

# Early Competition Plan

Appendix 9 – ESO Networks Stakeholder Group  
Feedback on the Early Competition Plan

April 2021



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## 1 Introduction

This appendix provides a summary of key feedback received from the ESO Networks Stakeholder Group ("ENSG") during our development of the Early Competition Plan, structured by key dimensions. We have shown how their views have shaped our proposals on early competition.

The ENSG is an independent body, comprised of members with a wide range of expertise, who collectively represent the views and interests of customers, service providers, consumers and other stakeholders.

The ENSG's role is to help ensure that the ESO develops fair and transparent early competition and offshore coordination proposals that incorporate and balance feedback from potentially affected stakeholders. The group has done this through constructively challenging the content of our Early Competition Plan and the outputs we have developed in the offshore coordination project in addition to the ESO's approach to stakeholder engagement. This appendix summarises the feedback regarding early competition presented in the ENSG meetings. The meeting minutes were also published on our website<sup>1</sup>.

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<sup>1</sup> <https://www.nationalgrideso.com/future-energy/projects/early-competition-plan/project-documents-early-competition>

## 2 ENSG feedback

The table below presents feedback from the ESO Networks Stakeholder Group on our stakeholder engagement and their feedback on the Pre-Tender Process, Tender Process, Commercial Model, Post-Tender Process, and Parties, Roles and Responsibilities issues and how we are using it to inform and shape our early competition recommendations.

Table 1: ENSG feedback

Stakeholder feedback	Stakeholder group meetings	Feedback from	Key dimension of early competition	ESO view	Our journey to ECP position
There needs to be visibility of work coming through when it has been identified and some certainty to ensure it is worthwhile to prepare for the process.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Existing Service Provider</li> </ul>	<ul style="list-style-type: none"> <li>Pre-Tender Process</li> </ul>	Agree	We agree that a clear pipeline of projects will be helpful to bidders. In our Phase 3 consultation we set out projects from Network Options Assessment (“NOA”) 2019/20 that may have met the competition criteria. This list has been updated in the ECP to reflect projects from NOA 2020/21. This list will be updated annually.
Network operators and investors need an understanding of what projects will be delivered through competition to give more certainty.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>DNO</li> </ul>	<ul style="list-style-type: none"> <li>Pre-Tender Process</li> </ul>	Agree	See above.
Suggested to try and separate offshore projects from onshore projects.	<ul style="list-style-type: none"> <li>Meeting 4 3 Nov 2020</li> </ul>	<ul style="list-style-type: none"> <li>Asset Contractor</li> </ul>	<ul style="list-style-type: none"> <li>Pre-Tender Process</li> </ul>	Agree	We are focusing on onshore work as part of the development of early competition, but we recognise that there may be a link to offshore projects that will need to be considered as part of the pre-tender process.

Stakeholder feedback	Stakeholder group meetings	Feedback from	Key dimension of early competition	ESO view	Our journey to ECP position
Length of a need should be adjusted on case by case basis for innovation and available debt or equity financing	<ul style="list-style-type: none"> <li>Meeting 6 26 Jan 2021</li> </ul>	<ul style="list-style-type: none"> <li>TOs</li> </ul>	<ul style="list-style-type: none"> <li>Pre-Tender Process</li> </ul>	Agree	We propose that the length of the revenue period should reflect the duration of the network need up to a maximum of 45 years. We agree that there may be other factors that will need to be taken into consideration when determining how long the need is. We expect that these factors will also impact the period of the tender revenue stream, and these factors will be further assessed during the implementation stage.
It seems that a standard procurement pattern was being followed and having a two-stage process would help to resolve issues.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Technology Supply Chain</li> </ul>	<ul style="list-style-type: none"> <li>Tender Process</li> </ul>	Agree	We continue to recommend in the ECP a standardised approach to the commercial model and bid evaluation framework with a two stage Invitation to Tender (“ITT”) process. The ITT (stage 1) will focus on initial designs while ITT (stage 2) will focus on commercial offers and technical assessment of bidders’ solutions e.g. deliverability.
The way in which the tender is written is a very critical role. If you don’t get it right, there is a risk of over or under specification and the Procurement Body would be to blame for being too woolly or too specific.	<ul style="list-style-type: none"> <li>Meeting 3 12 Oct 2020</li> </ul>	<ul style="list-style-type: none"> <li>Panel Chair</li> </ul>	<ul style="list-style-type: none"> <li>Tender Process</li> </ul>	Agree	We agree with stakeholder feedback and will further consider this feedback during the implementation stage. Also, we have proposed that at stage gate 2 the Approver reviews the tender documents.

