

Consultation on licence modifications to enhance the role of the System Operator

Consultation

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Overview:

Following the final conclusions of our Integrated Transmission Planning and Regulation (ITPR) project we are consulting on the proposed licence modifications we think are necessary to implement our decision to enhance the role of the System Operator (SO) in planning the electricity transmission network and mitigating any resulting conflicts.

We are proposing to implement our decision by modifying the standard and special conditions of the electricity transmission licences. The proposed amendments will put additional obligations on National Grid Electricity Transmission plc (NGET) as SO. We are also proposing some changes to the licences of transmission owners.

We welcome your views on our proposed licence modifications and what these mean for implementing our ITPR decision to enhance the role of the SO.

Context

We set up the Integrated Transmission Planning and Regulation (ITPR) project in 2012 to review the existing arrangements for planning and delivering the onshore, offshore and cross-border electricity transmission network. Our aim was to ensure that the network is developed in an efficient, coordinated and economic way, with the right investments made to protect existing and future consumers.

In March 2015, as part of the ITPR final conclusions, we decided to make changes to the way the electricity transmission network is planned and delivered. We decided that the System Operator (SO) will be given additional responsibilities to identify the need for investment in the transmission network, and coordinate and develop investment options. This included the introduction of a new network options assessment (NOA) process. We recognised that conflicts of interest may arise as a result of this enhanced role and we decided on measures to mitigate these. This consultation sets out our proposals for implementing these decisions.

We also confirmed our view that it is in consumers' interests to extend the use of competitive tendering to certain onshore transmission assets that are new, separable and high value. We plan to develop and consult on the regime for competitive tendering onshore through 2015 and 2016. We plan to issue an open letter in spring 2015 on the technical aspects of the criteria for what is to be tendered, followed by a consultation in the autumn on the detailed drafting of the criteria and arrangements for applying them.

Associated documents

Integrated Transmission Planning and Regulation (ITPR): final conclusions – Decision statement and Supporting Documents – 17 March 2015

<https://www.ofgem.gov.uk/publications-and-updates/integrated-transmission-planning-and-regulation-itpr-project-final-conclusions>

Schedules and response template

Schedule 1A – Proposed amendments to standard licence conditions

Schedule 1B – Proposed amendments to NGET electricity transmission licence special conditions

Schedule 1C – Proposed amendments to special conditions of Transmission Owner licences

Response template (in MS Word format)

All at <https://www.ofgem.gov.uk/publications-and-updates/informal-consultation-licence-changes-enhance-role-system-operator>

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Executive Summary

Our proposed licence modifications

Following the publication of the final conclusions of our ITPR project, we are proposing modifications to the transmission licences. These modifications are intended to implement our decision to enhance the role of the System Operator (SO) in planning the electricity transmission network and seek to mitigate any resulting conflicts.

We are proposing the following modifications to the licences to implement our decision on system planning.

- Amend standard licence condition C11 (Production of information about the national electricity transmission system) to set out the increased role of the SO in identifying the needs of the transmission system and where additional interconnector capacity could be of value to GB consumers.
- Create a new standard licence condition (C27) setting out the network options assessment (NOA) process which will underpin the SO's role in developing and assessing options for meeting system needs.
- Amend standard licence conditions C6 (Connection charging methodology), C8 (Requirement to offer terms) and C25 (Provision of information and assistance to the Authority in relation to applications requiring the appointment of an offshore transmission owner) to set out the SO-led gateways process for developer-associated offshore wider works (DAOWW).
- Amend standard licence condition B12 to require the licensees to support the SO in its new role, and special licence conditions 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) requiring transmission owners (TOs) to use the SO's analysis in planning the transmission network.

On conflict mitigation, we are proposing the following modifications to implement our decision:

- A new special licence condition (20) that puts obligations on the conduct of the SO, sets out the business separation arrangements between National Grid Electricity Transmission plc (NGET) and National Grid's competitive businesses and the process it must follow to comply.
- Removal of special conditions 2D (Separation of National Grid Electricity Transmission plc and Relevant Offshore Transmission Interests) and 2E (Appointment and duties of the business separation compliance officer), as these arrangements will be set out in the new special licence condition.

Next steps

This consultation is intended to ensure that all interested parties have the opportunity to respond to the proposed licence changes ahead of the statutory consultation. This consultation will close at 12 noon on 11 May 2015. You can email your response to ITPRMailbox@ofgem.gov.uk. There are more details on how to respond in appendix 1.

1. Introduction

Chapter Summary

In this chapter we explain the purpose of this consultation. We also set out how we have drafted the proposed new licence conditions and modifications to existing licence conditions, as well as the next steps in the process.

Purpose of this consultation

1.1. In our ITPR final conclusions decision statement and supporting documents (ITPR final conclusions), we set out the new roles the System Operator (SO) will have in order to help ensure the electricity transmission network is planned in an efficient, coordinated and economical way.

1.2. We are now consulting on the proposed licence changes required to implement our decision. For each new role or change in arrangements we set out:

- our detailed proposals on how the decision should be implemented where these were not included in the ITPR final conclusions
- the licence amendments proposed to implement our decision
- the questions we would like respondents to this consultation to consider.

1.3. We included the detail and reasoning for the policy decisions on which we are now making these proposals in the ITPR final conclusions. This is not repeated in this document nor are we seeking further views on the policy decisions set out in our final conclusions.

1.4. 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. As noted at the time of ITPR final conclusions, we have asked the SO to update us on progress by the end of the year. These are not discussed further here.

