

Your Ref:  
Our Ref:  
Direct Dial: 020 7901 7458  
Email: mark.cox@ofgem.gov.uk

Date: 27 February 2012

Dear Colleague

**Statutory consultation and notice under section 11A of the Electricity Act 1989 in respect of proposed modification to Part E of Special Condition C4: Role in respect of the national electricity transmission system operator area located in offshore waters**

The purpose of this letter is to consult on the proposed licence modification to extend National Grid Electricity Transmission plc's (NGET) reporting obligations in relation to NGET's performance in respect of the part of the national electricity transmission system (NETS) located in offshore waters beyond 31 March 2012.

Part E of Special Licence Condition (SLC) C4 of NGET's transmission licence obliges NGET to deliver an offshore transmission report, which relates to the NGET's activities in respect of that part of the NETS located in offshore waters, in such frequency, form and content as is approved by the Authority in the direction (the "Direction") dated 29 September 2009. Currently, this obligation will come to an end on 31 March 2012.

We consider that it will be useful for NGET to continue to report to the Authority on certain aspects of its role as system operator in respect of that part of the NETS located in offshore waters. The report demonstrates how NGET facilitates the development of an efficient, coordinated and economical transmission system and generation development in offshore waters. Further, the report facilitates Ofgem's monitoring and assessment of NGET's conduct and performance. NGET supports the Authority's proposals for this reporting requirement to continue beyond 31 March 2012.

The Authority proposes to amend SLC C4 as follows:

- a. amend paragraph 22 to make express the Authority's ability to amend any direction issued under paragraph 22 which specifies the frequency, form and content of such an offshore transmission report;
- b. remove paragraph 24(c), 26, 27 and 28 as future costs associated with the Licensee's System Operator activities offshore will be included within an ex-ante allowance under Transmission Price Control 4 (TPCR4) Rollover<sup>1</sup>; and
- c. amend paragraph 25 to clarify the date the Licensee must provide the information set out in this paragraph to the Authority.

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<sup>1</sup> TPCR4 Rollover: Final Proposals (reference number: 162/11) and Transmission Price Control Review 4 Rollover, Section 11A Statutory Consultation – National Grid Electricity Transmission PLC's Licence - (Reference number: 08/12).

The effect of the proposed modifications is to oblige NGET to continue to provide the offshore transmission report beyond 31 March 2012, to remove redundant reporting obligations and to allow the frequency, form and content of the report to be altered as necessary.

The attached notice under section 11A of the Electricity Act 1989 sets out our proposal to modify Special Condition C4 of NGETs transmission licence. In addition and subject to the consultation, the Authority intends to propose changes to the Direction to reflect this licence change in due course.

### *Background*

In 2009 the Authority agreed to allow NGET to recover costs associated with the administrative and functional costs associated with their role as system operator (NETSO) in respect of that part of the NETS located in offshore waters. The Authority decided to adopt a 'pay as you go' treatment of NGET future costs as NETSO for the years 2009 to 2012. Special licence condition AA5A of NGETs transmission licence was amended to include this mechanism. To support this mechanism, the Authority also placed an obligation on NGET to provide conduct and performance reports, on a monthly basis, for the same period (2009 to 2012). This obligation was set out in special condition C4 of NGETs transmission licence.

Currently, these obligations end on 31 March 2012.

### *Way forward and next steps*

Following closure of this consultation on 23 March 2012, the Authority will consider any responses and determine whether the proposed changes set out in the schedule to the attached notice will be made. If the decision is to make the proposed modifications, our intended aim is for the proposed modifications set out in the schedule to the attached notice to take effect 56 days after the decision to modify is published.

### *Consultation responses*

Any representations on the proposed modifications set out in the attached notice must be made in writing on or before 23 March 2012 to Yvonne Naughton at [yvonne.naughton@ofgem.gov.uk](mailto:yvonne.naughton@ofgem.gov.uk).

