

To all interested parties

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Dear Colleagues,

Decision on licence modifications to facilitate the introduction of an Electricity System Restoration Standard

On 2 July 2021 we published a statutory consultation¹ on licence modifications to facilitate the introduction of an Electricity System Restoration Standard and further align the regulatory framework for procurement of restoration services with that of balancing services. We invited responses to this statutory consultation by 2 August 2021.

After considering these responses and making minor amendments to our proposed licence drafting, we are now issuing a decision to make the licence modifications. The modification decisions are published on our website alongside this letter and the changes outlined below will take effect from 19 October 2021.

Background

In April 2021, the Department for Business, Energy and Industrial Strategy ("BEIS") released a Policy Statement² setting out the need to strengthen the current regulatory framework by introducing a legally binding target for the restoration of electricity supplies in the event of a National Electricity Transmission System ("NETS") failure. BEIS's new policy is called the Electricity System Restoration Standard ("ESRS").³ As a consequence of

¹ [Statutory Consultation on licence amendments to facilitate the introduction of an Electricity System Restoration Standard | Ofgem](#)

² BEIS' Policy Statement is available at the following address:

<https://www.gov.uk/government/publications/introducing-a-new-electricity-system-restoration-standard>

³ The terms "ESRS" and "restoration standard" are referred to interchangeably within this document. For the avoidance of doubt they mean the same thing for the purposes of this consultation.

BEIS's policy statement, we performed an initial consultation in April 2021⁴ followed by a statutory consultation in July 2021 on licence amendments to facilitate the introduction of an ESRS, and to align the regulatory framework for procurement of restoration services with that of other balancing services.

Having further reviewed all licence conditions and the responses we received during our statutory consultation, we consider that the following licences require modification:

- Special Condition ("SpC") 1.1, 2.2 and 4.2 of National Grid Electricity System Operator's ("NGESO") Electricity Transmission Licence;
- Standard Condition ("StC") C1 and C16 of the Electricity Transmission Licence;
- SpC 1.1 and 3.14 of National Grid Electricity Transmission ("NGET") Plc, Scottish Power Transmission Limited ("SPT Ltd"), and Scottish Hydro Electric Transmission ("SHET") plc's Electricity Transmission Licences; and
- StC 1 and 31E of the Electricity Distribution Licence.

Decision documents

Annex 1 (at the end of this letter) summarises the responses we received during our statutory consultation and also sets out Ofgem's response to stakeholders' feedback. The following documents, including decisions to modify licence conditions and modified licence conditions, are also provided alongside this letter as follows:

Licence modification decisions

- Annex 2: Decision to modify Electricity Transmission Licence Special Conditions for NGESO;
- Annex 3: Decision to modify Electricity Transmission Licence Standard Conditions;
- Annex 4: Decision to modify Electricity Transmission Licence Special Conditions for NGET plc;
- Annex 5: Decision to modify Electricity Transmission Licence Special Conditions for SHET plc;
- Annex 6: Decision to modify Electricity Transmission Licence Special Conditions for SPT Ltd; and
- Annex 7: Decision to modify Electricity Distribution Licence.

Modified licence conditions

- Schedule 1: Electricity Transmission Licence Special Conditions for NGESO;
- Schedule 2: Electricity Transmission Licence Standard Conditions;

⁴ Our initial consultation on licence amendments to facilitate the introduction of an Electricity System Restoration Standard can be found at the following address: <https://www.ofgem.gov.uk/publications-and-updates/consultation-licence-amendments-facilitate-introduction-electricity-system-restoration-standard>

- Schedule 3: Electricity Transmission Licence Special Conditions for NGET plc;
- Schedule 4: Electricity Transmission Licence Special Conditions for SHET plc;
- Schedule 5: Electricity Transmission Licence Special Conditions for SPT Ltd; and
- Schedule 6: Electricity Distribution Licence.

