consider feedback and review the Offshore Coordination timeline.	Alice E	16/10/2020	Open	2/9/2020
16	Confirm with group members what dates would work for future meetings.	Alice M	16/10/2020	Open	2/9/2020

Future ENSG Meetings

12th October

- **Assessment of Early Competition proposals**

3rd November

- Phase 3 consultation for Early Competition

19th November

- Phase 3 consultation for Early Competition
- Offshore Coordination Consultation

w/c 11th January

- Initial views of Early Competition phase 3 consultation

w/c 25th January

- Post Early Competition consultation feedback

w/c 22nd February

- Early Competition final report to Ofgem
- Final overview of how the ESO responded to stakeholder feedback

Early Competition ENSG Report

Chapter 1: The ENSG Process

- The role of the Stakeholder Group
- Purpose of the Group
- Members of the Group
- Chair
- Meetings

Chapter 2: Early Competition Phase 1 & 2 Summary

- Stakeholder Engagement Approach

Chapter 3: Early Competition Phase 3

- Stakeholder Engagement Approach
- Assessment of proposals
 - Suitability for competition
 - Roles and Responsibilities
 - Tender process
 - Commercial model
 - Post tender process
 - Distribution
 - Regulatory framework
 - Implementation plan

Chapter 4: Final Report

Chapter 5: How has ESO worked with ENSG?



Early Competition

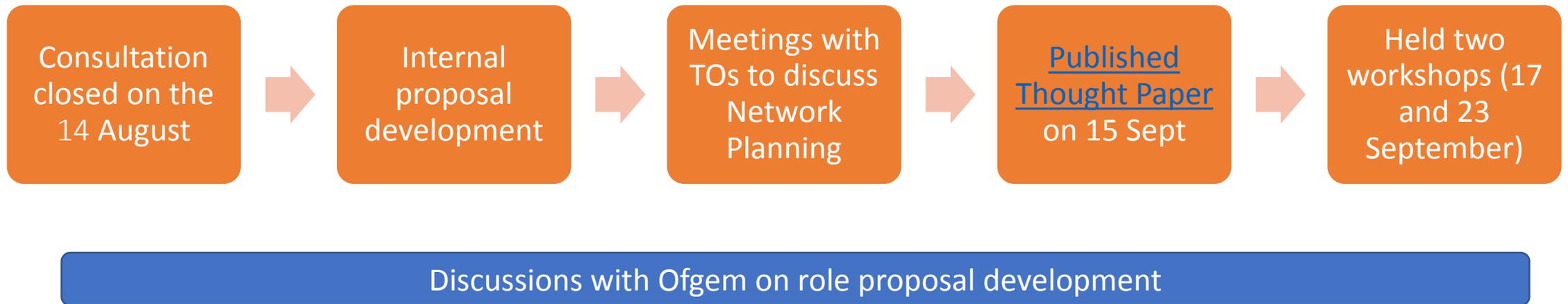
Summary of Roles
in Competition

Agenda

- Introduction
- Proposal Development
 - Procurement Body
 - Contract Counterparty
 - Payment Counterparty
 - Ofgem's role
 - Network Planning Bodies
- Stakeholder Workshops Summary
- Next steps
- Questions