Electricity transmission licence conditions and our approach to licence drafting for ITPR

Licence conditions

1.5. An electricity transmission licence contains a number of different types of licence conditions.

- *Standard licence conditions (SLCs)* set out the duties and obligations applicable to holders of a particular type of licence. All electricity transmission licences contain SLCs. Some of these SLCs are very similar across the different licence types. SLCs are grouped into different sections that either apply or don't, according to the activities carried out

by the licence holder. For example, Section C applies to National Grid Electricity Transmission (NGET) as it has SO functions, Section D applies to the onshore transmission owners (TOs) (SP Transmission plc (SP Transmission) and Scottish Hydro Electric Transmission plc (SHE Transmission)) and Section E to offshore transmission owners.

- *Special Conditions (SpCs)* apply to a particular licensee and form part of its licence alongside any applicable SLCs and/or amended standard conditions. Some of these SpCs are very similar across licensees. For example, each of the three onshore TOs have SpCs setting out the revenue and outputs that were determined by the RIIO-T1 price control.
- *Amended standard conditions (ASCs)* are similar to SpCs in that they are amended in a way that makes them specific to an individual licensee.¹

1.6. To implement the policy decision in our ITPR final conclusions on system planning and conflict mitigation, we are proposing to introduce two new licence conditions and modify some existing SLCs and SpCs.

1.7. The proposed changes, along with their reasons and effects, are explained in detail in chapter 2 (for system planning) and chapter 3 (for conflict mitigation). In appendix 2, there is a summary of how our proposed licence modifications relate to the decisions in ITPR final conclusions. The full text of our proposed licence modifications is provided in schedules 1A, 1B and 1C. All proposed additional text is indicated by a double underscore, and deletions are marked by a strikethrough.

1.8. Throughout this document terms have the meaning given in the electricity transmission licence unless otherwise stated.

Our approach to licence drafting for ITPR

1.9. After publishing ITPR draft conclusions in September 2014, we engaged with transmission licensees to develop our proposed licence modifications for system planning and conflict mitigation. We held licence drafting working group meetings to help inform the drafting of the proposed new licence conditions and modifications to existing conditions.²

1.10. Where possible, we have drafted the licence changes based on the same approach as used for the RIIO-T1 price controls.

- The scope of the proposed changes is limited to those needed to implement our ITPR decisions on system planning and conflict mitigation. We have not

¹ Reference to ASCs is included for completeness only. We are not proposing to make any changes to ASCs as part of this consultation.

² Five working group meetings were held between November 2014 and January 2015. All electricity transmission licensees were invited to attend.

attempted to tidy-up or restructure the licence. However, some issues such as typos and numbering were flagged in the working groups. Where we don't think these warranted wider review, we have included them in our proposed licence modifications.

- For the purpose of these proposed licence modifications, we have included any new defined terms used in the modified SLCs in the dedicated 'definitions' condition for that section of the licence (for example, the defined terms in section C are included in SLC C1: Definitions and interpretations).
- Similarly, all new defined terms used in SpCs have been included within the dedicated 'Definitions' condition of the respective licence wherever possible.
- Any new licence conditions (or restructured conditions) include an introduction explaining the purpose of the condition. Where appropriate, we have separated the condition into parts for ease of reference.
- Where an existing condition is being modified, additions and deletions do not impact the existing paragraph numbering (to avoid problems with cross-references).

Next steps

1.11. This is a four-week consultation intended to ensure that all interested parties have the opportunity to respond to the proposed licence modifications. This is in addition to the extensive engagement that has already taken place throughout the ITPR project and through the licence drafting working groups.

1.12. We would particularly welcome responses to the specific questions in this document, as well as on the draft licence modifications. For ease of reference, please use the response template (appendix 1 and online in MS Word format) to provide your specific comments on the proposed drafting and propose alternative wording.

1.13. This consultation will close at 12 noon on 11 May 2015. We would prefer you to submit your responses to ITPRMailbox@ofgem.gov.uk although a postal address is given in appendix 1.

1.14. We will consider responses to this consultation and seek further input from stakeholders if necessary. In early summer, we intend to undertake a statutory consultation under section 11A (2) of the Electricity Act 1989. Subject to responses to that consultation, we will publish our final decision on any licence modifications, which will take effect 56 days after publication.

2. System Planning

Chapter Summary

In this chapter we detail what our decision to enhance the role of the SO will mean in practice. We explain the reasons for and the effect of our proposed licence modifications to implement our decision. The proposed licence modifications are in schedules 1A, 1B and 1C.

Question box

Question 1: What are your views on our proposed licence changes for system planning?

Question 2: What are your views on our proposed timing of the NOA report from 2016/17 onwards?

Question 3: What are your views on our proposals for the scope and approvals process for the NOA methodology and the NOA report?

Question 4: Do you think our proposals for provision of information by the SO to inform parties' investment decisions are appropriate?

Question 5: What are your views on the way we propose to formalise the process used to determine efficient connections?

Please use the template in appendix 1 for proposing any specific changes to licence drafting.

Introduction

2.1. In our ITPR final conclusions we set out our decision to enhance the SO's role so that it leads the identification of system needs, assesses and where appropriate develops options to meet these needs. The reasons for the proposed changes explained in this chapter are to implement:

- a) the requirement for the SO to do more to identify the needs of the electricity transmission network and where additional interconnector capacity could be of value to GB consumers
- b) a requirement for the SO to assess options for meeting the future needs of the network and for new interconnection, and give its analysis to the relevant delivery party and to us, to support the decision-making process
- c) the requirement for the SO to lead the early development of certain offshore wider works³

³ These are referred to in previous consultations as wider network benefit investments (WNBI). These are offshore works designed to reinforce the transmission system for the benefit of multiple parties, both onshore and offshore and including generation and demand.

