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value for all customers*

National Grid Electricity Transmission plc (NGET), STC signatories
and Other Interested Parties

Direct Dial: 020 7901 7355

31 May 2006

Our Ref: IND/COD/STC/CA018

Dear Colleague,

**Modification to the System Operator - Transmission Owner Code ("STC")
- Decision and Direction in relation to Proposed Amendment CA018
"Removal on the restriction on Proposing Alternative Amendments".**

The Gas and Electricity Markets Authority (the "Authority"¹) has considered the issues raised in the Amendment Report² in respect of Proposed Amendment CA018 "Removal of the Restriction on Proposing Alternative Amendments".

The Committee recommended to the Authority that Proposed Amendment CA018 should be made with a proposed implementation date of 5 business days after the Authority's decision.

Having considered the Amendment Report and the recommendation of the Committee and having regard to the Applicable STC Objectives³ and Ofgem's wider statutory duties,⁴ the Authority has decided to direct an Amendment to

¹ Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

² CA018 Amendment Report dated 7 April 2006.

³ The Applicable STC Objectives are contained in General Condition B12 of the Licence to transmit electricity treated as granted to NGET, SHETL and SPTL under section 6 of the Electricity Act 1989 (the "Transmission Licence") and are:

(a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act (as amended);
(b) development, maintenance and operation of an efficient, economical and co-ordinated system of electricity transmission;
(c) facilitating effective competition in the generation and supply of electricity, and (so far as is consistent therewith) facilitating such competition in the distribution of electricity;
(d) protection of the security and quality of supply and safe operation of the GB transmission system insofar as it relates to interactions between transmission licensees; and
(e) promotion of good industry practice and the efficiency in the implementation and administration of the arrangements described in the STC.

⁴ Ofgem's statutory duties are wider than the matters that the Panel must take into consideration and are detailed primarily in the Electricity Act 1989 as amended, including by the Enterprise Act 2002; the Energy Act 2004; the Transitional Provisions; and the Utilities Act 2000.

the STC in line with Proposed Amendment CA018 as detailed in the Amendment Report.

This letter explains the background to CA018, and sets out the Authority's reasons for its decision. This letter constitutes notice by the Authority under section 49A of the Electricity Act 1989.

Background

Modification Proposals are sometimes raised on the STC to 'back-off' other code Amendment Proposals as a method for managing efficient change co-ordination across industry codes.

The current governance arrangements within the STC dictate that a Party may not raise more than one alternative amendment. This has proved problematic since other code Amendments, such as a CUSC amendment where an STC amendment would need to match or back-off the changes, may contain a greater number of alternatives. As a result STC Parties have to raise a number of STC amendments to match or back-off a single amendment which has many alternatives.

In order to rectify this situation, NGET submitted CA018 Removal on the Restriction on Proposing Alternative Amendments to the STC Committee Meeting on 21st February 2006. The Committee considered that further evaluation of the Proposal was not required and recommended that the proposal move directly to the Assessment and Report Phase.

Following assessment of the proposal by all the Parties, a Proposed Amendment Report was prepared by the committee and circulated for comment to interested parties on 23rd March 2006 with views invited by 6th April 2006.

The final Amendment Report was submitted to the Authority on 19th April 2006.

The Modification Proposal

The proposer considered that removing the restriction on Parties to raise only one alternative amendment would allow parties in instances described above, to raise a sufficient number of 'back-off' STC alternatives within the confines of one STC Amendment Proposal.

In the view of the proposer, this would facilitate the STC Committee's duty to co-ordinate changes across the codes. Further the proposer considers enabling all STC options to be considered under a single STC Amendment Proposal, raised to back-off changes in other codes to be more efficient and transparent against having to raise multiple amendments to ensure all alternatives had been appropriately backed-off. It would also prevent the possibility of two multiple proposals being approved, both of which backed-off specific alternatives.

The proposer also considered the risk of spurious Alternative Amendments being raised was low due to the small number of Parties to the STC.

STC Parties Assessment

NGET, SHETL and SPTL all carried out impact assessments on the change proposal and all concluded that the proposed amendment would not have any physical impact on their systems, would not require changes to their IS systems and no additional works or monies would be required to implement the proposed change.

Alternative Amendments

No alternative amendments to CA018 were submitted.

Respondents' views

No responses were received from any other industry parties.

Committee's views (Where relevant) and Recommendation

The STC Committee recommends that CA018 should be approved with an implementation date of 5 business days following Authority approval.

The committee considers that CA018 would better facilitate STC Code objective (e) by promoting good industry practice as it would replicate the arrangements in the CUSC into the STC and thereby facilitate change co-ordination across the codes. It would also promote efficiency in the administration of the STC by removing the need to raise multiple amendments. The committee considered that STC Code objective (a) would also be better facilitated, since increasing the efficiency of the STC amendments process enable the Licensees to more efficiently discharge their obligations in the Licences more efficiently.

Ofgem's view

Having considered the Amendment Report in the context of the Applicable STC Objectives and its statutory duties, Ofgem considers that Proposed Amendment CA018 would better facilitate achievement of STC objectives (e) and (a).

Ofgem considers it to be better industry practice in scenarios where an amendment is proposed to the code in order to co-ordinate with changes in other codes, for all possible alternatives in the context of that change to be considered within a single amendment proposal. This would be the most efficient and transparent manner to assess and evaluate such changes. Ofgem has seen in the context of recent amendment proposals CA016, CA017 and CA019 that under the current STC arrangements this has not been possible. Removing the restrictions on the number of alternatives that can be raised by a Party would rectify this. This would also enable the Licensees to more efficiently discharge their Licence obligations to develop and evaluate any alternative amendment and to secure and implement changes to the STC which are appropriate in order to give full and timely effect to or in consequence of any change which has been made to core industry documents⁵. Ofgem considers that such consequential changes may be more prominent on the STC particularly in relation to the CUSC because of its relationship with the CUSC.

⁵ Licence Condition B12 (14)

Notwithstanding this Ofgem would like to remind Parties that they should endeavour to raise alternative amendments only if they consider them to better facilitate the STC objectives as against the base line and against the proposed amendment.

The Authority's Direction


The Authority has decided to direct that Proposed Amendment CA018, as set out in the Amendment Report, should be made and implemented.

The modification is to be implemented and take effect 5 business days after the Authority's decision.

In accordance with Condition B12.7 (c) of NGET's Transmission Licence, NGET shall modify the STC in accordance with this direction of the Authority.

If you have any queries in relation to the issues raised in this letter, please feel free to contact Dipen Gadhia on 020 7901 7168.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. N. Simpson', with a horizontal line drawn underneath.

Nick Simpson

Director, Industry Codes and Licensing

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