Proposed changes

In our initial consultation on the licence modifications needed to facilitate the introduction of an ESRS, we proposed the following changes (1-5) as set out in the table below. Having further reviewed all licence conditions, and having taken account of the responses we received during our statutory consultation, we have made some further amendments (in addition to the amendments made in the statutory consultation) to our licence modifications which are reflected in this decision. These are summarised in the table below.⁵

No.	Original proposal Licence amendments proposed in our initial consultation	Additional changes proposed in the statutory consultation	Further changes to the licence conditions
1	<p>SpC 2.2</p> <ul style="list-style-type: none"> • Introduce the concept of an ESRS, linking to a direction from the BEIS Secretary of State (“SoS”) who will set the ESRS 	<ul style="list-style-type: none"> • Editorial changes to Paragraph 2.2.2 of SpC 2.2; • Replace the use of the term “Relevant Year” with “Regulatory Year” in SpC 2.2. • Amendment to the term “Electricity Restoration Standard” to reflect the fact that it will be directed by the BEIS SoS; • Flexibility added for the ESO to demonstrate why it may be unable to comply with the ESRS for reasons outside the reasonable control of the ESO; 	<ul style="list-style-type: none"> • Editorial changes to 2.2.3 for clarity. • Further changes to 2.2.5 to provide additional certainty to the ESO for when it will and will not be in breach of this licence obligation.
2	<p>SpC 2.2</p> <ul style="list-style-type: none"> • Replace the concept of a ‘Black Start Strategy’ with an obligation to produce an ESR 	<ul style="list-style-type: none"> • Additional editorial changes. 	<ul style="list-style-type: none"> • Editorial changes to 2.2.7 • Editorial changes to 2.2.8(a)

⁵ For a full account of the changes made, please see the licence conditions in schedules 1-6 accompanying this letter.

Assurance Framework that is approved by Ofgem and incorporates the relevant obligations associated with the previous strategy into the requirements for producing an ESR Assurance Framework

- As part of the assurance framework, the ESO must also perform ex-ante and ex-post modelling of Restoration Times using credible Electricity System data.

- Deletion of the second sentence in paragraph 2.2.8(c).⁶ This obligation is now covered by the amended obligation in 2.2.5 to provide a written and sufficiently detailed explanation of the reasons why the ESO has been prevented from complying with the ESRS.
- Deletion of 2.2.10 along with editorial changes to 2.2.11 for clarity.
- Editorial changes to 2.2.14 for clarity.
- 2.2.15(d) has been deleted and a new paragraph (2.2.16) has been added to provide additional clarity.

3 SpC 2.2

- Introduce an obligation for the ESO to submit a report by an independent auditor to Ofgem, assessing the Restoration Model's⁷ input data, technical assumptions, and calculations.
- The licensee must publish the report by the independent auditor on its website as soon as is reasonably practicable following approval.
- The licensee must seek the Authority's approval to publish a redacted version of the report by the independent auditor.

4 StC C16

- Consolidate the reporting requirements in StC C16 to report on both balancing and restoration services procurement and costs within one annual process.
- Extension of the deadline to produce an end of year report from 1 month to 2 months to reduce the ESO's resourcing constraints.

⁶ Deleted text: "If the modelling indicates that the licensee has not been able to comply with the Electricity System Restoration Standard, the licensee must explain the reasons why it is unable to do so to the Authority."

⁷ The model used by the licensee to assess the capabilities of the electricity system and provide a range of credible restoration timeframes.

- Deleting the term “balancing costs” as it is no longer used in C16.
- Editorial changes to the definition of total costs.

5 Definitions in the licence

conditions

- Introduce the definition of “restoration services” in StC C1 and amend the definition of balancing services to include “restoration services”.⁸
 - Replace all references to “black start” with “Electricity System Restoration” in the Electricity Transmission Licence, including in the ESO’s Special Licence Conditions, to align the licence terminology with BEIS’s policy.
- Additional editorial changes.
 - Replacing references to “black start” with “Electricity System Restoration” in the following licence conditions as well:
 - SpC 4.2 of NGENO’s Transmission Licence;
 - SpC 1.1 and 3.14 of NGET Plc, SPT and SHET Plc’s Transmission Licence; and
 - StC 1 and 31E of the Electricity Distribution Licence.
- Removal of definitions in SpC 1.1 relating to the previous regulatory framework.
 - The definitions of “feasibility studies” and “new provider” that were deleted from SpC 1.1 have been inserted into StC C16 Part I.
 - A definition for “Restoration Services” has been introduced into SpC 1.1 which links to the definition in StC C16.

Next Steps

The decision notices are attached in Annexes 2-7 and the licence conditions are set out in Schedules 1-6 accompanying this letter. The licence changes will take effect from 19 October 2021. Please send all questions about this decision to Alastair Owen at ESOperformance@ofgem.gov.uk.