All responses will normally be published on Ofgem's website and held in the Research and Information Centre. However, if respondents do not wish their response to be made public then they should clearly mark their response as not for publication. Ofgem prefers to receive responses in an electronic form so they can be placed easily on the Ofgem website. If you wish to discuss any of the issues raised in this open letter and associated section 11A consultation please contact Yvonne Naughton ([yvonne.naughton@ofgem.gov.uk](mailto:yvonne.naughton@ofgem.gov.uk) or 0141 331 6006).

Yours faithfully

Mark Cox  
**Associate Director, Offshore Transmission**

**To:**

The Company Secretary  
National Grid Electricity Transmission plc  
Company number: 02366977  
1-3 Strand  
London  
WC2N 5EH

## NOTICE UNDER SECTION 11A OF THE ELECTRICITY ACT 1989

The Gas and Electricity Markets Authority (the "Authority") hereby gives notice pursuant to section 11A(2) of the Electricity Act 1989 (the "Act") as follows:

1. The Authority proposes to modify the conditions of the transmission licence ("the Licence") treated as granted to National Grid Electricity Transmission plc ("the Licensee") under section 6(1)(b) of the Act by amending Part E of Special Condition C4 (Role in respect of the National Electricity Transmission System Operator area located in offshore waters) (the "Condition") as set out in the schedule to this notice.
2. Part E of the Condition in the licence obliges the licensee to deliver an offshore transmission report, which relates to the licensee's activities in respect of that part of the national electricity transmission system (NETS) located in offshore waters, in such frequency, form and content as is approved by the Authority. Currently, this obligation will come to an end on 31 March 2012. The Authority proposes to amend the expiry date. The effect of the proposed licence modification is to oblige the Licensee to provide the Authority with an offshore transmission report on an extended basis beyond 31 March 2012 to 31 March 2021. Further, the Authority proposes to amend the Condition as follows:
  - a. amend paragraph 22 to make express the Authority's ability to amend any direction issued under paragraph 22 which specifies the frequency, form and content of such an offshore transmission report;
  - b. remove paragraph 24(c), 26, 27 and 28 as future costs associated with the Licensee's System Operator activities offshore will be included within an ex-ante allowance under Transmission Price Control 4 (TPCR4) Rollover<sup>1</sup>; and
  - c. amend paragraph 25 to clarify the date the Licensee must provide the information set out in this paragraph to the Authority.
3. The reasons why the Authority proposes to make this licence modification are, as set out in the Authority's statutory consultation letter dated 27 February 2012 which accompanies this notice:
  - a. provision of the report beyond March 2012 to March 2021 will demonstrate how the licensee continues to facilitate the development of an efficient, co-ordinated and economical system of offshore transmission;
  - b. the report facilitates the Authority's monitoring and assessment of the licensee's conduct and performance.
4. A copy of the letter referred to in this notice is available (free of charge) from the Ofgem library (telephone 020 7901 1600) or on the Ofgem website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)).
5. Any representations or objections to the proposed licence modifications must be made in writing on or before 23 March 2012 and sent to:

Yvonne Naughton  
Office of Gas and Electricity Markets  
3<sup>rd</sup> Floor

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<sup>1</sup> TPCR4 Rollover: Final Proposals (reference number: 162/11) and Transmission Price Control Review 4 Rollover, Section 11A Statutory Consultation – National Grid Electricity Transmission PLC's Licence - (Reference number: 08/12).

107 West Regent Street  
Glasgow  
G22 BA  
or by email to [yvonne.naughton@ofgem.gov.uk](mailto:yvonne.naughton@ofgem.gov.uk)

6. All responses will be published on the Ofgem website and retained in the Ofgem Research and Information Centre, and if a respondent does not wish its response or parts of its response to be published, it should clearly mark the response or the relevant parts 'not for publication'.
7. If the Authority decides to make the proposed modification it will take effect 56 days after the decision is published.

