

## ESO RIIO-2 Stakeholder Group Early Competition Plan

**Agenda item:** 8

**Meeting date:** 07/11/2018

### Executive Summary

#### Context

Competition everywhere is one of the success criteria for our ESO mission. We see the development of the Competitively Appointed Transmission Owners (CATO) regime as a key part of this, and are leading work to develop an early competition plan that will deliver benefits to consumers.

ERSG indicated they have concerns over the ESO's approach to CATO within Theme 3 of the business plan. This paper updates ERSG on the ESO's activities in relation to CATO and asks ERSG whether, in light of this, it supports our Theme 3 approach.

#### Summary

ERSG has fed back that they feel the ESO should do more to support the introduction of the CATO regime. In particular, ERSG felt there has been a slow response to Ofgem's Early Competition Plan request, too much focus on non-network solutions, too little focus on late models and too much influence from TOs rather than a broader range of stakeholders.

Through our pathfinding projects we are already driving competition in network development in the areas the ESO can most directly influence. Our first tender for alternative network solutions is due to launch in November. We are on track to meet Ofgem's request for an Early Competition Plan, and we are confident that the proposed content reflects the stakeholder views we have received and the specific direction set by Ofgem. The learnings the ESO is taking from the pathfinders are helping to inform this plan.

Ofgem has separated the Early Competition Plan from the Business Plan because much more work is needed to develop the policy concept before roles of the ESO can be considered. We have therefore removed the CATO section from the Business Plan.

Input requested from ERSG

- 1) ERSG is invited to note the ESO's approach to the Early Competition Plan and the steps we are taking to support Ofgem in introducing the CATO regime.
- 2) ERSG is invited to advise whether there are further actions they feel we should take to meet their expectations on Theme 3 of the business plan and the Early Competition Plan.
- 3) ERSG is invited to advise whether they support our proposals for an ERSG sub-group.

## Further detail

### ESO's role in developing the CATO regime

We are already introducing competition in transmission solutions through the enhancements we are making to the Network Options Assessment (NOA) regime. The introduction of the CATO regime depends on BEIS and Ofgem policy and on legislative changes. Any activity we undertake in this area will therefore reflect the direction set by BEIS and Ofgem. Alongside the proposals that we had already set out in *Our RIIO-2 Ambition* published in April 2019, Ofgem asked us to produce an Early Competition Plan by February 2021, setting out how early forms of competition could be introduced.

The initial request for this work first arose in May's Sector Specific Methodology Decision document<sup>1</sup>, originally requesting a smaller project running to December 2019. Following the May request, we worked with Ofgem to explore their aims and drivers for the work, resulting in an amended request from Ofgem for a bigger project running to February 2021. The scope of this project was confirmed by Ofgem in its letter published on 24 September<sup>2</sup>. In summary, the letter asks us to develop at least two potential models of early competition, setting out implementation proposals for each model (including costs, timeframes, framework changes, roles and responsibilities, etc). We also need to prepare to potentially run the first competitions early in RIIO-2.

By 20 December, we will submit our thinking to Ofgem on which models of competition should be taken forward to explore in further detail – informed by stakeholder views. This will also set out interactions with our existing work to introduce competition in network development. Alongside this we will also submit a project plan that sets out how we will develop the remainder of the plan by February 2021.

Since May, alongside establishing the scope with Ofgem we have also progressed the project in order to meet this December deadline. We have mobilised internal resources and established project governance. We have recruited consultants with specialist expertise (FTI) to support thinking on areas that are beyond the expertise of the ESO. We have also built, and continue to expand, a stakeholder base for this work (further detail below). We are in the process of developing thinking on models of competition, influenced by two stakeholder workshops (with a further planned for 12 November).

Ofgem's request set out some consideration it would like the ESO to explore beyond just CATO, including:

- developing alternative forms of competition such as for non-network solutions prior to legislative change to enable CATO competitions (i.e. competition for new TOs). Such competitions could potentially begin early in RIIO-2.
- developing a model of design-only competition (i.e. where the competition is to design but not build, a solution).
- exploring the role the ESO could play in distribution level competition, ranging from running tenders to auditing.

Ofgem's request also specifically focuses on early forms of competition; Ofgem themselves intend to lead further thinking on late models, which the ESO will support as requested.

