ofgem Making a positive difference for energy consumers

Integrated Transmission Planning and Regulation (ITPR) project: final conclusions

Enhancing the role of the System Operator – Supporting Document

Publication date: 17 March 2015

Contact: Jon Parker

Team: Future Networks

Tel: 020 7901 7408

Email: ITPRMailbox@ofgem.gov.uk

Overview:

This document sits alongside our final conclusions on the Integrated Transmission Planning and Regulation (ITPR) project.

We have decided to enhance the role of the System Operator so that it leads the identification of system needs and assesses options to meet these needs. The SO will be required to undertake a new network options assessment process to appraise major investment options and consider the value of potential additional interconnection to other countries. This will include publishing an annual network options assessment report. It will also lead the early development of some transmission options. These changes could give rise to conflicts of interest for National Grid Electricity Transmission. We will implement a package of measures to mitigate these conflicts.

These decisions have been informed by consultation with stakeholders.

In this document we set out the detail of these additional responsibilities and mitigation measures. We also set out how we will implement our decision to enhance the System Operator's role. We will publish a consultation on proposed licence modifications intended to implement these changes shortly.

Contents

1. Details of our decision on the System Operator's role

Chapter Summary

This chapter sets out the detail of our decision on enhancing the System Operator (SO)'s role in system planning. This includes a greater role for the SO in identifying system needs, and developing and assessing options to meet those needs.

Introduction

1.1. After considering responses to our draft conclusions, we have decided to implement the measures we proposed to enhance the role of the SO in system planning. The detail is set out below, including further clarification of elements of our proposals in response to stakeholders' comments. A more detailed summary of responses is set out in our supporting document on stakeholder responses to our draft conclusions.

1.2. We have decided that the SO will:

- Do more to identify the needs of the electricity transmission network and where additional interconnector capacity could be beneficial.
- Assess options for meeting the future needs of the network and for new interconnection, and provide its assessment to the relevant delivery party and to us to support the decision-making process.
- Lead the early development of some options. This includes options the SO expects would meet the criteria for the use of competitive tendering for onshore projects (set out in chapter 3 of our decision statement). It also includes options that would involve investment to provide wider network benefits in offshore projects.
- Play a more active role in supporting other aspects of system planning. This includes greater coordination with other parties and improved information sharing.

1.3. In order to implement the SO role in the assessment and early development of options we are introducing a new network options assessment (NOA) process. This will ensure that the SO undertakes these new roles in a consistent and transparent manner and supports the economical and efficient development of the network.

1.4. We have used a series of information boxes in this document to set out what our decision will mean in practice. In some areas this will be subject to further consultation and we flag where this is the case.

Identifying system needs

1.5. The SO is well placed to provide a holistic, GB-wide view of the needs of the network. It already provides information on the future needs of the transmission network (assisted by the transmission owners (TOs)) through the annual electricity ten year statement (ETYS). However we consider that there is more that can be done. Specifically:

- We will formalise the requirement for the ETYS to identify and provide a commentary of where major national electricity transmission system (NETS) reinforcements will be required to facilitate new generation (onshore and offshore) and new interconnection.

- For interconnectors, the SO is already required to include its assumptions on the capacity, location and timescales for connecting additional interconnectors in the future energy scenarios (used in the ETYS). It currently does this based on its knowledge of specific interconnector projects. Going forward, the assumptions will also need to be informed by analysis to determine what additional interconnector capacity could be beneficial to consumers. This will include considering the impact of potential new interconnectors in terms of ancillary services, constraint management and other factors relating to system operation as well as the direct impacts on consumer bills. It will also need to consider which areas of the GB network would be most suitable for the connection of potential new interconnection, including general indications of potential connection locations and any implications for the need for reinforcement of the GB network.

Assessing options to meet system needs

1.6. The SO will assess options for meeting network needs and for new interconnection capacity through the new NOA process.

- For major reinforcements of the GB network the SO will assess which of the options that is has undertaken early development for (as set out in paragraph 1.15) or that have been proposed by TOs should be developed further. This assessment will support onshore TOs in deciding on their investment proposals and will also inform our decision-making when considering such proposals.

- For interconnection the SO will assess specific projects proposed by interconnector developers, to support the developers in deciding on their investment proposals and to help inform our decision-making when considering such proposals.