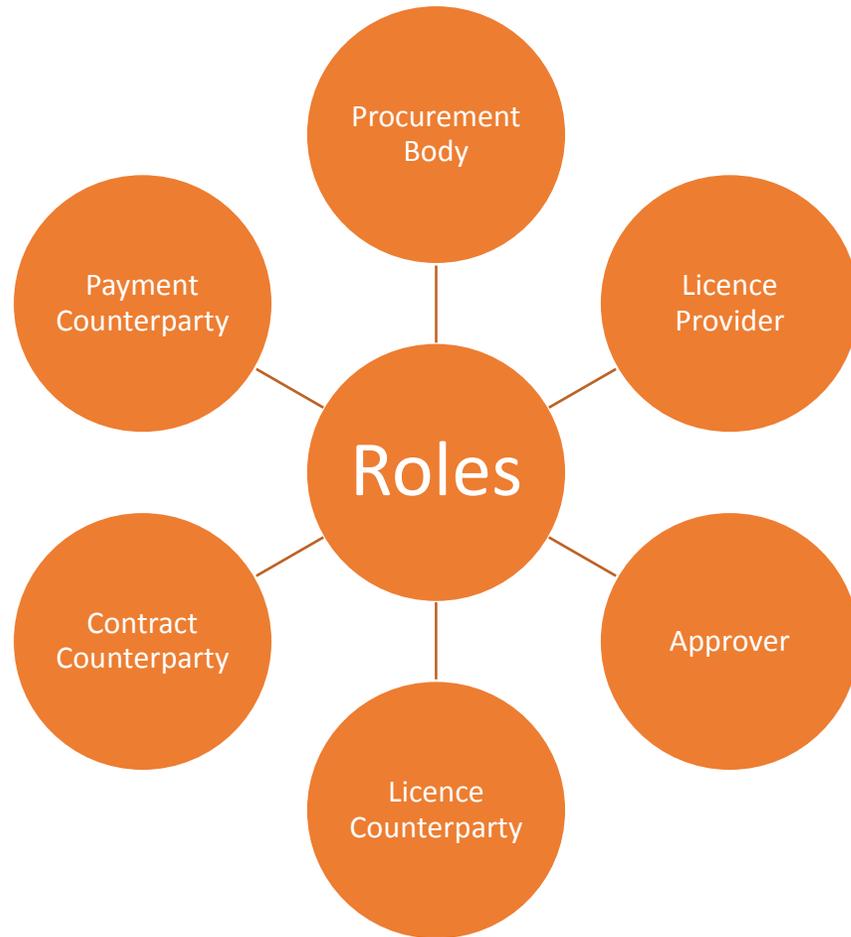
What have we done since Phase 2?



Role Proposal Development



Roles and Responsibilities



Parties

Ofgem, the ESO and incumbent TOs and the possibility of a 3rd Party

Roles:

- **Procurement Body:** responsible for the design of the procurement structure and process. The development of tender and contractual documents.
- **Licence Provider:** This entity will issue the Licence.
- **Approver:** Makes the formal decision to conclude a stage of early competition.
- **Licence Counterparty:** Will manage and monitor any obligations placed on any successful bidder that is issued or has a transmission licence.
- **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 transmission (non-network).
- **Payment Counterparty:** This entity will manage financial transactions between the winning bidder and the other counterparties.

Development

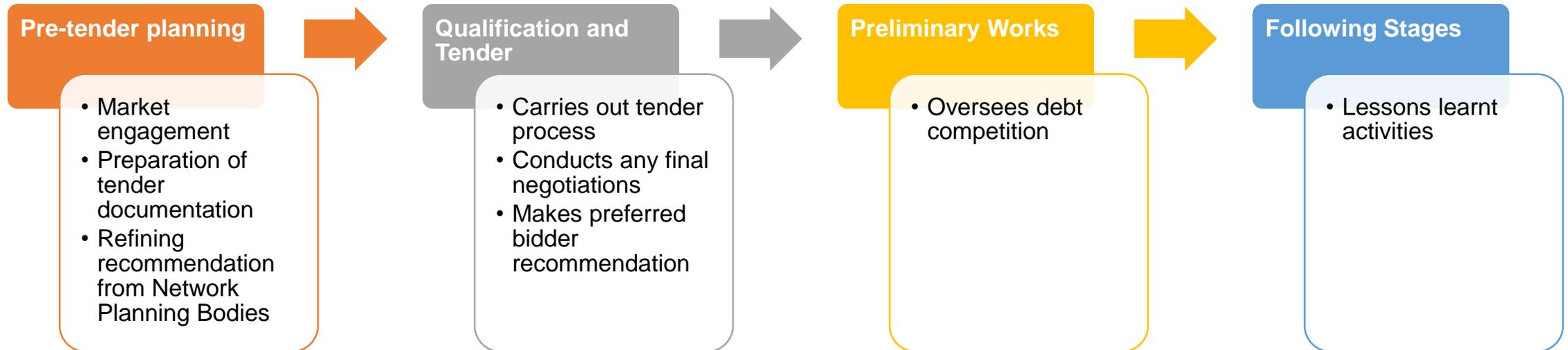
During proposal development, we found that some roles overlapped, and others would benefit from being defined.

Updates

- Removed the role of Licence Provider as this activity overlapped with activities under the Licence Counterparty
- Added the role of Network Planning Bodies to help us in our thinking on the role of incumbent TOs.