### Stakeholder engagement

Engaging stakeholders on CATO for the business plan has been challenging, we assume because CATO is currently just a conceptual idea and previous work in this area stalled after some stakeholders had invested considerable time. In the recent engagement we have carried out, the key message we heard in regard to our role in CATO was concerns around whether the ESO is sufficiently independent to run tenders – we will explore this further in the Early Competition Plan. We also received one view that the ESO would be in a position to undertake consenting. We received a mix of views on the benefit of early versus late competition, which will be shared with Ofgem to help inform any decision they make on this matter.

In regard to Theme 3 more generally, we heard a strong message from a range of stakeholders that competition from non-network solutions should be quickly progressed. We also heard some caution from TOs around the impact on their licence obligations.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-sector-specific-methodology-decision>

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/electricity-system-operator-s-early-competition-plan-letter>

Ofgem's request for an Early Competition Plan has helped indicate government's commitment and we are beginning to generate more interest from parties specifically interested in CATO. We have established a stakeholder working group (see Annex A) to help us develop proposals and have a broader contact list who receive regular updates (over 100 recipients). We are continuing to target certain groups that are not fully represented, such as design companies. We also intend a further broad communications push in the new year, using the December update to Ofgem as a hook to gain further interest.

The introduction of competition clearly has significant implications for TOs both from a business perspective and in terms of their ability to fulfil their own licence obligations in future. Therefore, TOs understandably put forward a strong voice during our stakeholder engagement. However, we share ERSG's concerns that the TO voice should not dominate. We have therefore directly targeted a broader range of stakeholders to join our stakeholder group. Our most recent workshop (22 October) had a good mix of participants and careful facilitation resulted in an active discussion across the group. We will continue to focus on bringing out a broader range of informed views in our approach.

## **Business Plan approach**

Ofgem initially asked for the Early Competition Plan to run alongside the Business Plan. However, after further consideration they separated the two processes. For the purposes of the RIIO-2 business plan, we have removed resource allocated to CATO. As set out above, there are several different conceptual approaches to competition being explored. This includes, late forms of competition, early CATO models, design-only models, non-network solution competitions and distribution level competition. There is so much uncertainty in this area it is difficult to include robust resource estimates. We therefore feel this topic should be removed from the business plan entirely at this stage.

## **ERSG's future role in CATO and the Early Competition Plan**

Subject to discussions on the overall future of ERSG later on the agenda, we feel it would be useful for ERSG to continue to have a role in regard to CATO and the Early Competition Plan. However, we feel this topic would benefit from a specific group of stakeholders that might not be represented on the main ERSG. Therefore, we propose a sub-group of ERSG should be formed for this purpose. We would seek to utilise members of our stakeholder working group to form the sub-group as they will be well placed to judge the ESO's response to stakeholder input.

If ERSG and Ofgem support this proposal, more detail will be worked up alongside our project planning for January 2020 to February 2021. Having a specific ERSG sub-group will also allow the meetings to take place at critical points in the project.

## **Recommendation and next steps**

For the purposes of the business plan, we intend to treat CATO as an activity that is separate to the business plan and therefore include no resource specifically for CATO.

For the Early Competition Plan, assuming ERSG and Ofgem support our proposal for an ERSG sub-group, we will develop the proposal further. In our December update to Ofgem we will set out the full plan for the group, including membership and terms of reference.

## Annex A

The following organisations have been represented in our stakeholder engagement on the Early Competition Plan. We publicised the events through our distribution lists, Ofgem's CATO distribution lists, trade press, twitter, our website and through contacts. All material from each event is available on our [website](#)<sup>i</sup>.

Introductory Webinar	Workshop 1	Workshop 2
Addleshaw Goddard	NGET x 3	NGET x 2
SP	Ofgem x 2	Ofgem x 1
KPMG	Amberside	Transmission Investment
Freeths	National Grid Ventures x 2	SP
National Grid Ventures	SP	Arenko
NGET x 3	Transmission Investment	Frontier Power
TNEI	TEPCO	CMY Consultants
EnApSys	SSE	Foresight Group
Mott MacDonald	AMEY	National Grid Ventures
Equitix	Cornwall Insight	Balfour Beatty
TEPCO	4c Offshore	EPNC
Arup	KPMG	Siemens
PWC		Highview Power
SSE		4c Offshore
Balfour Beatty		SSE
ENWL		ABB
SSE		
+ unnamed dial ins		<b>Apologies received from</b>
		LS Power
		Amberside
		Amey
		TEPCO

<sup>i</sup> <https://www.nationalgrideso.com/publications/network-options-assessment-noa/network-development-roadmap>