Stakeholder feedback	Stakeholder group meetings	Feedback from	Key dimension of early competition	ESO view	Our journey to ECP position
There needs to be a counterfactual to see if there is more benefit for consumers and consult with the market on potential options through very focussed market engagement.	<ul style="list-style-type: none"> <li>Meeting 7 2 Mar 2021</li> </ul>	<ul style="list-style-type: none"> <li>Consumer Representative</li> <li>Asset Investor</li> </ul>	<ul style="list-style-type: none"> <li>Tender Process</li> </ul>	Partially Agree/Disagree	<p>We propose that an initial solution will be developed before the competition. This will be used as part of the process of assessing whether there is likely to be value in competing a project.</p> <p>We do not believe however that a counterfactual will ever present an accurate measure of customer benefits because of the level of cost uncertainty at such an early stage. In addition, the counterfactual will have been developed with competitive pressures in place and so is not a counterfactual representation of a non-competitive regime.</p>
The counterfactual approach exists through the current framework; the ESO needs to discuss if they want to change the counterfactual approach.	<ul style="list-style-type: none"> <li>Meeting 7 2 Mar 2021</li> </ul>	<ul style="list-style-type: none"> <li>DNO</li> </ul>	<ul style="list-style-type: none"> <li>Tender Process</li> </ul>	Disagree	<p>Early competition introduces a fundamental change to the existing regime. We have explored options for whether and how TOs might participate in competitions in our Phase 2 consultation. Through this process we concluded that TOs should participate as bidders in order to provide a fair and transparent process. We set out our rationale for this in our Phase 3 consultation. We also undertook focused work with TOs to explore if the challenges of the counterfactual approach could be overcome but did not identify solutions.</p>

Stakeholder feedback	Stakeholder group meetings	Feedback from	Key dimension of early competition	ESO view	Our journey to ECP position
It is not clear what the counterfactual approach is, and it seems a conclusion is being reached without due consideration	<ul style="list-style-type: none"> <li>Meeting 7 2 Mar 2021</li> </ul>	<ul style="list-style-type: none"> <li>OFTO</li> </ul>	<ul style="list-style-type: none"> <li>Tender Process</li> </ul>	Disagree	See above.
The Phase 2 consultation indicated that the ESO were not taking a view on gearing. There were some suggestions that the rate should be set by the Procurement Body as an assumption of the bid and there were some concerns around having too much debt caution.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Panel Chair</li> </ul>	<ul style="list-style-type: none"> <li>Commercial Model</li> </ul>	Agree	Following the ENSG feedback, we set out our preferred option in our Phase 3 consultation on gearing. There we proposed that, for the purposes of the tender process, the parameters for establishing gearing (e.g. cover ratio, tenor etc) are inputs set consistently across all bidders based on market sounding activities during the pre-tender stage. Gearing would then remain adjustable after the preliminary works, based on the outcome of a debt competition.
Gearing will depend on the risk allocation, but it will be very difficult to give a consistent view on gearing as it will be project specific.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Asset Contractor</li> </ul>	<ul style="list-style-type: none"> <li>Commercial Model</li> </ul>	Partially Agree	See above.
Bid bonds are a cost developers would prefer not to have but it can drive quick project completion rather than relying on penalties for late completion	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Panel Chair</li> </ul>	<ul style="list-style-type: none"> <li>Commercial Model</li> </ul>	Partially Agree	We have not proposed a bid bond for the tender process, and we continue to propose in the ECP that a performance bond (or an equivalent form of acceptable security) will be required. It is expected that a bidder will post a

