

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

3 September 2015

Dear colleague,

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

Following our statutory consultation on 7 July 2015, we¹ have decided to modify the standard conditions of the electricity transmission licence and the 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.

The licence modifications will implement our decision of 17th March 2015 by placing additional obligations on the SO to identify the need for investment in the transmission network and to coordinate and develop investment options.² This includes a new Network Options Assessment (NOA) process. We recognise that there could be conflicts of interest associated with these enhanced roles, and our licence modifications include measures to mitigate such conflicts. We are also modifying the electricity transmission licences of SHE Transmission and SP Transmission to facilitate the enhancements to the SO's role. The reasons for and effect of the licence modifications are set out in our July consultation document³ and the preceding consultation of 10 April 2015.⁴

We received four responses to the statutory consultation and these are available on the Ofgem website.⁵

In light of the responses received, we have made further minor amendments to the licence drafting we consulted on in July. These changes are shown in red text in the relevant Schedules accompanying this letter. The reasons for any difference between the modifications set out in the statutory consultation and the modifications reflected in the Schedules are to provide clarity and ensure consistency in definitions and cross-references. They do not amount to substantive changes to the modifications proposed in the statutory consultation.

The full list of changes made to the drafting following the statutory consultation as a result of the responses received is detailed in the table below:

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

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

³ Ofgem, [Statutory consultation on proposed licence modifications to enhance the role of the System Operator](#), 7 July, 2015.

⁴ Ofgem, [Consultation on licence modifications to enhance the role of the System Operator](#), 10 April, 2015.

⁵ See footnote 3.

Licence Condition	Change following statutory consultation
Standard Condition C11	In paragraph 13(aa), the reference to 'interconnection' has been deleted and replaced with 'interconnector capacity' as per Standard Licence Condition C27.8(c)(ii). This is because "interconnection" has a specific definition in standard condition A1 that is not appropriate in paragraph 13(aa).
Standard Condition C27	In paragraph 1, references to 'interconnection' in lines 3 and 5 have been replaced with 'interconnector capacity' as per Standard Licence Condition C27.8(c)(ii). This is because "interconnection" has a specific definition in standard condition A1 that is not appropriate in paragraph 1.
Standard Condition C27	In paragraphs 6(a) and (b), we have added "and form of the NOA report" after "NOA methodology". This is because the form of the NOA report is also consulted on under paragraph 4 and submitted to the Authority under paragraph 5.
Standard Condition C27	In paragraph 8(b), the final line now reads in accordance with paragraphs "15(a)(i) and (ii)". This change has been made to correct a typographical error.
Standard Condition C27	In paragraph 9, line 6 now refers to paragraph 15. This change has been made to correct a typographical error.
Standard Condition C27	In paragraph 10, line 2 now refers to paragraph 5(a). This change has been made to correct a typographical error.
Standard Condition C27	In paragraph 15(a)(iii), line 2 now refers to paragraph 15(a)(i) or (ii). This change has been made to correct a typographical error.
Standard Condition C27	In paragraph 15 (b), we have added the words "as defined in standard condition C11 (Production of information about the national electricity transmission system)" after "ten year network development plan" in line 3. This change has been made to provide clarity.
Standard Condition C27	In paragraph 19, line 2 now refers to paragraphs 16,17 and 18. This change has been made to correct a typographical error.
Special Condition 2N	As the terms "Participating Interest" and "Participating Owner" are to be defined in Special Condition 1A (for the purposes of both special conditions 2N and 2O), these definitions have been removed from Part H of Special Condition 2N.
Special Condition 2O	The first two lines of paragraph 6 have been slightly re-worded to aid clarity as follows: <u>The licensee must ensure that the Relevant Other Competitive Businesses are conducted entirely by corporate entities each of which is are separate from that of the licensee and that the licensee does not, directly or indirectly, hold any shares or other investments.</u>
Special Condition 2O	Paragraph 20.12(b) has been removed as paragraph 20.12(a) already prevents the use of information for non-SO activities. This change has been made to avoid duplication.
Special Condition 2O	In paragraph 20.29 the number of days following each annual report of the compliance officer that the licensee has to submit a compliance certificate and report has been amended to 120 days in order to provide sufficient time for the approvals process and then submission to Ofgem. This is the maximum time the SO will have to make its submission to us. However we expect the report and certificate to be produced and submitted in as timely a manner as possible.

We have also considered the following other points raised by respondents.

- Standard Condition C6 (Connection Charging Methodology): NGET commented that Developer-Associated Offshore Wider Works (DAOWW) is investment in transmission capacity to provide wider network benefit. These assets are infrastructure assets not connection assets and as Standard Condition C6 relates to connection assets only, therefore it is NGET's view this does not appear to be the correct place for this requirement. We think this point may have merit but would like to take more time to consider it further before making a decision. Therefore are not making any changes to Standard condition C6 at this time.
- Special Condition 20 (Business separation requirements and compliance obligations): NGET's response also made a suggestion regarding the confidentiality arrangements for system planning data. Specifically it suggested that paragraph 14 of Special Condition 20 be deleted and paragraph 12 of the same Condition be amended to confirm that all Relevant System Planning information is kept confidential. It also expressed a concern that paragraph 14, as drafted, would require NGET to assess whether the owner of the information was reasonable in saying disclosure of that information would affect their commercial interests. We consider that paragraph 14 is needed to ensure that the SO does not disclose or publish commercially sensitive information without the owner's permission. Therefore, as it serves a specific purpose distinct from paragraph 12 we have decided to retain paragraph 14.

In addition, as noted in our statutory consultation, we consider that the amendments to Standard Condition B12 (System Operator – Transmission Owner Code (STC)) should have a later implementation date to allow for the relevant changes to be made to the STC. For this reason, we have published a separate licence modification notice to implement changes to Standard Condition B12. We consider it is reasonable to expect the STC modifications to be made by the end of September 2016. The modification of Standard Condition B12 will take effect on 30 September 2016.

The remaining licence modifications, apart from Standard Condition B12, will come into effect on 2 November 2015.

Yours sincerely,

Kersti Berge
Partner – Electricity Transmission