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National Grid Company

31/03/05

Dear Colleague

Amendment to the SO-TO Code ("STC"): Ofgem's conclusions and directions on amendments to the STC in relation to Section C, Part Two of, and Schedule 10 to the STC

Background

In December 2004¹, Ofgem² published its final proposals on the price controls to apply to three transmission licensees³ under BETTA. On 22 February 2005 Ofgem issued notices under section 11(2) of the Electricity Act 1989 giving notice of its intention to modify the licences of all three electricity transmission licensees by agreement to give effect to these proposals⁴.

To support the arrangements to be put in place through these proposed modifications to the revenue restriction licence conditions, Ofgem has also consulted upon a number of amendments to the STC.

In December 2004⁵, Ofgem consulted upon amendments to Section C, Part Two, Paragraph 5.9 in relation to transmission outage planning. In January 2005⁶, Ofgem consulted on amendments to Schedule 10 (Charges) to the STC.

¹ Transmission price controls and BETTA: Final proposals and impact assessment, Ofgem 279/04, December 2004

² Ofgem is the Office of the Gas and Electricity Markets, which supports the Gas and Electricity Markets Authority, the regulator of the gas and electricity industries in Great Britain. Ofgem's aim is to bring choice and value to all gas and electricity customers by promoting competition and regulating monopolies. The Authority's powers are provided for under the Gas Act 1986, the Electricity Act 1989 and the Utilities Act 2000. The terms "Ofgem" and "the Authority" are used interchangeably in this document.

³ National Grid Company plc ("NGC"), SP Transmission Limited ("SPTL") and Scottish Hydro-Electric Transmission Limited ("SHETL").

⁴ Transmission price controls and BETTA: statutory licence consultation, impact assessment, and consultation on the statements of the basis of transmission owner charges, Ofgem 57/05, February 2005

⁵ Transmission price controls and BETTA: Final proposals and impact assessment, Ofgem 279/04, December 2004

Under paragraph 7 of standard licence condition B12 of the transmission licence, Ofgem may, during the transition period, where it considers it to be necessary or expedient for the purposes of implementing BETTA (and following such consultation with such persons, and in such manner, as the Authority deems appropriate) direct the system operator to amend the STC in such manner as may be specified in those directions in certain circumstances, including those changes which are required or appropriate for the purposes of reflecting in the STC, the development of the revenue restriction licence conditions which are to apply to the transmission licensees under BETTA.

This document sets out Ofgem's conclusions on these proposed amendments to the STC, in light of the responses to the consultation, and Ofgem's direction to amend the STC.

The proposed amendments are to the STC as designated by the Secretary of State and set out in the November 2004 letter and as further amended in accordance with the letters of 18 January 2005 and 29 March 2005. Where not explicitly included in the mark up, no changes are proposed to the provisions of the STC.

Proposed Amendments to the STC

STC, Section C, Part Two, Paragraph 5.9

In December 2004, Ofgem consulted on changes to the STC to provide appropriate records in relation to outage changes for which charges will be levied by transmission owners on the system operator as part of the price control arrangements.

As part of the development of the price control arrangements to apply under BETTA, it was proposed that transmission owners would be able to charge the system operator for certain changes to the outage plan and details were provided in Ofgem's December 2004 report. The proposed arrangements included allowing for failures to agree to be referred to the Authority to determine in relation to:

- ◆ whether a change to the outage plan is a chargeable outage change, or
- ◆ the net costs reasonably incurred by the transmission owner as a result of an outage change.

Ofgem therefore proposed amendments to add to the matters which NGC is required to maintain under the STC in its register of changes to the outage plan in order to include information as to the net costs incurred by transmission owners as a result of a relevant change to the outage plan that would assist the Authority in any determination in relation to such costs.

There was one response to the consultation. The respondent made the following points which are summarised together with Ofgem's views concerning each point:

⁶ Conclusions on amendments to the STC and Consultation on Schedule 10 Changes, Ofgem 10/05, January 2005

- ◆ Records should be kept of circumstances where an outage change was requested but there was subsequently a failure to agree to progress the changes.

Ofgem views: Ofgem considers that records should be kept of all outage change requests and the decisions made in relation to each such request. Ofgem has therefore incorporated this requirement in its direction.

- ◆ Records should show where an outage change was agreed but subsequently not delivered.

Ofgem's views: Ofgem considers that failure to deliver an agreed outage is addressed elsewhere in the STC and that if a licensee considers that further records should be kept in relation to such failures the licensees should come forward with appropriate amendments to the STC under the STC amendment process.

- ◆ That the outage reporting for price control purposes would be more transparently defined if the STC included a definition of the outage change process.

Ofgem views: Ofgem considers that the transmission licences are the appropriate place to define the outage change process in relation to price controls, although it is recognised that outage change records for price control purposes may need to be supported by one or more STCPs.