Stakeholder feedback	Stakeholder group meetings	Feedback from	Key dimension of early competition	ESO view	Our journey to ECP position
					performance bond/security at the point they are made a successful bidder to remain in place up until Commissioning. This is to ensure the successful bidder is fully committed to proceed with the proposed solution delivery following what may be an extended preliminary works period.
We want to attract as many competitors as possible and bid bonds will put bidders off. It may be good to consider keeping options open and if it is found projects are not moving fast enough over 5-10 years it would be possible to consider what can be used to encourage them to be faster.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Asset Contractor</li> </ul>	<ul style="list-style-type: none"> <li>Commercial Model</li> </ul>	Partially Agree	See above.
The consultation does not set out what is right for consumers and we need to consider benefits to consumers long term rather than company interest.	<ul style="list-style-type: none"> <li>Meeting 7 2 Mar 2021</li> </ul>	<ul style="list-style-type: none"> <li>Existing Service Provider</li> </ul>	<ul style="list-style-type: none"> <li>Commercial Model</li> </ul>	Disagree	All of our proposals were developed with consumer interest in mind. We believe that our proposals in the ECP would be in the best interest of the end consumer, subject to further consultation and the appropriate decision-making processes.
A good option would be to incentivise the	<ul style="list-style-type: none"> <li>Meeting 7</li> </ul>	<ul style="list-style-type: none"> <li>Asset Investor</li> </ul>	<ul style="list-style-type: none"> <li>Commercial Model</li> </ul>	Partially Agree	We do not envisage any specific incentives aimed at keeping



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sponsors to be engaged throughout the process.	2 Mar 2021				commercial investors engaged throughout the process, but we have suggested the potential for some form of incentive mechanism associated with the Debt Competition and this may be of interest to commercial investors.
Stability is important and there are many elements to the frameworks and procedure standards that currently need to be followed.	<ul style="list-style-type: none"> <li>Meeting 7 3 Feb 2021</li> </ul>	<ul style="list-style-type: none"> <li>DNO</li> </ul>	<ul style="list-style-type: none"> <li>Commercial Model</li> </ul>	Partially Agree	We agree that stability is important. However, there are differences in the early competition model which would mean frameworks and procedures cannot be applied as they are, and they would need to be adapted as a result of early competition.
Experience in other countries showed there is a nervousness from the TOs with reticulated/mesh systems of third parties owning and operating transmission assets as causation and liability are difficult to prove if there is an incident and something goes wrong.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Panel Chair</li> </ul>	<ul style="list-style-type: none"> <li>Post-Tender Process</li> </ul>	Partially Agree	We continue to feel that 'new and separable' are important criteria to ensure clear ownership arrangements.
TOs may be nervous about others owning assets or using their existing assets and TOs may deny others permission to do this in	<ul style="list-style-type: none"> <li>Meeting 4 3 Nov 2020</li> </ul>	<ul style="list-style-type: none"> <li>Panel Chair</li> </ul>	<ul style="list-style-type: none"> <li>Post Tender Process</li> </ul>	Partially Agree	See above. TOs have connection and interface obligations so, assuming relevant standards are followed e.g. safety and compliance, we do not believe

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case something goes wrong.					they will deny access in relation to others connecting to the system.
The risk allocation and operational incentives will determine what type of investors will be attracted.	<ul style="list-style-type: none"> <li>Meeting 6 26 Jan 2021</li> </ul>	<ul style="list-style-type: none"> <li>OFTO</li> </ul>	<ul style="list-style-type: none"> <li>Post Tender</li> </ul>	Agree	<p>We think that risk allocation may need to be adapted depending on the network need and/or solution in question. Therefore, 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 by the Contract and Licence Counterparties, with the support of the Procurement Body.</p> <p>In terms of operational incentives, we recommend that an availability incentive is applied to the Tender Revenue Stream (“TRS”). We propose for the early competition availability incentive mechanism to be based on the current offshore availability regime, but adaptations for the early competition projects are likely to be needed during the pre-tender period.</p>
It is worth considering who would be carrying out the roles in late competition to make sure there are no conflicts.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Planning Representative</li> </ul>	<ul style="list-style-type: none"> <li>Parties, Roles and Responsibilities</li> </ul>	Partially Agree	<p>We did consider late competition when looking at roles within early competition. We discussed with Ofgem what the roles for late competition are, however, the late competition model and our proposals for early competition are quite different. Early competition</p>