Major reinforcements to the GB transmission network

1.7. The SO will undertake comparative analysis of options (and where appropriate combinations of options) in order to assess which options are likely to

facilitate the efficient, coordinated and economic development of the transmission network. This includes options developed by the TOs and the SO.

1.8. The SO will:

- Assess whether the range of options being considered is appropriate or whether additional options should be considered. This includes options being developed by the TOs in relation to their networks and the options where the SO will be responsible for early development work.

- Assess the relative merit of each option (or combination of options) in facilitating the efficient, coordinated and economic development of the transmission network.

- Make a recommendation on which investment options are likely to most economically meet the future needs of the network. In the early stages of the assessment process this will mean identifying which options should be developed further. However in time a clear recommendation on which investment option is likely to be most efficient will be made. This recommendation will be made once the SO is confident in its assessment but sufficiently early to allow for the regulatory process (eg assessment of strategic wider works (SWW) projects or a decision on whether to launch a competitive tender process).

1.9. The SO will be required to inform various parties of the outcome of its assessment. In particular the SO will:

- Give information and analysis to TOs to support them at the various stages of their assessment of the options and decision-making.

- Support parties involved in investments by identifying where there may be options that involve coordinating between different parties. Where parties are considering options that could substitute for each other, the SO should also provide its assessment of the alternative options being considered by the other party.[1]

- Provide information and analysis to us about how well options meet system requirements, as well as its recommendation on which investment option(s) it considers to be the most economic and efficient solution(s).

[1] It may not be possible for all information on other options to be shared. Where information is commercially confidential the SO will not be able to share it with third parties.

1.10. The TOs will need to provide the SO with information on their networks and investment plans. This will ensure the SO has sufficient information to reasonably assess the options.

Box 1: What these changes mean for onshore TOs' investment projects

TOs will still be responsible for ensuring they develop their networks in an efficient, coordinated and economic way.[2] The SO will support them in this by providing its assessment of network needs and of the options to meet those needs and coordinate across parties. The decision to progress an investment proposal related to its network will still remain with the TO. We set out below how this will work for different types of investment.

RIIO-T1: Baseline expenditure, SWW submissions and the network development policy (NDP)

Where a TO is leading the development of an option, the process will work differently depending on how the assets are to be funded under the RIIO-T1 price control (which set onshore TOs' revenues for the period until March 2021).

- For outputs[3] funded as part of the TOs' **baseline expenditure** the TO should take into account the SO's analysis when determining the efficient, coordinated and economic approach.
- For outputs that would be delivered through the **SWW mechanism** the TO will need to make a needs case submission to us setting out the system need and its preferred option for meeting that need.[4] We would expect the TO to include in its submissions all supporting analysis, including that carried out by the SO as part of its system planning activities in this submission.
- TOs will be able to submit needs cases and funding requests to us for our approval even if their preferred solution differs from the SO's recommendation. We would expect the TOs to include the reasons why their preferred option for meeting the network need differs from that recommended by the SO, and the implications of these differences. We will continue to make the decision on whether to provide funding for a SWW project. We will use the information provided by the SO to inform our decision-making. We will also carry out our own analysis, as well as using information from a range of sources, including other stakeholders.
- For National Grid Electricity Transmission's (NGET's) outputs funded as **incremental wider works** (IWW) projects, the SO will support the TO for England and Wales in the implementation of its NDP. The NDP underpins the funding of IWW projects, and we would expect the methodology for this to be consistent with the NOA methodology.

[2] Though onshore TOs will no longer be responsible for assets within their geographic area where we decide it is in the interests of consumers that they are subject to a competitive tender.
[3] For example an increase in capacity on a particular transmission boundary.
[4] For a complete picture of the information to be included in a needs case submission please refer to our SWW guidance: https://www.ofgem.gov.uk/publications-and-updates/guidance-strategic-wider-works-arrangements-electricity-transmission-price-control-riio-t1-0

Box 1 continued: What these changes mean for onshore TOs' investment projects

RIIO-T2 price control

We anticipate the SO will play a role in the investment plans that will be developed by the onshore TOs as part of RIIO-T2. In particular, we consider the SO may advise and support onshore TOs by providing:

- Key assumptions underpinning TO investment plans – including scenarios of future generation and demand.
- The options for major system reinforcements being proposed – including constraint analysis to help inform decisions.
- Opportunities for solutions where coordination could result in benefits to consumers. For example where an offshore solution may help reinforce the onshore network.