Procurement Body



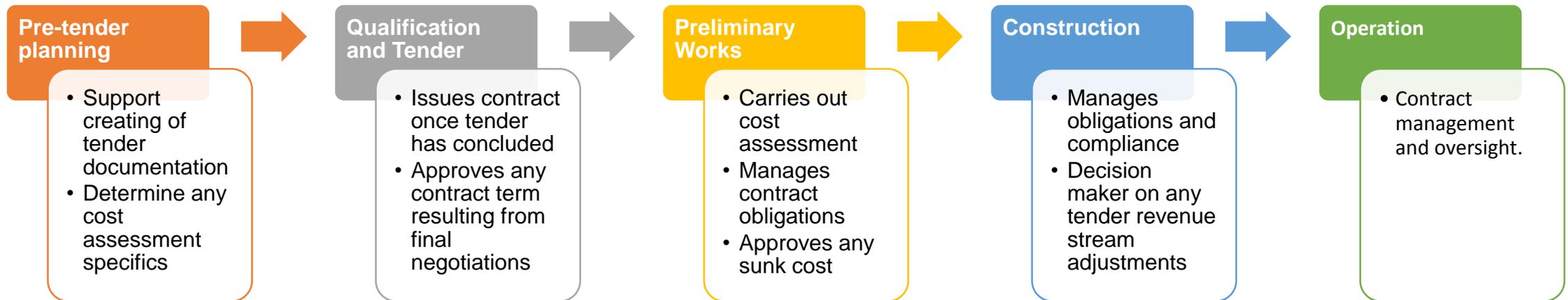
We did an initial risk assessment on risks associated with the role, applicable to any entity:

- Tender process
- Technical risk
- Cashflow/Financial
- Legal Challenge
- Perceived unlevel playing field
- Political
- Other

Analysis of Phase 2 Proposals

Entity	Advantages to playing this role	Disadvantages to playing this role
Ofgem	<p>Experience of conducting a similar tender process. Independent party in role as Regulator. Commercial relationships and capabilities. Experience of regulatory models and regimes.</p>	<p>Lack of technical knowledge of the electricity system. Limited experience in assessing construction tenders. No experience in evaluating system needs and solutions or of non-network solutions</p>
Third Party	<p>Independent body Potential to create synergies across sectors May be beneficial for competition in distribution</p>	<p>High set up cost. Would need to procure the relevant skills and experience. Creation of new governance and regulatory arrangements. Lack of system knowledge.</p>
ESO	<p>Experience of procurement processes In-depth knowledge of the electricity system Will not participate in competition and has robust legal separation requirements in place. Synergies with other roles the ESO carries out.</p>	<p>Significant increase in procurement process complexity compared to what the ESO is used to. Little experience of regulatory finance models and regimes. Potential inability to finance the liability risk of this role.</p>

Contract Counterparty



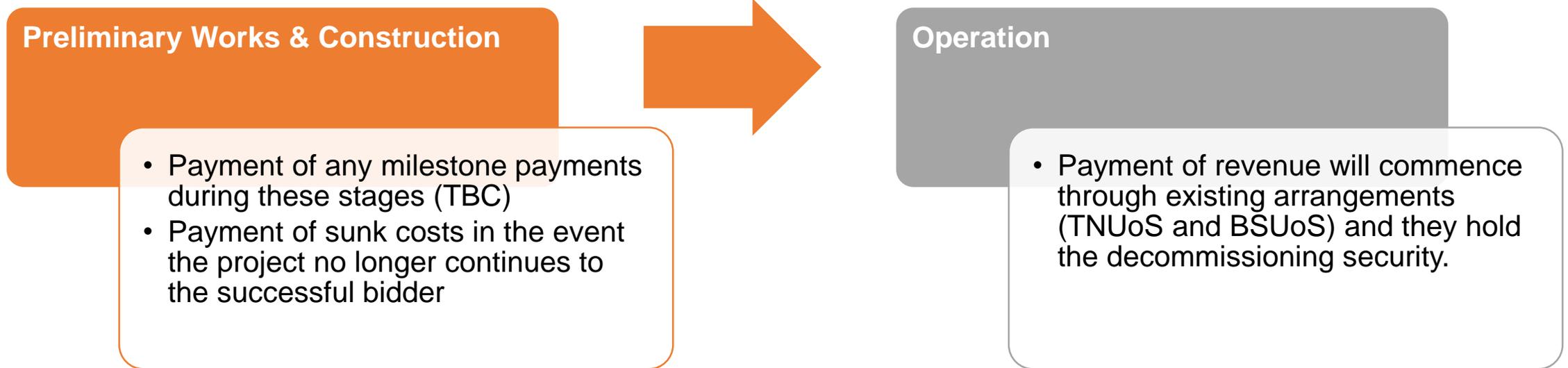
We did an initial risk assessment on risks associated with the role, applicable to any entity:

- Cashflow/Financial
- Legal Challenge
- Winning bidder default
- Political
- Perceived unlevel playing field
- Contract management
- Other

Analysis of Phase 2 Proposals

Entity	Advantages to playing this role	Disadvantages to playing this role
Third Party	Independent body so perception of conflict of interest during certain processes e.g. . during commissioning where adjudication is needed, is mitigated.	High set up costs. Need to acquire relevant skills and experience. Potentially higher monitoring costs from Ofgem.
ESO	Experience of contracting. Less additional funding needed than required for a 3 rd party. Builds on existing capabilities. Current relationships with some potential bidders.	Increased complexities in contracting arrangements from what the ESO is used to.

Payment Counterparty



We did an initial risk assessment on risks associated with the role, applicable to any entity:

- Cashflow/Financial
- Legal Challenge/ Political

Analysis of Phase 2 Proposals

Entity	Advantages to playing this role	Disadvantages to playing this role
Third Party	<p>Potentially able to provide greater financial security than under current arrangements e.g. if Government backed.</p> <p>Proven model that works e.g Low Carbon Contracts Company (LCCC)</p>	<p>High set up costs.</p> <p>Need to build up knowledge of payment arrangements</p> <p>Need to secure acceptable credit rating to mitigate counterparty credit risk.</p> <p>Need to amend existing arrangements for TNUoS and BSUoS.</p>
ESO	<p>Currently play this role for TNUoS and BSUoS charging arrangements.</p> <p>Regulatory arrangements and codes currently allow for the ESO owning this role.</p> <p>Vast experience in delivering this role and the arrangements surrounding it.</p> <p>Trusted to manage monies by industry due to having factors such as a good credit rating</p>	<p>Over/under recovery risk could increase as money moves from TNUoS to BSUoS in future as and when non-network solutions win early competitions.</p>

Ofgem's role

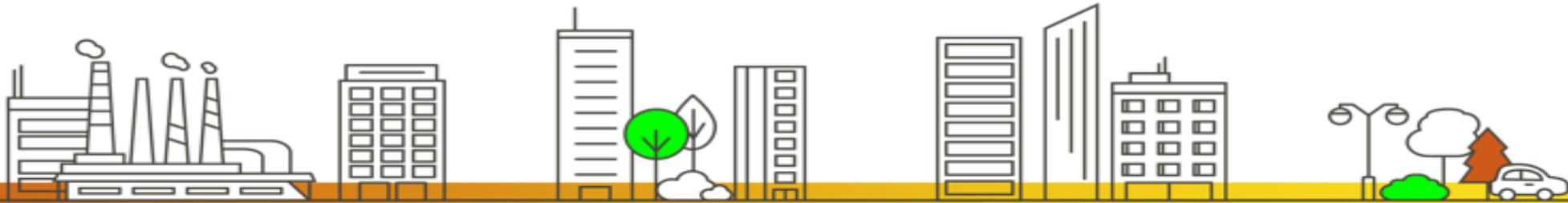
Approver

- Stakeholder feedback supports Ofgem taking on this role.
- It will help build trust in the competition
- Gives all stakeholders confidence that consumer value and interest is at the heart of Early Competition.
- We are in discussions with Ofgem on specific activities.

Licence Counterparty

- We believe that only Ofgem can play this role.
- Under current legislation (Electricity Act 1989) the power to issue Licenses sits with Ofgem.

Network Planning Bodies Proposal Development



Network Planning Bodies

Our initial view on activities that would sit under the Network Planning Bodies based on our current end to end model.

Need identification

- Identify future network reinforcement needs, modelling the impacts of the Future Energy Scenarios on the network.

Assess option combinations

- Study option combinations, analyse how reinforcement options stack up and identify options combinations to be input in to NOA Cost Benefit analysis.

Initial solution development

- Provide high level details of reinforcement options, in response to boundary capabilities and requirements.
- This also includes commercial solutions and reduced-build options which utilise existing assets.

Determine suitability for competition

- Assess options with recommendation to proceed against criteria for competition.

Market engagement

- Engage with third parties to gauge market interest and explore with stakeholders and potential bidders the range of solutions that could meet the network needs.

How may current network planning roles need to change for EC?

Problem statement and key assumptions

TOs have potential to produce the best value solution, based on experience and expertise.

Process required that enables TOs to participate in Early Competition.