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<p>The Approver role is critical and it needs to be considered in detail what exactly they are approving and when.</p>	<ul style="list-style-type: none"> <li>Meeting 3 12 Oct 2020</li> </ul>	<ul style="list-style-type: none"> <li>Panel Chair</li> </ul>	<ul style="list-style-type: none"> <li>Parties, Roles and Responsibilities</li> </ul>	<p>Agree</p>	<p>requires different activities to be carried out at different points in the model. We also looked at other industry precedents for roles in activities similar to early competition in Phase 3 (Thames Tideway and Contracts for Difference). Stakeholders fed back that there is limited applicability of these to early competition. Therefore, Ofgem will need to further consider any interactions between early competition and late competition in relation to the respective models and their implementation post ECP submission.</p> <p>We agree with this feedback and continue to propose in the ECP that Ofgem should oversee and approve stage gates throughout the end-to-end process. Having Ofgem in the role will give bidders and stakeholders more comfort and confidence in the process due to the significance of activities that take place throughout each stage. In the ECP, we propose our best view on the role of the Approver with the feedback from Phase 3 and the information we have today. However, the exact detail of what these activities will look like and their scope, will need to be developed further.</p>

Stakeholder feedback	Stakeholder group meetings	Feedback from	Key dimension of early competition	ESO view	Our journey to ECP position
TOs should participate in early competition, however it should be considered how it may impact the connection dates.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Existing Service Provider</li> </ul>	<ul style="list-style-type: none"> <li>Parties, Roles and Responsibilities</li> </ul>	Agree	We agree TOs should participate in early competition as they could potentially offer the best value solution for consumers and that suitable conflict mitigation arrangements are needed.
TOs participation with a counterfactual in early competition should be looked at separately than amalgamated with other issues.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Panel Chair</li> </ul>	<ul style="list-style-type: none"> <li>Parties, Roles and Responsibilities</li> </ul>	Disagree	In our phase 2 consultation we set out the counterfactual approach as an option we had considered. In our phase 3 consultation we set out the challenges we saw with that approach that led us to conclude that TOs should participate as bidders not as a counterfactual.
There is a clear conflict where TOs are bidding into a competition when they have had a role in designing what is to be competed in the planning phase. But part of the role of the ENSG is to try to ensure there is a fair and transparent process.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Planning Representative</li> </ul>	<ul style="list-style-type: none"> <li>Parties, Roles and Responsibilities</li> </ul>	Partially agree	We agree there are potential conflicts of interest with TO network planning roles. We believe there are ways these could be mitigated. This could be through ringfencing of the TO bidding teams and an enhanced planning role for the ESO. We recommend that further work is undertaken to consider the extent to which the ESO could take on additional network planning responsibilities as part of broader work looking into network planning following Ofgem's review of system operation.
There is a risk of duplication by having the TOs participate through RIIO and then	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Consumer Representative</li> </ul>	<ul style="list-style-type: none"> <li>Parties, Roles and Responsibilities</li> </ul>	Disagree	The ESO believes that TOs competing as bidders alongside other participants provides the most fair and transparent approach.