We will consider in more detail the role the SO will play in RIIO-T2 closer to the price control review.

Interconnection

1.11. In addition to the role set out in paragraph 1.5 on assessing the benefits of additional interconnection capacity to different markets, the SO will also be required to support the assessment of specific interconnector proposals. We are retaining a developer-led approach to interconnection development but the SO will:

- Consider options for where an interconnector should connect to the GB network. This will be done through the connections process.
- Assess the impact of a particular interconnector on factors relating to system operation (such as ancillary services and constraint management) as well as the direct impacts on consumer bills.

1.12. The SO will provide information to interconnector developers to support them at various stages in the options development and decision-making.

1.13. Interconnector developers will remain responsible for the decision on whether to go ahead with their investment. They will also decide whether to progress the project, and if so, whether to apply for a cap and floor or seek exemption from certain European legislation. Where they do, the SO's analysis will support our assessment of whether an interconnector project should be granted a cap and floor or an exemption. We will remain the decision-maker and we may also undertake our own analysis, as well as considering information from a range of sources, including other stakeholders, in deciding whether to grant a cap and floor or exemption.

1.14. While we are not proposing specific obligations at this time, we expect the additional roles for the SO in interconnector modelling will mean that it will play a greater role in ENTSO-E modelling.[5] We expect the SO to take a leading role for GB, engaging with other TOs and interconnectors as needed. There may need to be further consideration of the SO's role in representing GB once its new roles are established.

Early development of some options

1.15. The SO will be required to undertake early development work on some options where it considers that these could provide an efficient solution to the identified system needs. There are three types of projects where we have decided that the SO will have a role.

1. The SO will lead the early development of options where it expects:

    a. They would meet the criteria for the use of competitive tendering for onshore transmission projects. We set out in chapter 3 of our decision statement that we will introduce competitive tendering for new, separable and high value onshore transmission assets.

    b. They would involve offshore non developer-led wider network benefit investment (WNBI[6]). These are offshore transmission projects that contain works designed to reinforce or extend the wider network and that will not be taken forward by an offshore developer. The delivery party for these projects would be determined using competitive tendering.

2. The SO will play a greater role in the development of offshore transmission options that it expects could involve developer-led WNBI. These are offshore transmission projects taken forward by an offshore developer which contain additional investment to deliver wider network benefits, as set out in their connection agreement.

1.16. The SO role in developing these options will ensure that an appropriate range of options for meeting a network need are considered when assessing options (as set out in the section above).

[5] ENTSO-E (the European Network of Transmission System Operators for Electricity) produces annual Ten Year Network Development Plan (TYNDP) reports, which include modelling and analysis of interconnector need and capacity: https://www.entsoe.eu/Pages/default.aspx

[6] Further information on developer-led WNBI and non developer-led WNBI – including a diagram showing examples can be found in appendix 4 of our draft conclusions.

1. Options expected to involve onshore projects that would be subject to competitive tendering and offshore non developer-led WNBI

1.17. For options on the onshore network that would be subject to competitive tendering and offshore non developer-led WNBI, the SO will undertake early development work and analysis to allow it to assess whether the option(s) merit further development.

1.18. The SO will be required to undertake desktop analysis of the capacity to be provided, technology choices and high level routing. This is intended to allow a reasonable and transparent assessment of the options to be undertaken, including a comparison of other possible options (eg including alternatives being considered by onshore TOs).

1.19. The SO will reach a recommendation on which of the options being developed is the most economic and efficient network solution. If the SO recommendation is for an onshore option that would meet the criteria for competitive tendering or for offshore non developer-led WNBI, the SO will make a needs case submission to Ofgem. This needs case submission will set out its analysis and recommendation. We will undertake a needs case assessment to determine whether proceeding with that option would be in consumers' interests. If we approved the needs case we would then run a competitive tender.

1.20. There may be other aspects of development that the SO will then undertake depending on the tender model used. We will consider this as part of our work on extending the use of competition.

