



Making a positive difference
for energy consumers

To electricity transmission licensees,
electricity distribution licensees,
electricity generation licensees,
suppliers, offshore transmission
companies, independent network
operators, customer groups and
other interested parties

7 July 2015

Dear colleague,

Statutory consultation on proposed licence modifications to enhance the role of the System Operator

We¹ propose to modify the standard conditions of the electricity transmission licence and special conditions of the electricity transmission licences of National Grid Electricity Transmission plc (NGET), Scottish Hydro Electric Transmission plc (SHE Transmission) and SP Transmission plc. This is to implement our decision of 17 March to enhance the role of the System Operator (SO) in planning the electricity transmission network and mitigating any resulting conflicts of interest.²

The proposed modifications will put additional obligations on the SO to identify the need for investment in the transmission network and to coordinate and develop investment options. This will include a new Network Options Assessment (NOA) process. We recognise that there could be conflicts of interest associated with these enhanced roles, and our proposed licence modifications include measures to mitigate any such conflicts. We are also proposing modifications to the electricity transmission licences of SHE Transmission and SP Transmission to facilitate the enhancements to the SO's role.

Overview of consultation responses and our views

This statutory consultation follows our earlier consultation with stakeholders published on 10 April 2015 (April Consultation), to which we received eight responses.³ These are available on our website. The responses were generally favourable and mostly suggested drafting changes to ensure that the licence reflects our decision on the role of the enhanced SO. However, some respondents raised particular points which we have addressed in annex 1 of this letter.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this letter.

² <https://www.ofgem.gov.uk/ofgem-publications/93915/itprfinalconculsionsesodocumentpublicationfinal-pdf>

³ The consultation as well as responses received can be found at the Ofgem website <https://www.ofgem.gov.uk/publications-and-updates/consultation-licence-changes-enhance-role-system-operator>

Summary of our proposed licence modifications

Having considered the responses to our April Consultation, alongside this letter we are publishing the statutory consultation notices setting out the proposed modifications to the electricity transmission licences. In summary, we are proposing the following modifications to the licences to implement our decision on enhancing the role of the SO.

- Modification of standard licence condition C1 (Interpretation of Section C) to include new defined terms used in the other conditions we are proposing to modify.
- Modification of standard licence condition C11 (Production of information about the national electricity transmission system) to set out the enhanced role of the SO in identifying the needs of the transmission system and where additional interconnector capacity could help facilitate an efficient, coordinated and economical transmission system.
- Create a new standard licence condition C27 (The Network Options Assessment process and reporting requirements) setting out the NOA process which will underpin the SO's role in developing and assessing options for meeting system needs.
- Modification of 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).
- Modification of standard licence condition B12 (System Operator – Transmission Owner Code) to require the electricity transmission licensees to support the SO in its new role.
- Modification of special licence conditions 6I (Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure) requiring electricity transmission licensees to use the SO's analysis to support their Strategic Wider Works (SWW) submissions.⁴

We are also proposing the following modifications to ensure conflicts of interests are mitigated.

- Modification of special licence condition 1A (Definitions and Interpretations) to include new defined terms used in the modified conditions in the dedicated 'definitions' conditions for that section of the licence
- A new special licence condition (2O) that places obligations on the conduct of the SO, sets out the business separation arrangements between NGET and National Grid plc's competitive businesses, and the process NGET must follow to comply with these obligations.
- 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 provisions will be set out in the new special licence condition (2O).

⁴ The SWW arrangements were introduced in 2013 as part of the RIIO-T1 price control and apply to large investment projects (subject to eligibility criteria) for which funding was not determined as part of the price control settlement.

- Modification of special conditions 2F (Role in respect of the National Electricity Transmission System Operator area located in offshore waters) and 2N (Electricity Market Reform) to ensure consistency across NGET's licence.

A more detailed description of the proposed licence modifications (along with the reasons why we propose to make the modifications and their effect) can be found in our April consultation document and the schedules to the attached notices.⁵

Next steps

We would welcome views on the proposed drafting of these modifications. Responses should be received on or before 4 August 2015. All responses should be sent to Sheona Mackenzie, Office of Gas and Electricity Markets, 107 West Regent Street, Glasgow, G2 2BA or ITPRMalibox@ofgem.gov.uk.

Unless marked confidential, all responses will be published on our website, www.ofgem.gov.uk. You can ask us to keep your response confidential. We will respect this request, subject to any obligations to disclose information, for example under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004.

If you would like your response to remain confidential please mark it clearly and restrict all confidential content to an annex. Please include the reasons for confidentiality.