Process should enable TOs to meet ongoing licence obligations and responsibilities additional to NOA process (connections, asset health etc).

To avoid conflicts of interest, process must ensure that:

- Resource spent by the TOs that shapes the solutions they put forward as part of a competitive process is clearly accounted for in the costing of their bids.
- Resource TOs use to develop their bids does not benefit from additional data or information not available to other bidders.
- Resource TOs use to develop their bids does not have any knowledge of other competitors bids.
- Tos' RIIO funded network planning activities are not influenced in any way by the Tos' proposed competitive solutions.

1. Are there any further conditions that must be met to enable incumbent TOs to bid in to Early Competition as a market participant?

2. What arrangements (e.g. ringfencing) or alternations to the current network planning process are required to ensure these conditions are met?

Stakeholder Feedback from Workshops



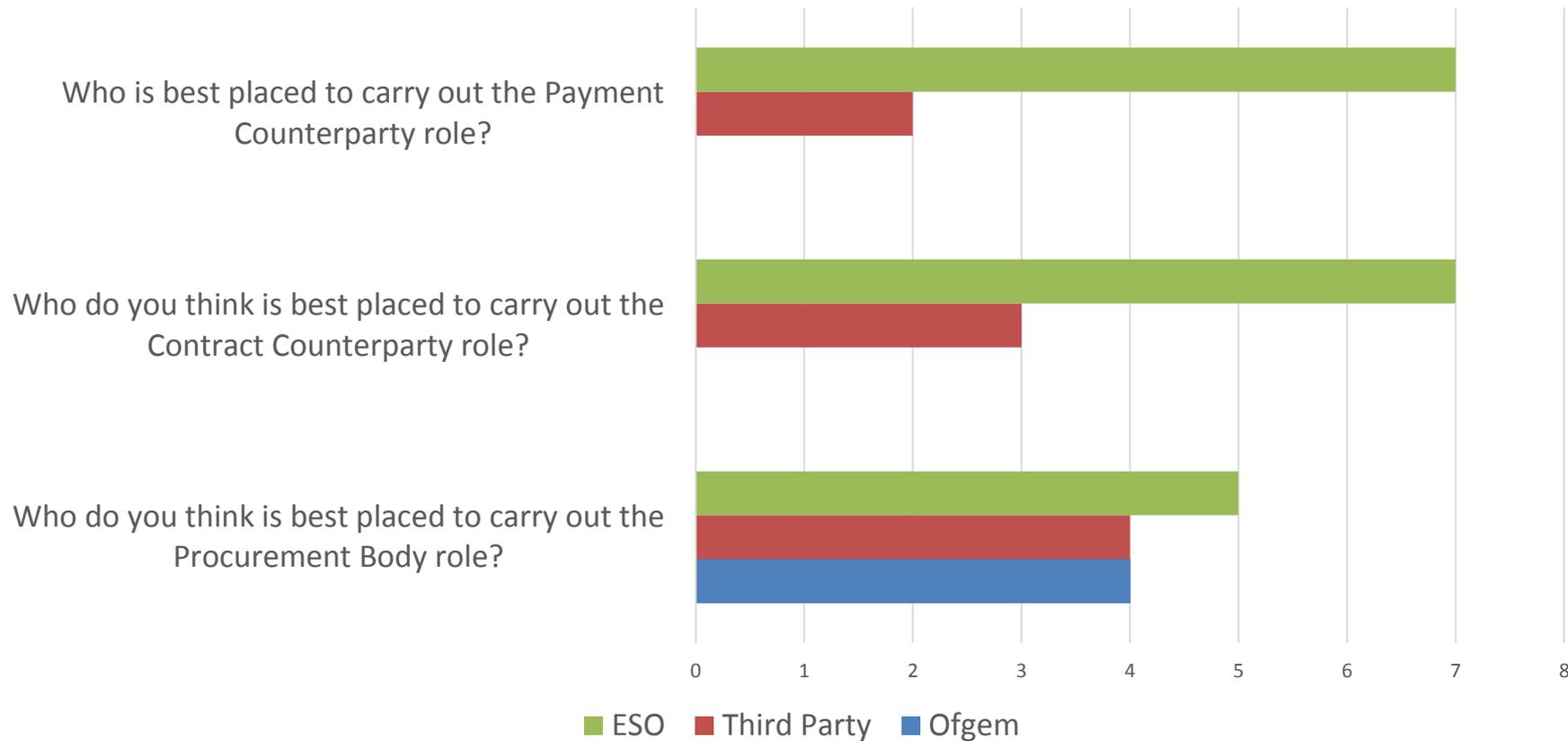
Overview

Workshops held on the 17 and 23 September

Attended by a total of 19 stakeholders representing 8 organisations

Transmission Owners	Potential New Market Entrants
  	   

Who is best placed to play each role?