2. Offshore developer-led WNBI

1.21. In its current role in making connection offers, the SO may already request a developer of offshore generation to include WNBI in its project where the SO believes this would support the economic and efficient development of the network.

1.22. We have previously confirmed that we would carry out gateway assessments to minimise the risk of consumers bearing the cost of 'stranded' transmission assets and give developers comfort on their route to cost recovery for the WNBI included in their project.[7] The gateway process will mean we review the rationale for including the WNBI in the developer's project. Where we consider the WNBI would be in the interests of consumers, we would commit to accepting the rationale for inclusion in our cost assessment as part of a subsequent offshore tender. This would give the developer confidence that they will be able to recover the economic and efficient costs of the additional investment.

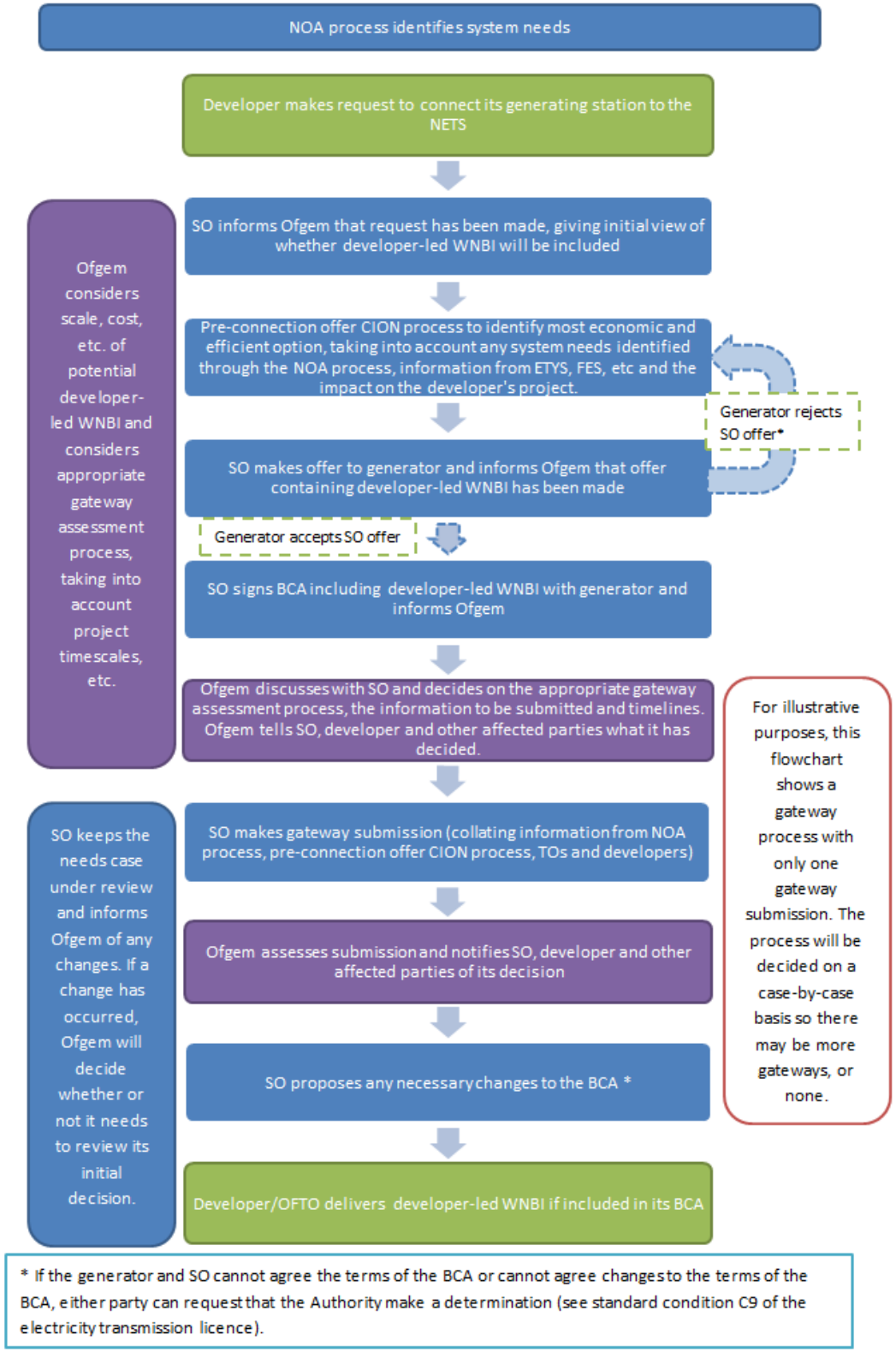
[7] Ofgem, 'Statement on the proposed framework to enable coordination: an update to our December consultation': https://www.ofgem.gov.uk/ofgem-publications/75429/statement-proposed-framework-enable-coordination-update-our-december-consultation.pdf