- d) a requirement for licensees to ensure the System Operator – Transmission Owner Code (STC) supports the processes above
- e) a requirement for onshore TOs to use the SO’s analysis to support its development of needs cases for strategic wider works (SWW) projects.

2.2. Below we explain our proposed licence changes and their effects.

Identification of system needs

ITPR final conclusions

2.3. In our ITPR final conclusions, we decided to enhance the role of the SO by giving it additional responsibilities to identify the need for investment in the transmission network, and to coordinate and develop investment options.

Proposed implementation

2.4. In SLC C11 (Production of information about the national electricity transmission system), the SO is already required to provide information on the future needs of the transmission network (assisted by the transmission owners (TOs) and offshore transmission owners (OFTOs)) through the annual electricity ten-year statement (ETYS). We propose to extend the scope of the ETYS to include the additional SO responsibilities above.

2.5. NGET already provides a commentary of where major national electricity transmission system (NETS) reinforcements are likely to be required to facilitate new generation (onshore and offshore) and new interconnection. However, this is not currently a licence requirement, so we are now proposing to formalise this in the licence. We are proposing to add a new paragraph 1bb to SLC C11 requiring the licensee to include such commentary in the ETYS.

2.6. Currently, the SO bases its scenarios used to produce the ETYS, and the resulting commentary, on its knowledge of specific interconnector projects. Following our ITPR final conclusions, it will now be required to base the scenarios and its analysis on what additional interconnector capacity could be of value to GB consumers. We propose to achieve this by:

- Adding an obligation to paragraph 3 of SLC C11 requiring the ETYS to include the licensee’s best view of whether new interconnection capacity could provide value to GB consumers (based on the impact of GB wholesale prices, the provision of ancillary services, constraint management and other operational impacts).
- Underpinning this will be a new obligation in paragraph 13 of SLC C11 requiring the SO to ensure that the capacity, location and timing of new interconnection capacity is considered when developing the future energy scenarios (FES).

2.7. We are also proposing some tidy-up's to SLC C11 not specifically related to the ITPR final conclusions.

- Paragraph 3d: minor change to make clear that this should be the licensee's best view in line with the other parts of paragraph 3.
- The definition of 'interconnected system operator' was accidentally deleted when this condition was updated in 2014. We are proposing to reinstate it. We are not proposing any change to this definition.

Effect of the proposed changes

2.8. The proposed modifications will ensure that NGET continues to provide a commentary of where network reinforcements are required in the ETYS. The housekeeping changes will have no effect other than to ensure the condition is as clear as possible.

2.9. The effect of the additional obligations regarding interconnector assessment will be improved FES scenarios and commentary in the ETYS on how much interconnection would provide value to consumers. Given the scope of the new interconnector modelling required we do not expect the interconnector analysis to be fully complete in time for the 2015 ETYS report (due in November). We expect to agree with the SO (either through discussions on the NOA methodology or separately) any aspects of these changes that it will not be able to complete in 2015.

Assessing options to meet system needs (the NOA process)

ITPR final conclusions

2.10. In our ITPR final conclusions we decided that the SO will assess options for meeting network needs and for new interconnection capacity through the new network options assessment (NOA) process.

Proposed implementation

2.11. We are proposing that the NOA process is set out in a new SLC: SLC C27 (The Network Options Assessment process and reporting requirements). This will set out the requirements for:

- the NOA methodology
- the NOA report
- providing information (to Ofgem and others)
- the early development of options for non developer-associated offshore wider works (this is discussed in the section on development of options).

2.12. All paragraph references in this section are to SLC C27.

The NOA methodology and form of the NOA report

2.13. The process will be underpinned by a NOA methodology which is shown in Part A of the new condition. This will set out how the options will be assessed and how the SO will engage with interested parties, through consultations and sharing information.

2.14. In paragraphs 4 and 5 we propose that the SO be required to consult interested parties on the methodology and the form of the report each year. This will give stakeholders the opportunity to highlight issues with the methodology and propose improvements. This should make the SO's approach and analysis more transparent.

2.15. After consulting on its proposed methodology we propose the SO submits it to us for approval alongside the form of the report each year. In paragraph 6 and 7 we are proposing the following.

- The SO submit the methodology to us six months ahead of the date the report is to be published.
- We will either approve the report or direct the SO that the methodology and/or form of the report require further development. If we give a direction, we will specify a date by which the licensee is required to submit the revised methodology and/or form of the report.

2.16. In paragraph 8 we set out our proposals for what should be included in the methodology. We think it should include:

- the approach used by the SO for assessing options for the development the transmission network (both onshore and offshore) and new interconnection
- the approach used to determine what constitutes major national transmission system reinforcements
- the approach for identifying options and how these will be assessed (including the basis for the assumptions used on cost)
- how the SO will engage with interested parties and the timetable for consultation and publishing the NOA report.

The NOA report

2.17. Our proposals for the timing and contents of the NOA report are in Part B of the proposed new licence condition. The report must be based on the methodology approved by us (as set out in Part A).

2.18. We initially thought that the report should be published alongside the ETYS (in November) each year. However following discussions with the licensees and exploring the timelines needed to complete the analysis, we have decided that the

first report should be published no later than 31 March 2016 (paragraph 9). We expect the SO to publish the report earlier if it can. We also realise that it may not be possible to deliver all new requirements for the initial report (in particular the different approach to interconnector modelling which will need to be reflected in the future energy scenarios underpinning the ETYS and NOA). We expect the SO to make the initial report as comprehensive as possible and explain any gaps and how it proposes to deal with any outstanding issues.

2.19. In future years, we believe the process can be made more efficient, so that the report can be published earlier (although it may still need to be later than the November ETYS publication date). We have therefore proposed (in paragraph 11) an enduring publication date of 31 January but would welcome views on whether this is appropriate.