**Mark Cox**  
**Associate Director, Offshore Transmission**  
**Authorised on behalf of the Authority**  
27 February 2012

## SCHEDULE

### Proposed modification to Part E of Special Condition C4: Role in respect of the national electricity transmission system operator area located in offshore waters

#### Part E: Offshore transmission report

21. The licensee shall until 31 March 20~~21~~<sup>12</sup>, (or such earlier date as the Authority may direct) deliver a report (the “offshore transmission report”) to the Authority containing information relating to the licensee’s activities undertaken pursuant to this licence in respect of that part of the national electricity transmission system located in offshore waters in accordance with any direction issued under paragraph 22.
22. The Authority shall, following consultation with the licensee, ~~no later than 30 September 2009~~ issue a direction to the licensee as to the form and content of the offshore transmission report and the frequency with which the licensee shall deliver the offshore transmission report to the Authority (being not more frequent than one report each month).
23. The Authority may review and, following consultation with the licensee, vary any direction issued by the Authority pursuant to paragraph 22 by issuing a further direction to the licensee under paragraph 22 as to the form and content of the offshore transmission report and the frequency with which the licensee shall deliver the offshore transmission report to the Authority (being not more frequent than one report each month).
- 23.
24. The licensee may request a review of any direction issued by the Authority pursuant to paragraph 22 or a variation to a direction issued by the Authority pursuant to paragraph 22. If, having considered the representations made by the licensee in such a request, the Authority considers that it is appropriate that the form and content of the offshore transmission report and/or the frequency with which the licensee shall deliver the offshore transmission report to the Authority should be varied, the Authority may issue a further direction under paragraph 22 to the licensee varying the form and content of the offshore transmission report and/or the frequency with which the licensee shall be required to deliver the offshore transmission report to the Authority. The Authority may not direct that the licensee shall deliver the offshore transmission report to it more frequently than once in each month.
25. The offshore transmission report shall be designed to facilitate monitoring and assessment of the conduct and performance of the licensee in relation to:

- (a) the licensee's compliance with this licence in respect of that part of the national electricity transmission system operator area located in offshore waters;
- (b) the licensee's performance in respect of that part of the national electricity transmission system operator area located in offshore waters in developing and facilitating the development of an efficient, co-ordinated and economical system of electricity transmission; and
- ~~(c) the additional costs incurred by the licensee in complying with its licence in respect of that part of the national electricity transmission system operator area located in offshore waters; and~~
- ~~(d)~~(c) details of any complaints made by interested parties to the licensee in respect of its performance under this licence in respect of that part of the national electricity transmission system operator area located in offshore waters and of the actions taken by the licensee to resolve any complaints raised.

26. The licensee shall until 31 March 2021~~12~~ (or such earlier date as the Authority may direct), provide to the Authority, ~~by 1 December 2009 and~~ by 1 December in each ~~financial~~ year ~~thereafter~~, a certificate signed by the Responsible Director for system operation (appointed pursuant to Special Condition C2 (Separation of National Grid Electricity Transmission plc and Relevant Offshore Transmission Interests) certifying that the information in the offshore transmission reports delivered to the Authority in the previous twelve months is fair and accurate.

~~27. The Authority may direct the licensee to engage an external reviewer to review and prepare a report on whether, in its opinion, the information contained in the offshore transmission report is fair and accurate ("the review report").~~

~~28. For the purposes of preparing the review report, the licensee shall secure that the external reviewer has reasonably access to its premises, staff and information systems.~~

~~29. The licensee shall submit each review report to the Authority within 14 days of receipt of the review report by the licensee from the external reviewer.~~

~~30.~~27. In this condition:

**"interested parties"**

includes authorised electricity operators, potential offshore transmission owners, the Crown Estate, Government bodies and

institutions with an interest in the development of the national electricity transmission system in respect of the parts of the national electricity operator area located in offshore waters.