1.23. The SO will be required to lead gateway submissions. The detailed approach for the gateway assessment process will be as we set out in our draft conclusions. Figure 1 sets out how it would work for an example with one gateway submission. The figure shows the roles we intend the SO, TOs, developer and Ofgem to play in the gateway process and how we expect the gateway assessment, NOA and connection processes to interact.

1.24. If a developer does not want, or is not able, to accept a connection offer containing WNBI, it can come to us for a determination on the terms of the offer.[8] Should the determination process result in the WNBI identified by the SO not being included in the connection offer for the offshore developer then the SO would need to re-consider how to best meet the wider network need. This could potentially include the SO leading on the early development of an option under the non-developer-led WNBI route set out in paragraph 1.15.

[8] Under standard condition C9 of the electricity transmission licence.

Figure 1: Process map showing an illustrative SO-led gateway process for developer-led WNBI



Implementing the SO role in developing and assessing options – the NOA process

1.25. To ensure the SO carries out the roles outlined above in a consistent and transparent manner we are introducing a new NOA process. This process will underpin the SO role in developing and assessing options.

1.26. As part of the NOA process, the SO will be required to:

- publish an annual NOA report
- provide information and analysis to TOs and interconnector developers
- provide information and analysis to us.

1.27. The process will be underpinned by a NOA methodology. This will set out how the options will be assessed and how the SO will engage with interested parties, through consultations and information sharing.

1.28. Our thinking on how the process will work in detail is set out in box 2.

Box 2: Further details on how the NOA process might work

We anticipate that the key elements of the NOA process will include:

- The SO will be required to consider a **ten-year planning horizon** in line with the ETYS. There will be less certainty about system needs and the options for meeting those needs for the later part of that planning period. However we think it is important that the needs of the network are considered in time to inform the early identification of options. The information published in the NOA report should reflect these uncertainties.
- The SO will **consult with interested parties annually** on the methodology underpinning the NOA process.
- The SO will then submit to Ofgem its proposed methodology and proposed form of the NOA report. **These will be subject to our approval**.
- The SO will **publish a NOA report** based on its assessment of options for meeting the needs of the network. The NOA report should contain details of the SO's analysis of all options although certain details of options may be excluded if the information is commercially sensitive. However we expect such omissions of information to be limited.

We will be consulting on these details as part of our upcoming consultation on licence changes.

1.29. The NOA report will set out the SO's assessment of all options for major new transmission capacity and interconnection. It will give all parties, including ourselves, early sight of options and an opportunity to raise issues or concerns.

1.30. The NOA report will sit alongside the existing ETYS. The ETYS will identify the needs for the network whilst the NOA report will identify and assess the options for meeting those needs. The two publications should be based on consistent assumptions (for example generation background).

1.31. We expect the SO to publish the first NOA report as soon as is practicable, and are engaging with the SO and TOs on the publication date. The timing of the first report may mean that the SO is unable to include all of the elements above for the whole GB network and interconnection. The SO will therefore be able to ask for our agreement, through its NOA methodology, to make certain exclusions.

Coordinating other aspects of system planning

1.32. In our draft conclusions we set out our thoughts on other areas where we were considering changing the SO role.

Network outages

1.33. The SO also has an important role in ensuring that the impact of network outages is taken into account when different options for network development and maintenance are being considered. This requires the SO to liaise extensively with the TOs to ensure that the implications of different outage options are explored and understood.

1.34. There are arrangements in the SO:TO code (STC) to support this, as well as the network access policy (NAP) we put in place as part of the RIIO-T1 price control. This helps improve communication and coordination between parties on outages.