Stakeholder feedback	Stakeholder group meetings	Feedback from	Key dimension of early competition	ESO view	Our journey to ECP position
through the early competition process.					Under this approach, any solutions the TOs wish to propose would be done so by ringfenced teams with costs accounted for as part of the competitive bid.
TO's planning team should be ringfenced.	<ul style="list-style-type: none"> <li>Meeting 1 11 Aug 2020</li> </ul>	<ul style="list-style-type: none"> <li>Panel Chair</li> </ul>	<ul style="list-style-type: none"> <li>Parties, Roles and Responsibilities</li> </ul>	Partially agree	We agree conflicts with TO network planning roles need to be addressed. This could be through ringfencing of the TO bidding teams and an enhanced planning role for the ESO. We recommend that further work is undertaken to consider the extent to which the ESO could take on additional network planning responsibilities as part of broader work looking network planning following Ofgem's review of system operation.
During Phase 2, there were many other opportunities for stakeholders to share their views (i.e. through workshops and webinars) that it was felt they had already had their say and didn't need a formal response, which would have taken up a lot of time. The engagement was very good and above and beyond what was expected.	<ul style="list-style-type: none"> <li>Meeting 4 3 Nov 2020</li> </ul>	<ul style="list-style-type: none"> <li>Technology Supply Chain</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Engagement</li> </ul>	Agree	We engaged with stakeholders through newsletters, our website, workshops, bi-lateral meetings and webinars. One of our stakeholders advised us they would prefer the Phase 3 consultation presented in bite-sized chunks and to reflect this in our engagement for Phase 3 the Q&A sessions we held were split by chapter and held twice. This meant stakeholders could focus on parts of the consultation rather than needing to read the whole document to enable them to contribute.

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Companies have many competing priorities and with lots of consultations coming out it is difficult to respond in the time frame so they need to have time to be able to formally respond and it can be difficult to do this in four weeks.	<ul style="list-style-type: none"> <li>Meeting 4 3 Nov 2020</li> </ul>	<ul style="list-style-type: none"> <li>DNO</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Engagement</li> </ul>	Agree	We recognised that the consultation covers complex topics and that there is a lot of information contained in the consultation chapters. In line with ENSG and wider stakeholder feedback we agreed an extension to the ECP with Ofgem which has enabled us to extend the Phase 3 consultation from 6 to 10 weeks.
Stakeholders want to know what is being done with their feedback to know they are not wasting time providing it.	<ul style="list-style-type: none"> <li>Meeting 2 2 Sept 2020</li> </ul>	<ul style="list-style-type: none"> <li>Existing Service Provider</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Engagement</li> </ul>	Agree	We value stakeholder input and we take it into consideration at every step of the early competition development. In November 2019 we published our 'You Said We Did document', a collection of all feedback we have received and how we have started to investigate it. This document was then updated and included as an appendix to our Phase 3 consultation. We will continue to update it and it will form part of the final suite of documents being sent to Ofgem alongside the Early Competition Plan which contains our recommendations.
It would be useful to articulate the method through which the ESO has made their conclusions.	<ul style="list-style-type: none"> <li>Meeting 7 2 Mar 2021</li> </ul>	<ul style="list-style-type: none"> <li>OFTO</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Engagement</li> </ul>		See above.

Stakeholder feedback	Stakeholder group meetings	Feedback from	Key dimension of early competition	ESO view	Our journey to ECP position
ESO should focus on the presentation of the results, the decisions that have been taken and whether the consultation response is considered comprehensive enough to shape recommendations.	<ul style="list-style-type: none"> <li>Meeting 7 2 Mar 2021</li> </ul>	<ul style="list-style-type: none"> <li>OFTO</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Engagement</li> </ul>		See above.
The number of responses from Phase 2 was disappointing, so for Phase 3 engagement is there anything that can be done to solicit additional number of responses.	<ul style="list-style-type: none"> <li>Meeting 4 3 Nov 2020</li> </ul>	<ul style="list-style-type: none"> <li>OFTO</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholder Engagement</li> </ul>		We agree 7 formal responses we received for Phase 2 was lower than expected based on the engagement we had through our workshops. We have reviewed our Engagement Strategy and will be promoting our Phase 3 consultation through social media (Twitter and LinkedIn). We have also been included as an agenda item on our Nov 20 Operability Forum which reaches around 130 people and we will utilise other distribution lists to reach a wider audience. We have also called new stakeholders to ask how we can engage with them and get them more involved in the early competition process.



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