Yours faithfully,

Alastair Owen
Senior Manager – ESO Regulation

⁸ Consequently, the relevant content of the “black start procurement methodology” would be then incorporated into the C16 statements.

Annex 1: Summary of consultation responses

We received 7 responses to our Statutory Consultation on licence amendments to facilitate the introduction of an Electricity System Restoration Standard. Below, we provide a summary of responses broken down into key themes, along with Ofgem’s response to the stakeholder feedback.

Theme 1: Cost recovery for TOs, DNOs.

Summary of responses:

We received 3 responses that expressed views on the cost recovery for TOs, DNOs. SSE Transmission noted that they anticipate using the Medium Sized Investment Projects (“MSIP”) Re-opener and asked us to focus on only assessing the efficiency of costs when an MSIP application relates to the ESRS. SSE Transmission believe that this approach is needed to ensure compliance with the ESRS within the necessary timescales.

NGET echoed this, adding that they would welcome further dialogue with us.

SSE Distribution wanted to understand how they could recover costs associated with the implementation of the ESRS. SSE Distribution also noted that it may face costs associated with the implementation of the Standard and wanted to understand how these costs would be recovered.

Ofgem’s response to stakeholders:

We acknowledge the TO’s concerns around achieving any necessary network investment and invite TOs to contact us directly to further explain these issues in order for us to arrive at an appropriate solution. Regarding costs faced by DNOs, our current expectation is that there will be a suitable cost recovery mechanism built in to the RIIO-ED2 price control that will take account of any uncertainty to do with ESRS related distribution network investment.

Theme 2: Changes to industry codes

Summary of responses:

We received 2 responses that commented on the timeline to make any necessary changes to the GB energy codes. UKPN asked that any amendments to align ESRS terminology with the GB energy codes are conducted in a timely manner. SSE Generation was concerned that work to begin the code modification processes had not been initiated by the ESO and they believed that this would need to begin imminently in order to meet a 31 December 2026 deadline.

Ofgem’s response to stakeholders:

We understand the challenges that all industry parties are likely to face in order to meet BEIS’ proposed compliance deadline. Therefore, we urge the ESO to begin the process of

initiating any necessary code modifications as soon as is practically possible to allow stakeholders sufficient time to comply with any new obligations.

Theme 3: Coordination between the ESO and other parties

Summary of responses:

We received 2 responses that commented on the coordination between the ESO and other parties. SSE Distribution noted that all industry participants have a role in restoring normal operation of the electricity system following total or partial shutdown and that the ESO's activities should be coordinated to mitigate the risk of service conflicts.

SPT noted that it was vital for TO's, DNO's and restoration service providers to engage with the ESO on the validity of its restoration model on a regular basis. SPT believe that the assurance framework must facilitate engagement and appropriate transparency, such that key industry stakeholders can have confidence in the model and its outputs. They further noted its link to investment requirements and decisions.

Ofgem's response to stakeholders:

We believe that the development of the ESR Assurance Framework should provide an appropriate trigger for the ESO to coordinate its approach to: 1) implementing and monitoring compliance with the ESRS; and 2) its restoration approach more broadly. We will be closely monitoring the ESO's development of the ESR Assurance Framework and will take stakeholders' views into consideration when coming to a decision on whether to approve the ESR Assurance Framework.

Theme 4: The ESO's compliance with the ESRS

Summary of responses:

The ESO acknowledged our attempt to change our proposed licence text to address the risk that the ESO may not be able to comply with the ESRS for reasons outside of its reasonable control. Nevertheless, the ESO stated that the proposed drafting would still place the ESO in breach of its licence in such a situation. The ESO requested that the licence drafting acknowledges that the ESO should not be in breach of its obligations where Ofgem is satisfied that the non-compliance with ESRS was not within ESO's reasonable control.

Ofgem's response to stakeholders:

We understand the ESO's concern and, upon reflection, we have decided to amend paragraph 2.2.5. In summary, we have removed the reference to enforcement action and clarified that the ESO will need to explain the reasons why it has not been able to comply with the ESRS to us in writing before we will determine whether we are satisfied that there were any legitimate reasons outside the ESO's reasonable control for its non-compliance.