1.35. We recognise the progress that has been made to date on improving communication on outages. We would encourage the SO and other licensees to continue to build on this. It has been suggested that financial mechanisms are required to support the NAP to ensure that the TOs take decisions which have the lowest overall system costs, taking into account the SO's costs of managing outages. We have not proposed any changes to financial incentives for the SO or TOs as part of ITPR. We will continue to evaluate the need for this and the appropriate way in which this could be implemented if necessary.

Power quality

1.36. In our draft conclusions we noted the need for improved information provision and coordination on system studies designed to ensure adequate power quality[9] on the network. This is an area where the SO already has a clear duty.

[9] 'Power quality' means ensuring a number of technical characteristics (such as harmonics

We think improvements are needed and the SO needs to give more attention to this area.

1.37. Currently, issues with power quality are generally assumed to need to be 'fixed at source'. For example if a power quality issue arises as a result of the connection of new offshore transmission equipment it is to be resolved by the developer or offshore TO (OFTO). However there isn't a standardised approach to ensure the appropriate timings of system studies and sharing of network data. This makes it difficult for the connecting party to undertake comprehensive system studies at the right time to provide detailed plant specifications to its contractors and suppliers.

1.38. A code of practice for dealing with these issues on the distribution system has recently been consulted on by industry.[10] We have seen little progress on this issue from a transmission perspective. To ensure appropriate progress we expect the SO to put in place a formal process for data exchange developed with the industry (ideally this would be tied in with the connection agreement so that there are contractual obligations for data exchange in a timely manner). This process should also ensure that the data the SO provides to other licensees and those seeking connection to the transmission system has been coordinated with relevant parties to ensure transparency on the basis of system studies, and the format and validity of the data provided.

1.39. We also see merit in ensuring the base data used for system studies is appropriately verified and based on transparent system measurements and tested loading. Therefore we consider there would be value in the SO publishing these results on its website periodically showing conditions at the time, to allow other parties have clarity on the actual system conditions used to verify data and study accuracy.

1.40. We have asked the SO to report to us on progress made in meeting the requirements set out above by the end of the year. This should set out both progress made to date and any future works necessary (along with a planned timescale).

Coordination with distribution

1.41. In the ITPR project we have focused on the transmission system and we are not making any changes to the way distribution networks are planned or operated. However we think that our decisions, in particularly for the assessment of options for major reinforcements to the network through the NOA process, will mean the need for increased cooperation between the SO and distribution

---

and unbalanced power) are within acceptable limits to support the operation of the network.

[10] The consultation on the draft ENA Engineering Recommendation G97: Process for the connection of non-linear or resonant plant and equipment in accordance with EREC G5 can be found here: http://www.energynetworks.org/electricity/engineering/network-equipment-and-system-issues/g5-code-of-practice-working-group.html

network operators (DNOs) to ensure changes in the distribution networks are taken into account.

1.42. The growth of distributed generation connecting to the system and emergence of smarter technologies give rise to a number of issues that impact both the distribution and transmission networks. NGET's responsibility for managing the transmission system includes a responsibility to anticipate and consider challenges that could arise to the system from new developments on distribution networks. We welcome the steps that NGET is taking to do this through the system operability framework (SOF)[11] and their engagement with the Smart Grids Forum[12]. We encourage them to develop this further.

1.43. We are aware and are involved in ongoing work by other parties exploring the challenges associated with the future planning and operation of the electricity system as a whole given the implications of greater distribution connected generation, storage and demand side response (DSR). We are actively engaged in these initiatives and will feed the outputs from these work streams into our future policy developments. These include:

- The ongoing work by the Smart Grids Forum (workstreams 6 and 7) which are looking in detail at the regulatory and commercial arrangements, as well as the technical impact of, the use of distribution connected flexibility resources and deployment of smart technology on the distribution network.

- Consideration being given by the European Commission on the potential future roles of DNOs.

Connections process

1.44. The connection infrastructure options note (CION) process is the process used by the SO to consider options and determine the most economic and efficient connection offer from a whole system perspective. We believe there should be a more formal process to increase transparency. We will seek views in our consultation on licence changes on a new obligation on the SO to set out these arrangements. If this obligation is put in place we would expect that the SO will subsequently put forward a code modification and produce accompanying guidance to support the process.