2.20. For the SO to be able to publish the report within these timescales, we will have either approved or directed further development of the methodology and form of the report (as set out in paragraph 7). We expect to do this within two months of receiving it. We propose (in paragraphs 10 and 12) that if we have not either approved nor directed changes to the proposed methodology and form of the report within this timescale, that the publication date be delayed accordingly.

2.21. In paragraph 14, we propose that each report should:

- look at a ten-year planning horizon (this is consistent with the ETYS)
- set out the SO's best view of the options for meeting the future needs of the transmission system (including options that don't involve, or involve minimal construction of new transmission capacity)
- set out the SO's assessment of these options including their relative suitability and the SO's recommendation of which options should be developed further
- be consistent with the ETYS and take into account existing agreements (for example connection agreements).

2.22. To make the process as transparent and useful as possible the SO should include details of its analysis and assessment in the report. However, in certain circumstances, information will be commercially sensitive so the SO will not be able to publish it in the NOA report. These circumstances are allowed for in paragraph 14 of the proposed new licence condition. We expect such omissions of information to be limited.

Provision of information

2.23. The SO will be required to give information and analysis to electricity transmission licensees and interconnector developers to support them at the various stages of their optioneering and decision-making. The SO will also be required to provide its analysis to Ofgem to support our regulatory assessments such as those

for SWW outputs. These requirements are in Section C of the proposed new licence condition.

2.24. In paragraph 15, we are proposing that the SO will provide electricity transmission licensees and interconnector developers with:

- information and analysis including details on the potential for coordination between parties
- its assessment of options the party is developing in order to support their decision-making
- updated information and analysis to support any regulatory submissions.

2.25. For interconnector projects, as set out in paragraph 17 , we propose the SO will also provide us with:

- its assessment of the efficiency of connection choices made by the developer
- its assessment of the impact of new interconnector capacity on system operation
- its assessment of the social welfare benefits of new interconnection capacity based on changes in wholesale prices and the impacts on GB consumers, generators and interconnectors.

2.26. In paragraphs 16 and 18 of SLC C27, we set out the requirement for the SO to provide us with its analysis of options to support our assessment of investment proposals (including SWW needs cases and interconnector submissions).

The effect of the proposed changes

2.27. The effect of these changes will be that the SO will publish an annual NOA report, based on a methodology previously consulted on with stakeholders, and approved by us. It will also provide additional information to electricity transmission licensees and interconnector developers to support them in developing their projects.

Development of options for offshore wider works

ITPR final conclusions

2.28. In our ITPR final conclusions, we decided that the SO will take on roles relating to the development of offshore wider works. The reason for the proposed modification is to implement the changes for:

- Early development of non developer-associated offshore wider works (NDAOWW) projects.⁴ These are offshore transmission projects 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.
- The gateway process assessing the inclusion of developer-associated offshore wider works (DAOWW) within offshore projects.⁵ Gateway assessments for DAOWW will minimise the risk of consumers bearing the cost of 'stranded' transmission assets and give developers comfort on their route to cost recovery for the OWW included in their project. The gateway assessment process will mean we review the rationale for including the OWW in the developer's project. Where we consider the DAOWW 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.

Proposed implementation

Non developer-associated offshore wider works

2.29. We are proposing to set out the SO's obligation to undertake early development of NDAOWW projects in Part D of the new NOA licence condition - SLC C27 (The Network options assessment process and reporting requirements).

2.30. Proposed paragraph 19 of SLC C27 will require the SO to develop the NDAOWW project to the extent necessary to allow it to be compared with others (for example an onshore reinforcement) through the NOA process.


The gateways assessment process for developer-associated offshore wider works

2.31. We are proposing to amend three existing SLCs to implement our decision that the SO lead the gateway assessment process for DAOWW.

- SLC C6 (Connection charging methodology) – to ensure that DAOWW are covered by the connection charging methodology

⁴ We referred to these projects as 'offshore non developer-led WNBI' in our previous publications on offshore coordination and ITPR. Throughout this consultation we have used the term we propose to use in the licence ie non developer-associated offshore wider works.

⁵ We referred to these projects as 'offshore developer-led WNBI' in our previous publications on offshore coordination and ITPR. Throughout this consultation we have used the term we propose to use in the licence ie developer-associated offshore wider works.



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- SLC C8 (Requirement to offer terms) – to ensure initial assumptions about DAOWW are set out in connection offers and updated as appropriate
- SLC C25 (Provision of information and assistance to us in relation to applications requiring the appointment of an offshore transmission owner) – setting out the information the SO is required to give us in relation to offshore transmission projects which include DAOWW.

2.32. SLC C6 (Connection charging methodology) currently says that the licensee should have a connection charging methodology which includes (in paragraph 4(c)) charges that will be made if the assets that are installed on the onshore network are of a greater size than is needed by the person seeking connection. We are proposing to amend paragraph 4(c) so that the requirement extends to cover offshore transmission systems too, which will mean that DAOWW will be accounted for in the connection charging methodology.


2.33. SLC C8 (Requirement to offer terms) sets out the arrangements the SO must follow when anyone wants to connect to the transmission network. We are proposing the following changes to this condition, so that arrangements for connection offers including DAOWW are explicitly set out:

- Paragraph 3(c) currently requires that a connection offer shows the initial assumptions made by the licensees about the works needed to connect an offshore generator. We are proposing to amend this paragraph 3(c) to include initial assumptions regarding DAOWW, if any.
- A housekeeping change in paragraph 6(f) to reflect the new naming conventions for the SpCs.
- A new paragraph 9A which requires the SO to propose to vary the terms of a connection agreement and/or construction agreement, if necessary, to reflect our decision following the gateway assessment or a change to the rationale for the DAOWW.