After the statutory consultation period we will consider any responses. If we decide to make the proposed modifications, they would come into effect 56 days after the publication of our decision with the exception of the proposed amendment of standard licence condition B12 (System Operator – Transmission Owner Code) which may have a later implementation date. A later implementation date is intended to enable the necessary changes to the code to be brought forward. We will discuss with licensees the appropriate timing of that amendment.

Yours faithfully,

Kersti Berge

Partner, Transmission

⁵ <https://www.ofgem.gov.uk/publications-and-updates/consultation-licence-changes-enhance-role-system-operator>

Annex 1: Summary of key responses to our 10 April Consultation

The majority of responses we received to our April Consultation were generally favourable and mostly provided proposed drafting changes to ensure that the licence reflects our decision on the role of the enhanced SO. However, some respondents raised particular points in response which we discuss below.

Business Separation

NGET noted that the proposed licence modifications requiring separation of management and operations up to board level between NGET and National Grid's Relevant Other Competitive Businesses (ROCBs) differed from the arrangements in place under the Electricity Market Reform (EMR). It suggested amending the proposed language to be consistent with the EMR arrangements.⁶

In our April consultation we explained that our intention was for the business separation arrangements to go further than those already in place for EMR in a number of areas. This included the requirement for separation up to and including the board level of NGET rather than at the management committee level. We consider this is appropriate to mitigate any conflicts of interests between NGET and National Grid's ROCBs that could arise from the enhanced SO role.

Lack of transitional arrangements

SHE Transmission noted that there is no provision made for transitional arrangements. In particular, it highlighted the level of interaction that will be required with the SO in the development of Strategic Wider Works (SWW) needs cases and the impact the proposed modifications may have on current submissions to the Authority. SHE Transmission is of the view that they may not be able to fully comply with the proposed enhancements when submitting needs cases for critical investments in the near future. They therefore proposed that transitional arrangements are introduced.

SHE Transmission also put forward its view that transitional arrangements should be in place for changes to the System Operator – Transmission Owner Code (STC). SHE Transmission contend that until the licence modifications are in place and parties have fully explored the data exchange required to undertake the NOA process, it is inappropriate to modify the STC. However, SHE Transmission believes that proposed modifications to standard licence condition B12 will require such modifications to be in place as soon as the licence conditions come into force.

Although we understand the points expressed by SHE Transmission, our view is that the additional complexity involved in implementing specific transitional arrangements would not be proportionate to the additional comfort it provides. We note that detailed discussions with industry participants about the implementation of the changes are already taking place, in particular:

- NGET has been engaging extensively with the licensees on the NOA process to enable the March 2016 NOA report.
- The licence will require licensees to include analysis by the SO in its SWW submissions where it is available. The expected availability of the analysis to support SWW submissions should be set out by NGET in the proposed NOA methodology which it submits to Ofgem for approval. Other licensees will have an opportunity to express any views at that time.

⁶ As set out in special licence condition 2N (Electricity Market Reform)

- We understand the licensee's plan to bring forward arrangements to amend the STC in early 2016. We think it is therefore appropriate for the amendment to standard condition B12 to come into force later than the other amendments. We will discuss with licensees the appropriate implementation date.

Date of the NOA publication

In our April Consultation we stated that the first NOA report should be published no later than 31 March 2016. We also stated that in future years, we believe the process can be made more efficient, so that the report can be published earlier. We therefore proposed an enduring publication date of 31 January from 2017 onwards. Whilst the majority of respondents were supportive of this decision, three raised points about the enduring date.

- SHE Transmission highlighted that due to the significant data exchanges required between the SO and TO in order to collate the data necessary to underpin the NOA analysis, it thinks an enduring date of January from 2017 onwards is unachievable.
- In its response, NGET reasoned that, due to the level of resourcing that will be required to commit to an enduring January date of publication, a longer transitional period should be put in place. NGET also propose that a longer transitional period would allow further review of the appropriate enduring publication date. However, it does accept that a longer term move to a publication date closer to the Electricity Ten Year Statement (ETYS) (published in November) is sensible and would allow the benefit of the NOA outputs being fully consistent with those in the ETYS.
- National Grid European Business Development Ltd suggested that the NOA report should be published in November alongside the ETYS.

We note the points made by respondents on the timing of the report. However we think it is important that the NOA report is published before work on the next year's Future Energy Scenarios (FES) starts in earnest. As such we consider a January publication date to be appropriate on an enduring basis. Although we expect the SO to make all reasonable endeavours to meet this publication date, the Authority can direct an alternative date if necessary.