[11] http://www2.nationalgrid.com/UK/Industry-information/Future-of-Energy/System-Operability-Framework/
[12] https://www.ofgem.gov.uk/electricity/distribution-networks/forums-seminars-and-working-groups/decc-and-ofgem-smart-grid-forum

2. Details of our decision on conflict mitigation

Chapter Summary

This chapter sets out the measures we have decided are appropriate to mitigate the potential conflicts of interest that could arise through enhancing the SO role.

Introduction

2.1. Enhancing the SO's role presents opportunities for conflicts of interest to arise within National Grid. This is due to the integrated structure of both NGET, as SO and TO, and for the group as a whole, which also includes competitive asset delivery interests. These opportunities principally relate to exercising bias or inappropriate information sharing.

2.2. We consider these conflicts of interest to be:

- In its role in coordinating solutions for network reinforcements, NGET, as SO, could have an opportunity to bias solutions towards its associated incumbent TO or competitive businesses. Opportunities for this include manipulating the scope and configuration of new reinforcements.

- In developing options that would be tendered, it could design tendered projects to favour its associated delivery interests.

- In its role in supporting our interconnector cap and floor assessments, it could bias its advice to us to advantage its associated businesses and by doing so discriminate against its competitors. Opportunities for this include our proposed roles for the SO to assess where interconnection is needed, advise on the connection options considered as well as the system balancing impacts of projects.

- The SO could also confer an advantage by sharing sensitive information with its associated delivery interests (eg time-sensitive information on GB network needs and interconnection needs, and information on options that could be tendered).

2.3. Given the opportunities for conflicts of interest, we previously proposed several mitigation measures intended to limit and counteract these. These measures include: maximising transparency, enhanced scrutiny, conduct obligations, information ring-fencing and business separation.

Our decision

2.1 After considering the responses to our draft conclusions, we have decided to implement the measures we proposed.

2.2 We have decided that in order to mitigate the identified conflicts we will:

- Require the SO to be transparent in its processes. This will require greater stakeholder engagement by the SO.
- Increase our scrutiny of the SO's actions.
- Place obligations on the SO's conduct.
- Ring-fence sensitive information.

2.3 We proposed in our draft conclusions that there should be strong separation measures in place between NGET and National Grid's competitive interests. NGET is already not allowed to participate in interconnection operation or any offshore tenders. We proposed that if National Grid were to seek to participate in any future competitive onshore tender, this would need to be undertaken through a business that is sufficiently separated from the SO. We expect this would include legal, financial, physical, employee, managerial and information separation. We will consult further on these arrangements and any associated licence changes in due course.

Maximising transparency

2.4. The SO will be required to consult on and publish the methodologies and assumptions it uses in its enhanced planning processes, eg the assessment of options as part of the NOA process and new interconnector modelling.

2.5. The enhanced SO role is advisory.[13] Appropriate delivery parties will retain responsibility for decision-making on taking investment proposals forward.

2.6. We intend to introduce a compliance process to ensure that NGET sets out, and subsequently reports on an annual basis, how it is meeting its conflict mitigation licence obligations.

[13] Whilst the SO will be providing recommendations, it will still be for relevant delivery parties to decide to take forward their projects. With regard to connection offers provided to connectees by the SO, it should be noted that the existing connections determination process will still apply, where connectees are able to apply to us for a determination should they disagree with the offer they receive.

Enhanced scrutiny

2.7. We will increase our scrutiny of the SO's actions by reviewing the new outputs associated with the SO's enhanced role, particularly the NOA process and methodology. Stakeholders will also have opportunities to examine the SO's actions through consultation and scrutiny of the annual NOA report.

2.8. Our current thinking on implementing the NOA process is set out in box 2. We expect to review the methodology and the form of the NOA report, and that these will be subject to our approval. This will enable us to apply more scrutiny ahead of and during assessment of reinforcement proposals, and ensure the methodologies and assumptions used by the SO are objective and robust.

2.9. We also expect to scrutinise NGET's compliance with its conflict mitigation requirements, to ensure that appropriate steps are being taken to mitigate potential conflicts of interest. We expect that NGET's compliance documents will be subject to our approval. Box 3 sets out how we think this process will work.