2.34. SLC C25 (Provision of information and assistance to the Authority in relation to applications requiring the appointment of an OFTO) says that the SO must give us information about connections needing the appointment of an OFTO. We are proposing to modify this condition to reflect changes regarding DAOWW, including a new section to cover the process for providing us with information relating to connections that require the appointment of an OFTO and include DAOWW.

2.35. We are proposing to add an introduction (paragraphs A1(a) and (b)) setting out the objectives of Parts A and B of this condition, in line with our drafting principles set out in Chapter 1.

2.36. We propose that the existing condition become Part A. Part A will explain the general requirements for giving information to us. In addition, we are proposing the following amendments to the current text:



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- Paragraph 1 will require the SO to provide specific information to us relating to any application, offer, agreement or variation in the contractual terms for connection that requires the appointment of an OFTO and includes DAOWW.
- Consequential amendments to paragraph 5 to reflect changes to paragraph 1.
- The definition of “completion notice” currently in paragraph 12 will move to the end of the condition.

2.37. We are also proposing to add a new Part B which will set out what information the SO is required to provide for offshore transmission projects which include DAOWW.

- Paragraph 13 sets out the information the SO must provide us. This includes information on the works detailed in a connection offer and in particular its initial view of the scale and cost of any DAOWW. This will inform the SO’s initial view of the needs case which must also be submitted.
- Paragraph 14 includes the information we may direct the licensee to submit once a connection agreement has been entered into.
- Paragraph 15 sets out how the timescales for providing such information will be determined. This would happen when we consider information (additional to that provided under paragraph 13) is needed to allow us to assess and make a decision on the rationale for including DAOWW in a connection agreement. This may include a more detailed needs case with information from the SO and other relevant parties.
- Paragraph 16 requires the SO to keep under review any needs case it submits to us for DAOWW. This requirement lasts from the date the needs case is submitted until the DAOWW are commissioned (within the meaning of the condition). The SO must notify us of any material changes to the needs case or circumstances in which the connection agreement was made.
- Paragraph 17 sets out that if the SO notifies us of a material change under paragraph 16, we may require them to provide additional information so that we can decide on the continuing rationale for including DAOWW.

Effect of the proposed changes

2.38. The effect of these proposed modifications are that the SO will:

- undertake the early development of NDAOWW
- lead the gateway process for DAOWW.

to help ensure the efficient, coordinated and economical development of the electricity transmission system.

Other changes

ITPR final conclusions

2.39. In our final conclusions, we indicated that the SO would need additional information from TOs to carry out its new roles. In particular, the TOs will need to provide the SO with information about their networks and investment plans in order for the SO to complete the NOA process. In addition, the licensees will need to include the NOA analysis in their needs case submission for new SWW outputs.

2.40. We also set out in our final conclusions that we considered it appropriate to formalise the process used by the SO to consider options and determine the most economic and efficient connection offer from a whole-system perspective.

Proposed implementation

2.41. We are proposing to amend three licence conditions to implement the SO role in the gateway process:

- SLC C12 (System Operator – Transmission Owner Code)
- SpC 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) for each onshore transmission licensee
- SLC C8 (Requirement to offer terms).


2.42. We are proposing to modify paragraph 2b of SLC B12. This will require the licensees to make sure that arrangements for exchanging information for the NOA process are set out within the STC. The requirement is similar to that which already exists for the ETYS.

2.43. We are proposing to modify SpC 6I.38b of NGET's electricity transmission licence, SpC 6I.37b of Scottish Hydro Electric Transmission plc's electricity transmission licence and SpC 6I.38b of SP Transmission's electricity transmission licence. This would require the licensee to include the SO's analysis (undertaken as part of the NOA process) in its SWW needs case submissions. If the licensee's own assessment differs from that of the SO, the licensee must provide an explanation for any differences in views.

2.44. We are proposing to add a new paragraph 5A to SLC C8 (Requirement to offer terms). This will require the SO to formalise the governance arrangements for its process of assessing different options before making a connection offer and/or when varying such offers.

Effect of the proposed changes

2.45. The effect of these modifications will be:



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- the amendment of the STC to support the NOA process
- the inclusion of the SO assessment of options (undertaken through the NOA process) in SWW needs case submissions aiding the assessment process
- the formalisation of the process for determining efficient connection options which should help ensure the process is transparent and fair.

3. Conflict mitigation

Chapter Summary

We propose licence modifications to put in place measures to mitigate conflicts of interest that could arise from enhancing the SO's role. Here we explain the reasons for and effect of these. The proposed licence modifications are in schedules 1A, 1B and 1C.

Question box

Question 6: What are your views on our proposed licence modifications for conflict mitigation?

Question 7: Do you think there could be any unintended consequences from our proposal to remove special conditions (SpCs) 2D and 2E?

Please use the template in appendix 1 for proposing any specific changes to drafting.

Introduction

3.1. Enhancing the SO's role could result in conflicts of interest within National Grid.⁶ Given the potential for this, we decided to implement several mitigation measures intended to limit and counteract these conflicts.

3.2. The reasons for the proposed modifications to NGET's licence are to ensure that the assumptions and approach taken by the SO are clear. The SO should be subject to scrutiny by both us and stakeholders through consultation and/or publication of the NOA report. The proposed modification should ensure sensitive information is ring-fenced within the SO function, and that adequate business separation arrangements are in place between NGET and National Grid's competitive interests.