Comments

We agree with the importance of not delaying early competition, but also value for money to consumers should be considered.

There is a reference only to Debt competition but there could be an Equity competition too. The model this process and roles refer is not defined yet

Risks: data management will be a crucial risk. A great deal of commercially sensitive information to be managed that require specific measures including legal arrangements for any person involved in the process including consultants

Not attributable to any one option here, but there would be advantage in some of the roles being ultimately combined (less interfaces, less parties involved overall in managing the process).

Aligning contractual obligations fairly versus network solutions. Licensing issues e.g. payment of losses etc

Comments

Some of our views about who is best placed to procure are influenced by concerns over conflict of SO/NGET interest and over reliance on incumbent TOs in the network planning process. Resolution of these would help get more comfortable.

If the TO are best placed to deliver the best solution, consumers should not pay for additional cost for setting up the whole Procurement process and definitely consumers should not pay for bidding cost. Any views?

As stated be open minded re changes to network planning role and possibility that SO can get more involved in that to ensure proposals are seen to be fair. This could involve more work for NGESO.

Next steps

- Build this feedback into our next phase of thinking.
- Work with Ofgem to clarify Approver role
- Begin looking at remuneration and reward options
- Look at implementation and resource requirements
- Bilateral meetings with stakeholders

Our next milestone is the Early Competition Phase 3 Consultation Document which we expect to publish in December



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Offshore Coordination Update

Alice Etheridge



Agenda

1. Consultation update

2. Consultation key messages:

- Cost-Benefit Analysis Report
- Holistic Approach to Offshore Transmission Planning Report
- Offshore Connection Review Report

3. Next Steps

1. Consultation Update:

– Alice Etheridge

Questions for ENSG:

1. What are your thoughts on the consultation documents and how effectively the consultation was launched?
2. What feedback do you have on our approach and engagement thus far?

Overview of our consultation

This is a key milestone in the ESO Offshore Coordination project, consulting on costs and benefits of a more coordinated approach to connecting offshore electricity infrastructure

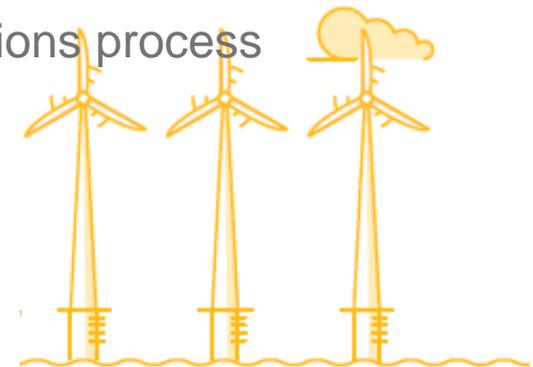
Sharing findings and seeking feedback on three reports:

1. **Holistic Approach to Offshore Transmission Planning report** assesses and presents conclusions on technology and technical considerations related to the design of integrated offshore networks;
2. **Cost-benefit analysis** report (CBA) compares a more coordinated offshore network with the current individual, radial approach; and
3. **Offshore connections review report** recommends changes to the offshore connections process