Box 3: Our thinking on NGET's compliance process

We expect that the compliance statement will follow a similar process to that undertaken for the offshore transmission and EMR compliance processes. We anticipate that the key elements will include:

- Through an **initial compliance statement** and **annual compliance reports**, NGET would set out, publically, the structures, governance and steps it has implemented and for which it is accountable.
- Once these obligations have been implemented in NGET's licence, an initial compliance statement will be sent to Ofgem, together with the form of the annual compliance report. **These will be subject to our approval**. This statement will set out the detail of how NGET intends to meet its conflict mitigation obligations. The statement will be published.
- **The statement will need to be regularly reviewed** and any revisions approved.
- NGET will have **an independent internal compliance officer** who will take charge of overseeing its compliance with these obligations, and will report annually on this. NGET will produce an annual report on how it met its compliance licence requirements. These reports will be published.

We will be consulting on these details as part of our upcoming consultation on licence changes.

2.10. We consulted in our draft conclusions on whether independent scrutiny would provide value for money. On balance, a narrow majority of stakeholders agreed with our view that independent scrutiny, beyond our proposed package of measures, would not provide value for money. We confirm that we will not be implementing independent scrutiny.

Conduct obligations

2.11. We will put obligations on the SO's conduct in undertaking its enhanced system planning roles. These will require the SO to act such that neither its TO function nor any of its relevant associated competitive businesses obtain an unfair commercial advantage as a result of the SO carrying out its new roles. This is intended to ensure equivalent treatment across delivery parties.

Information ring-fencing

2.12. We have decided it is appropriate to ring-fence relevant system planning information, such that this information is restricted to NGET's SO function. We think there will be a case for some exceptions to this, and will consult on these as part of our forthcoming consultation on licence changes. These restrictions will apply both at a working level and at a decision-making level for SO decisions related to its enhanced system planning roles.

2.13. This ring-fencing will ensure that NGET's TO function and associated competitive delivery interests are treated equivalently to non-National Grid delivery parties, with respect to access to relevant system planning information.

2.14. A few stakeholders considered that our proposals did not go far enough and suggested that instead more extensive separation of NGET's SO and TO should be implemented. We do not think there is a strong case for SO-TO separation now. We consider that the potential benefits of further delineation beyond that proposed would not outweigh the costs and disruption of such separation.

Business separation

2.15. We proposed in our draft conclusions that NGET's associated competitive businesses should be separated given the conflicts of interest that could arise between these activities and the SO's roles. We proposed that if National Grid seeks to participate in any future competitive onshore tender, this would need to be undertaken through a business that is sufficiently separated from the SO. We expect this would include legal, financial, physical, employee, managerial and information separation. NGET is already not allowed to participate in interconnection operation or offshore tenders, and we consider these measures should be reinforced as a result of our decision to enhance the SO's role. We will consult further on these arrangements and any associated licence changes in time for the first competitive tenders for onshore transmission.

2.16. We will consider what, if any, potential conflicts of interest could arise in respect of the other onshore TOs if they were to participate in the competitive tendering process.

3. Implementing our decisions

3.1. We will implement our decision to enhance the SO and mitigate conflicts of interest through a number of licence modifications (subject to relevant consultation). These relate both to our system planning decisions and measures to mitigate conflicts.

- We will publish a consultation on proposed licence modifications shortly.
- Subject to the responses to that consultation, we expect to issue a statutory consultation on the licence modifications in summer 2015.
- Following this we anticipate making a decision over the summer, so that the licence changes would take effect from autumn.

3.2. There are some aspects of our final conclusions that we do not consider require licence modifications. These include our position on power quality and outage planning. We have asked the SO to provide us with an update on progress on these issues by the end of the year.

3.3. Licence modifications needed to implement competitive tendering in onshore transmission will be considered as part of our further work in that area. This includes aspects relating to the SO's role in early development of options on the onshore network that would be subject to competitive tendering and business separation requirements.

3.4. We are working with the SO so that it is well placed to commence its enhanced role as quickly as possible.

3.5. We expect the SO to publish the first NOA report as soon as is practicable, and are engaging with it and the TOs on the publication date.

3.6. We are engaging with NGET on whether it should receive additional funding given its enhanced role. Our initial view is that where new outputs are to be delivered as a result of its new responsibilities these should be considered in the event of a mid-period review (allowed for in the RIIO-T1 settlement). We expect that any additional funding needed will be relatively small.