3.3. We are proposing a new SpC (SpC 20: Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) for NGET's electricity transmission licence, to implement our conflict mitigation measures. Introducing this new condition may create some duplication with existing business separation arrangements, both for offshore transmission (SpCs 2D and 2E) and for Electricity Market Reform (EMR, SpC 2N). We have therefore decided to remove special conditions 2D and 2E. SpC 20 will

⁶ Any reference to National Grid in this consultation refers to the group as a whole.

replace them and incorporate the relevant obligations, but will have a wider application than just offshore transmission.

Conflict mitigation measures

ITPR final conclusions

3.4. We decided in our ITPR final conclusions that in order to mitigate any potential conflicts of interest we will:

- place obligations on the SO's conduct
- ring-fence sensitive information
- establish business separation requirements.⁷

Proposed implementation

3.5. We are proposing a new SpC 2O which will set out the SO's obligations about how it conducts its enhanced activities, the ring-fencing of sensitive information and business separation requirements, and the process the SO will have to follow to make sure it complies with these. SpC 2O will incorporate the business separation and compliance obligations previously set out in SpC 2D and SpC 2E. We are also proposing minor amendments to SpC 2F and SpC 2N to ensure cross-references to relevant business separation SpCs are updated.

3.6. Unless otherwise stated all paragraph references in the remainder of this chapter relate to the proposed SpC 2O.

Conduct

3.7. Part A of the new condition (paragraph 2O.3) details the requirement to ensure that any associated business of NGET should not obtain any unfair advantage from the SO's new enhanced role. This is a new obligation.

Business separation

3.8. Part B of the proposed new licence condition defines the business separation requirements we are proposing to apply between NGET and National Grid's relevant other competitive businesses. This includes interconnector development and operation, offshore transmission bidding interests and any OFTOs, and carbon capture and storage businesses. These obligations are based on those that are

⁷ We also decided to require greater transparency and increase our scrutiny. These will be achieved through the NOA process.

already in place under SpCs 2D, 2E and 2N. Where the proposed drafting is intended to go beyond the existing requirements this is clearly indicated below.

- Paragraph 20.4 requires the licensee to have governance arrangements in place to ensure compliance with obligations for legal and functional separation of NGET from any competitive business interests.
- Paragraphs 20.5, 20.6 and 20.7 require that the licensee (NGET) conducts its business separately from relevant other competitive businesses (such as offshore transmission bidding interests). This means that the relevant other competitive businesses must be separate corporate entities and not be controlled, directly or indirectly, by NGET, and must maintain separate accounts.
- Paragraph 20.8 shows the licensee's obligations with respect to the management or operation of NGET and relevant other competitive businesses. This means that separation must apply up to and including NGET's board of directors. There are exclusions that can be applied with the consent of the Authority, namely shared services and de minimis businesses. The requirement for separation at board level goes beyond that which currently applies offshore.
- Paragraph 20.9 requires the licensee to ensure arrangements are in place restricting access to premises, equipment, facilities or property used for the management or operation of the licensee.
- In paragraph 20.10 we set out an obligation for the licensee to ensure that the systems for recording, processing and storing data related to the management or operation of NGET (including relevant system planning information) cannot be accessed by those who manage or operate the relevant other competitive businesses. Relevant system planning information means information the SO has access to because of its enhanced role, including information used in the NOA process and the SO-led gateways process.

Ring-fencing information

3.9. Part C of the proposed new condition sets out the new arrangements for ring-fencing information the SO receives when carrying out its new roles.

- Paragraph 20.11 requires the SO to have in place a code of conduct governing the disclosure and use of relevant system planning information.
- Paragraphs 20.12 and 20.13 ensure information received through the SO's enhanced roles is not inappropriately disclosed outside of NGET's SO business. We have sought to draft this to ensure NGET is not unintentionally prevented from disclosing information to its associated delivery interests, where required to do so as part of its enhanced role. These paragraphs also include provisions for how commercially sensitive information should be treated.
- Paragraph 20.14 requires the licensee to treat commercially sensitive information as confidential.

Compliance process

3.10. SpC 2O includes a compliance process similar to that already used in SpCs 2E and 2N. This process is intended to ensure that stakeholders (including Ofgem) are well informed about how NGET is mitigating conflicts.

3.11. NGET will be required to:

- produce and publish a compliance statement, setting out the detail of how it will meet its obligations
- appoint an independent compliance officer to assess this compliance annually
- appoint a responsible director to oversee the compliance officer and NGET's overall compliance
- produce and publish an annual report on the previous year's compliance, accompanied by a certificate signed by the responsible director and approved by NGET's board of directors as to this compliance.


Compliance statement

3.12. Part D of the proposed new condition sets out details of the compliance statement and compliance documents that NGET will be required to produce.

- In paragraph 2O.15 we propose that the licensee should submit to the Authority (within 30 days of the condition taking effect) a statement describing the practices, procedures and systems by which it will comply with the obligations in SLC B5, SLC B6, SpC 2C and SpC 2O.
- Paragraph 2O.16 sets out the procedure the Authority will follow in approving or directing changes to the compliance statement and other compliance documents.
- Following the Authority's approval of the compliance documents the licensee must (as set out in paragraph 2O.17) ensure it complies with them. It must also review the documents when circumstances change, or at least annually, to ensure they are complete and accurate. Any revisions to the documents require approval from the Authority.
- Paragraph 2O.18 requires the licensee to publish the compliance statement on its website within 15 working days of it being approved by the Authority.
- In paragraph 2O.19 we set out the scope of the compliance statement, and specify that it must set out how the licensee will ensure compliance with the different parts of this condition.

Compliance officer and annual compliance reporting

3.13. Part E of the proposed new condition sets out requirements for an independent compliance officer and annual compliance reporting.