Consultation runs **30 September to 28 October 2020**

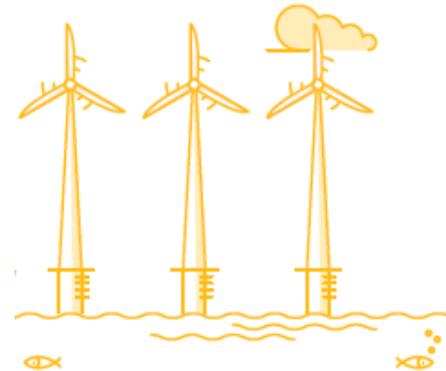
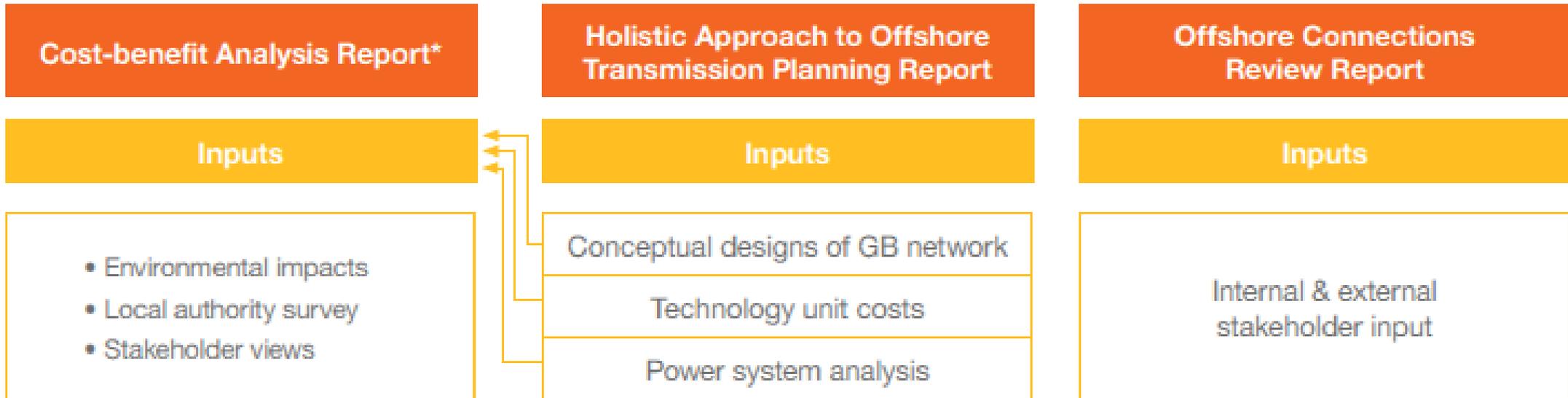
You can find all of our consultation documentation at:

<https://www.nationalgrideso.com/future-energy/projects/offshore-coordination-project/documents>.



nationalgridESO

How do our documents sit together?



Providing feedback

We welcome your feedback to this consultation – your responses will help us shape future work. Verbal and written feedback will be treated in the same way.

Written feedback

- Questions are highlighted throughout the document.
- Response form containing the questions (link in “How do I respond” section).
- Please complete and submit to box.OffshoreCoord@nationalgridESO.com by **28 October 2020**.
- We would like to publish summaries of responses. If you would like your response to be treated as confidential please indicate this on the form.



Verbal feedback

- We understand that formal, written feedback can take time.
- You can speak to us directly and we’re hosting six interactive workshops in October.



Verbal feedback provided at ENSG today will be taken as formal feedback.

2. Consultation key messages:

- Cost-benefit Analysis Report
- Holistic Approach to Offshore Transmission Planning Report
- Offshore Connection Review Report

Questions/Input needed from ENSG:

1. What are your thoughts on the key messages?
2. Do you have any wider feedback or additional information?

Consultation key messages

Cost-benefit analysis of an integrated offshore network

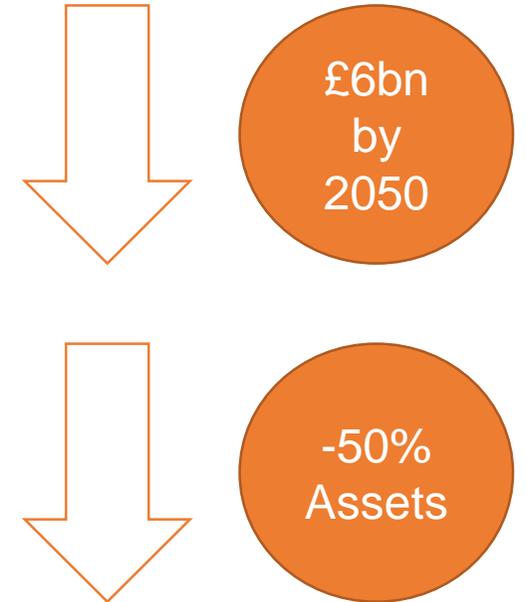
- Costs could be around **18%** lower than the way we do things now, saving consumers around **£6 billion** between now and 2050.
- Potentially significant environmental and social benefits as the number of onshore and offshore assets, cables and onshore landing points could potentially be reduced by around **50%**.

Holistic approach to offshore transmission planning

- The majority of the technology required for the integrated design is available now or will be by 2030.
- However, a key component to release the full benefits of an integrated solution are HVDC circuit breakers. A targeted innovation strategy could help progress these assets to commercial use and establish the UK as a world leader in offshore grids.

