

STC Governance - Voting

Discussion paper for STC Working Group on Offshore Transmission

28 January 2008

1. Background and Summary of Proposal

The current System Operator – Transmission Owner Code (STC) has a simple voting mechanism within it, namely each Party to the STC is able to vote at the STC Committee meeting. The most material issue that may be voted upon is the vote to implement (or not implement) proposed amendments to the STC Procedures (STCPs). Amendments to STCPs are approved should there be unanimous approval of the change by all Parties who are affected by that particular STCP.

Note that this paper does not consider extending the number of matters upon which the STC Committee can vote. Changes to the STC for instance would still be made only upon the direction of the Authority. Note also that the STC does not fall under the remit of Appeals to the Competition Commission and so there is no vote taken at the STC Committee recommending whether an amendment to the STC should or should not be made.

Upon the implementation of the Offshore Transmission regulatory regime it is anticipated that increasing numbers of Offshore Transmission Owners (OFTOs) will accede to (i.e. become Parties to) the STC. A number of reforms to the STC system of governance are under consideration to ensure that it can continue to function efficiently given this increase in the number of STC Parties. One of which is to reconstitute the STC Committee as follows:

- 2 persons representing NGET
- 2 persons to represent each onshore Transmission Owner (TO) (4 in total)
- 2 persons to represent all OFTOs

Given the revised constitution it will not be possible to allow for the one party one vote system at the STC Committee because:

- It is unlikely that all Parties will be physically present at the STC Committee meeting; and
- The views of the OFTOs may not be unanimous leading to problems for the OFTO reps on the STC Committee).

Therefore a revised voting system is proposed by this paper.

The revised voting system is based substantially around that found in the DCUSA. Here the voting allows for each Party to have a say on any matters put before the DCUSA Panel where they affect that Party. The DCUSA process also builds in a certain amount of protection for parties in that a proposal can be approved only if a majority of the parties with similar interests vote to approve a proposal. In an offshore context this means that if the OFTOs felt a proposal would disadvantage them NGET and Onshore Transmission Owners could not push through the proposal against the majority wishes of the OFTOs.

2. Revised Voting System Proposal

As per the model in the DCUSA, parties with similar interests are grouped into Party Categories. For the STC under an Offshore Transmission regulatory framework it is proposed to establish the following Party Categories – i.e.

1. NGET
2. Onshore TOs
3. Offshore TOs

Within a Party Category individual Parties who are affiliated within the same corporate group will be classified as a single “Group” for the purposes of the voting and will receive a single vote for the corporate group again in a similar manner to that under DCUSA governance.

For matters put to a vote the following principles would then apply:

1. Where a matter is put to a vote, the STC Committee will decide which Party Categories are affected by the matter being voted upon – i.e. the “Affected Party Categories”. In the absence of any such agreement Ofgem would be asked to decide the Affected Party Categories.
2. Each Group within an Affected Party Category will be sent a voting form setting out the decision to be taken
3. Each Group would have a number of days (as determined by the STC Committee and set out on the voting form) to return its vote.
4. Each Affected Party Category would approve the matter being voted upon if more than 65%¹ of the Groups who vote² within an Affected Party Category, vote to approve the matter, otherwise the Party Category will be deemed to reject the proposal.
5. The matter being voted upon will be deemed to be approved if **all** Affected Party Categories vote to approve the changes, otherwise it shall be deemed rejected.

Alongside the above provisions an additional provision within the DCUSA is also proposed to be adopted and adapted for use within the STC. This provision states where all Groups within an affected Party Category decline to vote then the overall decision on whether to approve or reject a matter is made solely by reference to those Party Categories where votes were received. Although it is felt unlikely that any of the three constituencies would not vote on an issue affecting them this mechanism has been included in the proposal to effectively provide a safety net.

3. Characteristics of the Proposed Voting Mechanism

The above mechanism would have the following characteristics:

¹ Note that the 65% threshold mirrors that for Part 2 matters in the DCUSA. The DCUSA voting process also contains a threshold for Part 1 matters of 50%. The 65% figure has been chosen for the STC as all matters put before a vote are those for which the STC has sole jurisdiction, for example the approval of amendments to STCPs. Therefore such matters are analogous to Part 2 matters in the DCUSA.

² Note here that if a Party does not vote then they are not included in the consideration of whether a motion put before a vote is passed or otherwise. For the avoidance of doubt there is no such concept of a non-vote being counted either as a vote for or a vote against the proposal. It is effectively an abstention.

- It would ensure that all OFTOs remain enfranchised by the voting process, overcoming one of the concerns voiced at the STC Working group that if the representatives of OFTOs at the STC Committee were to vote for a STCP Amendment (for example) this could be against the wishes of a number of other OFTOs (in theory possibly a majority of OFTOs).
- By grouping Parties according to corporate group it removes the likelihood that one company winning several OFTO tenders finds itself in the position where it has absolute voting control over the decision of the OFTO Party Category due to the fact it owns more than 65% of the STC Parties in the OFTO Party Category.
- Both National Grid and the Onshore TOs (assuming their number remains at 2) would retain their existing voting rights and so their views on future matters would not be diluted even where there may be significantly larger numbers of OFTOs.
- The above mechanism could be adapted to provide recommendations for amendments to the STC should the STC ever become one of the designated codes where Authority decisions on amendments can be referred to the Competition Commission for review.

3. Additional Element

The DCUSA currently has an additional condition applied to its voting process that may need to be added to the above proposal in light of experience.

The DCUSA voting process adds a weighting to votes based upon certain measures (for DNOs, IDNOs and Suppliers, the number of registered Meter Point Administration Numbers – MPANs – and for Distributed Generators by MW of Generation Capacity). Parties are then accorded a greater share of the overall vote depending on their market share as reflected by these parameters, although this is limited to no more than 20% of the overall share when measured by corporate group. Such a system has not been included within the proposed voting mechanism for the STC as it:

1. is not necessary for either NGET or Onshore TO Party Categories due to the monopoly / duopoly nature of the two categories; and,
2. although a weighting system could be devised amongst OFTOs based upon MW capacity installed on an OFTO network for example, National Grid does not believe that it is necessary at this stage.