Consultation on licence modifications to enhance the role of the System Operator


- Paragraph 20.20 requires the licensee to appoint a compliance officer who will ensure the licensee complies with its obligations in this condition and in SLCs B5 and B6 and SpC 2C.
- Paragraph 20.21 requires the licensee to appoint a director who will have responsibility for overseeing compliance with the specified duties and for the compliance officer. The director (known as the single appointed director) must report to the NGET board on the obligations set out in this licence condition.
- Paragraph 20.22 requires the establishment of a compliance committee to oversee compliance and ensure that the compliance officer and the licensee comply with the obligations in this condition. The committee will report to the NGET board and membership will include the single appointed director and those responsible for the management of regulatory issues relating to the licensee.
- In paragraph 20.23 and 20.24 we set out the support and resources the licensee must give the compliance officer, and the roles the compliance officer is prohibited from undertaking.
- Paragraph 20.25 requires the licensee to provide the compliance officer with details of any complaints or representations received about the conduct of the licensee in undertaking the obligations set out in this licence condition.

3.14. Paragraph 20.26 sets out the various tasks of the compliance officer. These include:

- providing advice and information to the licensee to ensure compliance with this condition (20.26a)
- monitoring the effectiveness of the practices, procedures and systems the licensee is using to ensure its compliance with this condition (20.26b)
- advising the compliance committee on this monitoring (20.26c), and on implementation of these (20.26f)
- investigating any complaints or representations made about the licensee's compliance with this condition and recommending any remedial action (20.26d, 20.26e and 20.26f)
- reporting annually to the compliance committee on his/her activities.

3.15. Our proposed paragraphs 20.27-20.29 require the licensee to, within 90 days of the compliance officer's report, submit a compliance report to the Authority. The form of the compliance report will have been approved by the Authority in advance in line with paragraph 20.16. This compliance report must:

- set out the licensee's compliance with the specified duties during the period since the last compliance report (20.27a)
- set out the practices, procedures and systems adopted in accordance with the compliance statement (20.27b)



Consultation on licence modifications to enhance the role of the System Operator

- detail the activities of the compliance officer and other matters related to the implementation of practices, procedures and systems set out in the compliance statement (20.28a and 20.28b)
- detail any investigations carried out by the compliance officer, including the number, type and source of the complaints or representations on which such investigations were based, the outcome of the investigation and any remedial action taken (20.28c)
- be accompanied by a compliance certificate (in a form approved by the Authority in line with paragraph 20.16) signed by the single appointed director certifying that to the best of that director's knowledge the report fairly represents the licensee's compliance with the relevant system planning duties (20.28d)
- be submitted to the Authority (alongside the compliance certificate) as soon as practicable after the certificate's approval by the board of directors (20.29).

3.16. If directed to do so by the Authority (under paragraph 20.30), the licensee must appoint an independent examiner to review the practices, procedures and systems of the licensee to assess how well they are complying with the obligations in this condition. The independent examiner would produce a report of his/her findings. The report would then be submitted to the Authority (in line with paragraph 20.31) within three business days of its completion.

The effect of the proposed changes

3.17. The effect of these changes will be to mitigate conflicts of interest arising in the enhanced activities of the SO. Mitigation measures will be established to ensure the SO and NGET's associated delivery interests are adequately separated, and a transparent compliance processes will be introduced to ensure stakeholders (including Ofgem) are well informed about how NGET is mitigating conflicts.

Other changes

3.18. We are proposing the following minor consequential amendments to two special conditions in order to ensure consistency across NGET's licence.

- Paragraph 2F.26 of SpC 2F (Role in respect of the National Electricity Transmission System Operator area located in offshore waters). We are proposing to amend this paragraph to refer to SpC 20 rather than SpC 2D (which we are proposing to remove). The language is also amended to ensure consistency with the terms used in SpC 20.
- Paragraph 2N3 of SpC 2N (Electricity Market Reform). We are proposing to amend the list of conditions referred to such that it includes the new SpC 20.

3.19. These changes should ensure that our proposed modifications do not have unintended consequences elsewhere in NGET's licence.

Appendices

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Appendix 1 – Consultation Response and Questions

1.1. Ofgem would like to hear the views of interested parties on any of the issues raised in this document. In particular, we would like to hear from transmission licensees, interconnector developers, interconnector licensees and offshore developers.

1.2. We would especially welcome responses to the specific questions which we have put at the beginning of each chapter heading and which are replicated below.

1.3. Please send your responses by noon on 11 May 2015 and to:

Sheona Mackenzie
Electricity Transmission
107 West Regent Street, Glasgow, G2 2BA
0141 331 6019
ITPRmailbox@ofgem.gov.uk

1.4. Unless marked confidential, all responses will be put in Ofgem’s library and on our website, www.ofgem.gov.uk. You can ask for your response to be kept confidential and we will respect this, subject to any obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

1.5. If you want to have your responses kept confidential, clearly mark the document/s to that effect and include the reasons for confidentiality. Please submit your responses both electronically and in writing, and put any confidential material in the appendices to your responses.

1.6. When we have considered the responses to this consultation, we will publish a statutory consultation on proposed licence modifications ahead of any decision. Any questions on this document should, in the first instance, be directed to Sheona Mackenzie (contact details above or by emailing sheona.mackenzie@ofgem.gov.uk).

CHAPTER: Two

Question 1: What are your views on our proposed licence changes for system planning?

Question 2: What are your views on our proposed timing of the NOA report from 2016/17 onwards?

Question 3: What are your views on our proposals for the scope and approvals process for the NOA methodology and the NOA report?

Question 4: Do you think our proposals for provision of information by the SO are appropriate?