Connections report

- Changes to the connections regime will encourage and drive more coordination in the short, medium and long term.
- Following stakeholder feedback, we are proposing changes to the CION process, “Packaged” Connection Offers, Review of Project Liabilities.

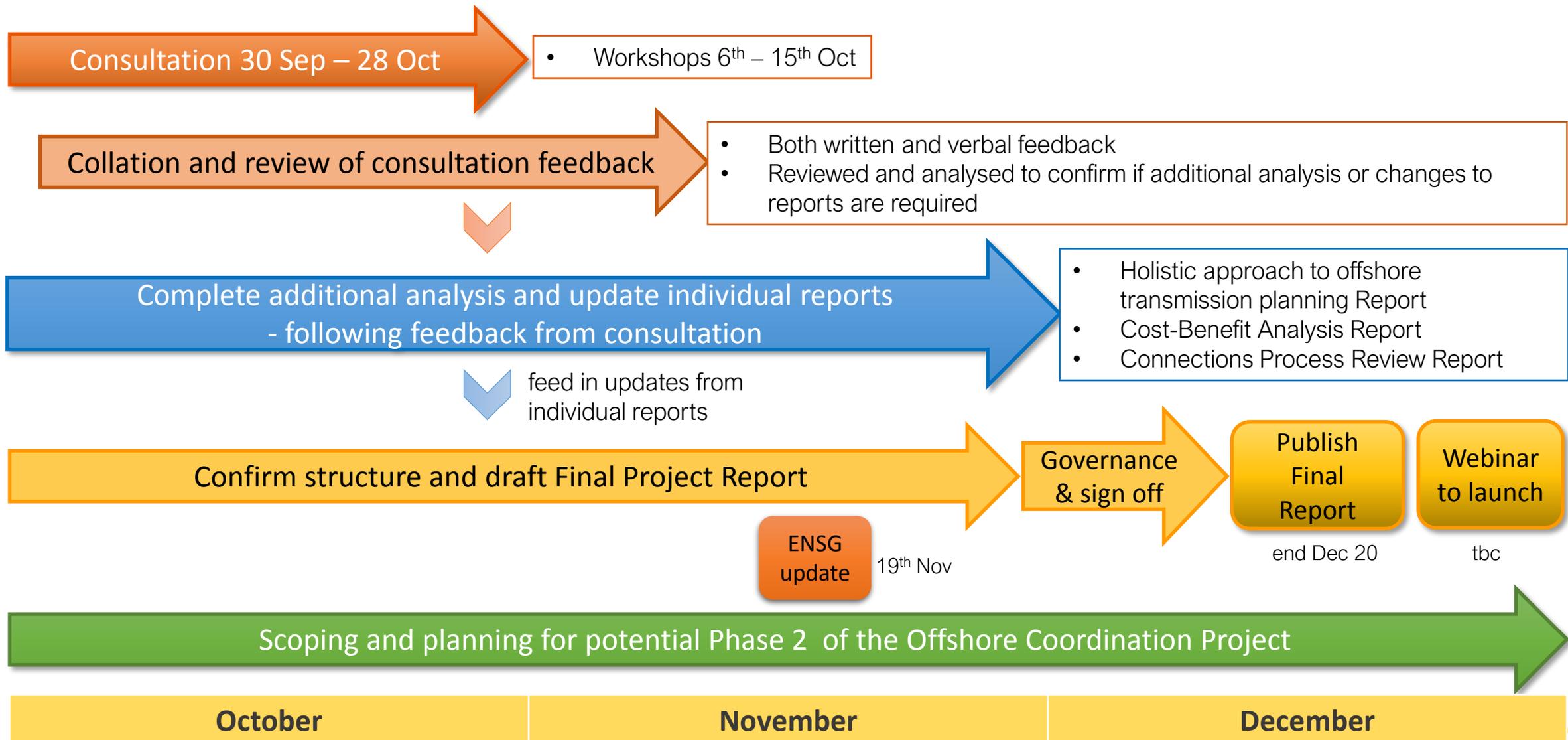


3. Next Steps- Alice Etheridge

Questions/Input requested from ENSG:

1. For information

Next steps



Next steps – interactive workshops

Interactive workshops

Our interactive consultation workshops will be held on the following dates:



You can register for the workshops via the links in the consultation document or our ESO Offshore Coordination website: nationalgrideso.com/future-energy/projects/offshore-coordination-project

You also sign up to our distribution list via our website



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