Ofgem notes that the drafting proposed in the December 2004 report refers to paragraph 8 of Schedule A to the Transmission Owner's Licence. This reference should be to paragraph 9 of Schedule A to the Transmission Owner's Licence and this correction is included in the attached amendment to the STC.

Ofgem concludes that in light of the above, the proposed amendments to the STC as set out in December 2004 report as amended as set out above, should be made. The direction to amend the STC in the manner described above is set out below.

STC, Schedule 10

In January 2005, Ofgem's proposed that, in relation to Schedule 10 to the STC, given the development of the revenue restriction licence conditions for transmission owners and the associated proposals for the development of TO charging statements, it was no longer necessary to have a separate Schedule 10 of the STC setting out the various types of charges, and that consequently Schedule 10 of the STC was redundant. However, in order to minimise the amount of change required to the designated version of the STC, the January paper proposed to amend Schedule 10 to state that each of the different types of charges is:

"in relation to each Transmission Owner, as set out in the statement prepared in accordance with Special Condition J2 of that Transmission Owner's transmission licence and approved by the Authority."

Three responses were received. All the respondents agreed that Schedule 10 should reference the appropriate transmission owner licence condition (special condition J2)

and the transmission owner charging statement to be prepared in accordance with that licence condition.

One respondent proposed specific drafting that linked not only the specification of charges referenced in the STC with the statements that transmission owners are required to prepare under special condition J2 but also that those charges should be determined in accordance with such statements. Ofgem agrees with this approach and has proposed drafting to reflect this comment taking into account that the three parts to Schedule 10 will be retained. The proposed wording would be included under each part of Section 10. Ofgem therefore concludes that the drafting in its direction should incorporate these changes to the drafting proposed in the January 2005 document.

One respondent also noted that the definition of "Significant Incident" in Section J needs to remove the reference to NGC and cross-refer to paragraph 4.1.3 and not 4.1.2. Ofgem accepts that it is appropriate for transmission owners as well as NGC to be permitted to determine a Significant Incident. Ofgem therefore concludes that the STC should be amended to incorporate the change as suggested.

The Authority's direction

Having regard to the conclusions set out above, the Authority, in accordance with Condition B12 (7)(e)(iv) of the electricity transmission licence granted to NGC under Section 6 of the Electricity Act 1989 (the "Transmission Licence"), hereby directs NGC to amend the STC as set out in the Annex.

The Implementation Date for the proposed amendments as set out in the Annex is 1 April 2005. In accordance with Condition B12 (7)(e)(iv) of the Transmission Licence, NGC shall amend the STC in accordance with this direction of the Authority (and for the avoidance of doubt this includes consequential page numbering or formatting changes necessary as a result of the implementation of these amendments).

If you have any questions, please contact me on the above number.

Yours sincerely



31 March 2005.

David Haldearn
Director, Scotland and Europe

Date

Signed on behalf of the Authority and authorised for that purpose by the Authority

ANNEX

Amendments to the STC

Amend STC, Section C, Part Two, Paragraph 5.9 as follows (changes in bold):

- 5.9 On and from the date on which NGC re-issues the Outage Plan for the following Financial Year pursuant to paragraph 4.3, it shall maintain **for 5 years** a register which records in relation to any **request for a** change to such Outage Plan which is made after that date in accordance with this paragraph 5 (including any cancellation of an Outage):
- 5.9.1 a description of the change (including where appropriate) the date(s) and times specified for an Outage in the Outage Plan at the time of the change and as changed;
 - 5.9.2 the identity of the Party which proposed or requested the change;
 - 5.9.3 a brief description of the reason for the change;
 - 5.9.4 **a indicator of whether NGC made such a change to the Outage Plan and a brief description of the reasons for the decision including an indication of any withdrawal of a request for an outage change by the party proposing or requesting the change; and**
 - 5.9.5 **in relation to an Outage Change (as defined in the licence), the net costs reasonably incurred by the Transmission Owner as a result of the Outage Change as declared to NGC and which are agreed by NGC and the Transmission Owner or where there is a failure to agree, as the Authority determines pursuant to paragraph 9 of Schedule A to the Transmission Owner's Licence.**

Include a new definition in Section J:

Outage Change has the meaning given in the Transmission Licence

Amend definition of "Significant Incident" in Section J as follows (changes in bold):

Significant Incident an Event which **any Party** determines, pursuant to Section C, Part Three, paragraph 4.1.3, has had ...

Amend Schedule 10 to the STC to include under each part of Schedule 10 the following: (changes in bold):

In relation to each Transmission Owner, as set out and specified in, and determined in accordance with the statement prepared in accordance with Special Condition J2 of that Transmission Owner's transmission licence and approved by the Authority.