Question 5: What are your views on the way we propose to formalise the process used to determine efficient connections?

CHAPTER: Three

Question 6: What are your views on our proposed licence modifications for conflict mitigation?

Question 7: Do you think there could be any unintended consequences from our proposal to remove special conditions (SpCs) 2D and 2E?

A template for providing detailed drafting suggestions is included below, and a MS Word version is available online.

| Respondent details | | [Insert your contact details] | | |
|--------------------|----------------|-------------------------------|----------|---|
| Condition number | Condition name | Page/Paragraph Ref | Comments | Suggested alternative drafting (please use tracked changes wherever possible) |
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Appendix 2 – Summary of proposed licence changes

Our final conclusions and our proposed method of implementing our decisions are summarised in Table 1.

Table 1: Summary of ITPR final conclusions and the associated proposed licence modifications

| ITPR final conclusion ⁸ | Our proposed licence modification |
|--|--|
| Increased SO role identifying system needs | Amendments to standard condition C11 (Production of information about the national electricity transmission system ⁹) that would require the SO to do additional analysis – particularly on interconnection. |
| SO to undertake comparative analysis of different options for meeting system needs – including requirement to publish the Network Options Assessment (NOA) report and provide information /analysis to TOs, developers etc. | A new standard licence condition (C27: The Network Options Assessment process and reporting requirements) which sets out the NOA process. The proposed new condition sets out: Part A: What the methodology must cover, and how this is approved Part B: The annual NOA report (including approvals process for methodology and form) Part C: Provision of information to other parties |
| Undertake early development of non developer-led offshore wider works ¹⁰ . | We are proposing to include this in Section D of the proposed new standard condition C27 (The Network Options Assessment process and reporting requirements). |
| SO to lead the gateway process for developer-led offshore wider works. The SO will: 1) identify the most efficient connections solution; 2) be responsible for providing gateway submissions to the Authority. | We are proposing to implement this decision by changing a number of existing standard conditions: - Item 1 through changes to conditions dealing with the connections process (C6: Connection charging methodology, and C8: Requirement to offer terms) - Item 2 through changes to the condition relating to information provision to Ofgem in relation to appointment of an OFTO (C25: Provision of information and assistance to the Authority in relation to applications requiring the appointment of an offshore transmission owner) |

⁸ These proposed licence modifications relate to ITPR’s system planning and conflict mitigation conclusions only. In our final conclusions document we also made some decisions (relating to outages, coordination with distribution, and power quality) which we did not think required licence modifications.

⁹ When reviewing this condition, the working group proposed some housekeeping changes which are included.

¹⁰ Our final conclusions on ITPR indicated our decision that the SO should also undertake this role for onshore projects that would be subject to competitive tender. Licence modifications to implement that decision will be taken forward at a later stage.

| | |
|---|--|
| <p>On interconnection the SO will:</p> <ol style="list-style-type: none"> 1) be involved in optioneering around connections; 2) submit information to Ofgem on the efficiency of connection choices; 3) submit information to Ofgem on its assessment of options. | <p>We are proposing to implement this decision by changing a number of existing standard conditions:</p> <ul style="list-style-type: none"> - Item 1 by changes to C8 (Requirement to offer terms) - Items 2 and 3 through changes to C11 (Production of information about the national electricity transmission system) and the new condition C27 (The Network Options Assessment process and reporting requirements) |
| <p>Greater coordination of connection offers</p> | <p>We are proposing to implement this decision by changing C8 (Requirement to offer terms).</p> |
| <p>On conflict mitigation we will:</p> <ol style="list-style-type: none"> 1) ensure greater transparency; 2) put obligations on the SO – principles for conduct; 3) ring-fence specific information within NGET; 4) ensure sufficient separation between NGET and associated competitive businesses. | <p>We are proposing to implement this decision as follows.</p> <ul style="list-style-type: none"> - Item 1 through the NOA process (C27) and by formalising the approach for optioneering connections (C8). - Item 2 by part A of SpC 20 - Item 3 by part C of SpC 20 - Item 4 by part B of SpC 20 <p>These are underpinned by parts D and E of SpC 20.</p> |

To ensure the SO is able to fulfil its obligations we are proposing some changes to the licences of onshore transmission owners. These are summarised in table 2 below.

Table 2: Summary of changes to onshore transmission owners’ licences

| Reason for change | Our proposed licence modification ¹¹ |
|---|--|
| To ensure System Operator-Transmission Owner Code (STC) supports the NOA process | We are proposing to amend standard condition B12 (System Operator – Transmission Owner Code) to require the licensees ensure the STC includes provisions for sharing information needed for the NOA process ¹² . |
| To ensure Strategic Wider Works submissions are appropriately informed by the NOA process | We are proposing to amend special condition 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) requiring the licensees to include the NOA analysis in any SWW needs case submission. |

¹¹ These changes would also apply to NGET as part of its functions as a TO.

¹² As parties to the STC OFTO’s would be required to comply with the STC arrangements.

Appendix 3 – Feedback Questionnaire

1.1. We believe that consultation is at the heart of good policy development. We are keen to consider any comments or complaints about how which this consultation has been conducted. We are also keen to get your answers to these questions:

1. Do you have any comments about the overall process adopted for this consultation?
2. Do you have any comments about the overall tone and content of the report?
3. Was the report easy to read and understand? Or could it have been better written?
4. Did the report's conclusions provide a balanced view?
5. Did the report make reasoned recommendations for improvement?
6. Please add any further comments.

1.2. Please send your comments to:

Andrew MacFaul

Consultation Co-ordinator

Ofgem

9 Millbank

London

SW1P 3GE

andrew.macfaul@ofgem.gov.uk