

National Grid Electricity System
Operator Limited and other
interested stakeholders

Email: ESOperformance@ofgem.gov.uk

Date: 23 September 2022

Dear stakeholders,

Decision to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited

On 21 July 2022, we¹ published a consultation² on a proposal to modify Special Condition 1.1 (“SpC 1.1”) and Special Condition 2.7 (“SpC 2.7”) of the electricity transmission licence held by National Grid Electricity System Operator Limited (“NGESO”).

We received two responses to the consultation, which are published on our website. On considering the feedback received via these responses, we have decided to modify SpC 1.1 and SpC 2.7 in the manner set out in the consultation, however the latter will be made with minor amendments to the text, as explained later in this letter.

A licence modification notice under section 11A(1)(a) of the Electricity Act 1989 (the Act), detailing the modifications to SpC 1.1 and SpC 2.7, has been issued and is published alongside this letter. These licence changes will take effect from 20 November 2022.

This letter summarises the background to our decision and the consultation responses received, as well as detailing our view on the responses, our decision and the reasons for that decision.

¹ The terms “we”, “us”, “our”, “Ofgem” and “the Authority” are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² [Statutory Consultation on Modification to Licence held by National Grid Electricity System Operator in relation to Business Separation | Ofgem](#)

Background

On 14 June 2021, National Grid Holdings One PLC, an indirect wholly owned subsidiary of National Grid PLC, completed the acquisition of PPL WPD Investments Limited, the holding company of Western Power Distribution. In order to maintain appropriate business separation obligations between the Electricity System Operator (which is part of the National Grid Group) and the acquired distribution licensees, we proposed modifications to the transmission licence of NGESO.

The intention of this modification is to ensure that business separation arrangements continue to provide transparency and confidence that relevant parties get equal and fair treatment, with the effect being more explicit wording on business separation boundaries.

Statutory consultation on proposal to modify SpC 1.1 and SpC 2.7

On 21 July 2022, we consulted on our proposal to modify SpC 1.1 and SpC 2.7 of NGESO's electricity transmission licence. The consultation closed on 19 August 2022, and we received two responses.

Summary of consultation responses and our view

We received responses to the statutory consultation from NGESO and Scottish & Southern Electricity Networks ("SSEN"). A summary of their responses and our views on them is given below. Full versions of the responses are published alongside this letter.

SSEN's response and our view

SSEN considered that the proposed modifications were welcome and would play a fundamental role in enabling market facilitation as Distribution Network Operators ("DNOs") begin to deliver Distribution System Operator ("DSO") services. Additionally, SSEN felt that the proposed wording further provided for a guarantee of impartiality with reference to NGESO input as a key stakeholder in the performance of DNOs under the DNO incentive schemes.

We are grateful for SSEN's response to this consultation and encouraged by their support for these modifications. We agree that having licence conditions that are robust to provide transparency and market confidence is important.

NGESO's response and our view

NGESO supported the proposed modifications, appreciating the need for transparency and clarity on business separation requirements.

NGESO did note a formatting preference in SpC 2.7.1 which differed from how the proposed modifications were presented within the statutory consultation. Their suggestion was to align formatting to how similar information is portrayed elsewhere in the licence. NGESO also noted that within the licence the term 'Licensees' is used, and it is taken to mean the singular when appropriate. In the proposed modifications for paragraph 2.7.1 and the newly introduced 2.7.2A, we instead used 'Licensee(s)' within the statutory consultation, which NGESO felt was unnecessary and inconsistent.

We appreciate NGESO's response and are glad to receive their support for these proposals. We do agree with the points raised on presentational consistency, and have therefore decided to make the changes to the licence with the small housekeeping modifications suggested by NGESO.

Decision

Having considered the responses received to the statutory consultation, we have decided to modify SpC 1.1 and SpC 2.7 of the electricity transmission licence held by NGESO in the manner set out in the consultation, with minor housekeeping text amendments to ensure consistency within the licence. These alterations are explained above and are demonstrated in the accompanying notice. We consider that this amendment will extend NGESO's existing business separation obligations to cover distribution licensees within the National Grid Group and explicitly prevent NGESO from unduly preferring or discriminating against any Distribution Licensees, in addition to the extant condition applying to Transmission Licensees.

The licence modification notice is published alongside this decision letter. The modifications to SpC 1.1 and SpC 2.7 of the electricity transmission licence held by NGESO will come into effect on 20 November 2022.

Yours sincerely,

David Beaumont

Head of ESO Regulation

Energy Systems Management and Security

Duly authorised on behalf of the Authority