

## ECIT Industry Codes and Standards Working Group – February

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This is a note of the February workshop held by the ECIT Industry Codes and Standards Working Group.

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| Audience | ECIT Industry Codes and Standards Working Group and any other interested parties |
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### 1. Background

- 1.1. In Ofgem’s August 2016 consultation, we set out proposals for CATO obligations where we said that we expect CATOs to be required to comply with industry codes and standards.<sup>1</sup> As part of this, we provided a high level assessment of potential changes needed to accommodate CATOs for each code. We saw the current framework as providing a robust foundation to build on and proposed further engagement with industry to scope potential changes. Industry responses to our consultation broadly agreed with the proposed scope of changes and saw benefit in detailed discussions as part of industry workshops.
- 1.2. In November 2016 we held our first workshop, setting out the scope of issues and approach to industry codes review. Participants were broadly supportive of the scope and Ofgem’s proposed approach to leading the review and involving industry via workshops.
- 1.3. We decided to hold at least three further workshops (February, March, April) focusing in more detail on how CATOs would be accommodated in each of the industry codes. This February workshop focused on the System Operator-Transmission Owner Code (STC), looking at specific obligations and governance arrangements.

### 2. Key principles and interactions for the work going forward

2.1. General principles were identified:

- When looking at changes needed to accommodate CATOs in industry codes, this working group will focus on the late CATO build model as the early build model is yet to be fully developed.
- Obligations placed upon Transmission Owners (TOs) as a group or exclusively on onshore TOs are appropriate for CATOs. However, there may be obligations placed on onshore TOs which may not be appropriate for CATOs and/or obligations on offshore which may in turn be appropriate for CATOs. As such it’s important to review the codes in detail. When looking at the STC, it was noted that this is often related to the differences in the types of regulatory regimes (fixed return for OFTOs/CATOs vs price controls for onshore TOs).

2.2. Key interactions were identified:

- National Grid greater separation: the redrafting of the codes to distinguish between the 2 NGET roles is beyond the scope of the review. Ofgem will ensure we’re aligned with the NGET codes review through continuous engagement, while looking to progress CATO codes changes.
- European Network Codes: the implementation of ENCs was already raised at the November meeting as a key area of interaction. ENCs will introduce substantial changes which will impact current GB codes (especially the Grid Code). In addition, it was noted that the introduction of CATOs will also need to identify which ENC requirements are relevant for this type of transmission licence as part of the multiple TSO decisions.

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<sup>1</sup> [https://www.ofgem.gov.uk/system/files/docs/2016/08/extending\\_competition\\_in\\_electricity\\_transmission\\_-\\_tender\\_models\\_and\\_market\\_offering\\_0.pdf](https://www.ofgem.gov.uk/system/files/docs/2016/08/extending_competition_in_electricity_transmission_-_tender_models_and_market_offering_0.pdf)

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- Engagement with Code Review Panels: Ofgem will engage with the Code Panels during the review. In particular, Ofgem to engage with Elexon regarding the Balancing and Settlement Code (BSC) to inform them of the work on industry codes and CATOs and examine whether any changes would be necessary to the BSC.
- DCUSA: a participant suggested that the working group will need to consider the Distribution Connection and Use of System Code (DCUSA) in future workshops as there may be some interactions especially with respect to the observability area.

### 3. How a CATO should be treated in the STC

3.1. Three options were discussed on how to accommodate CATOs in the STC:

(A) Keeping the existing STC definition of 'onshore transmission owner': this would mean that the definition is linked with the CATO's transmission licence (having Section D in effect). Some considerations:

- Need to explore how the code re-drafting would work when there are onshore TO obligations which may not be applicable to CATOs.
- Need to keep in mind that this definition may change in light of greater separation of NGET.

(B) STC definition of onshore TO and 'named' CATO: this would require the CATO to be named and it would need to be updated with every new CATO. Participants considered this as the least attractive option. It's more cumbersome to update the STC each time, assets may be transferred to other parties so names might change too, and thus the option isn't future-proof.

(C) STC definition of onshore TO and introducing 'CATO' group: this would be similar to the OFTO group but the CATO group would sit under the onshore definition as a sub-group rather than under the general 'transmission owner' definition. There were some mixed views on this option:

- On one hand participants were asking whether there are any reasons why we should differentiate between incumbent TOs and CATOs, while others thought the difference should be made. As the later discussion focused on obligations in the STC it was clearer that there are some onshore TO obligations which may not be applicable to CATOs. It was noted that this is often due to the difference in the regulatory regime and the financial arrangements that would be available to CATOs. Similarly, OFTOs' governance arrangements appeared to be more applicable to CATOs.
- In practical terms, given that the majority of obligations placed upon Transmission Owners as a group or exclusively as onshore TOs are appropriate for CATOs, only minor changes would be needed to the STC in those areas where specific CATO obligations are needed.
- It was considered that this option would be the most future proof as it is sufficiently broad.

3.2. Alternative options were discussed:

- Based on the discussion on Option C, one participant suggested that we should also consider introducing 'CATOs' as a group under the 'transmission owner' definition, in this way distinguishing between the three regulatory regimes. Although this would create more changes to the code it might reduce confusion around applicability of the code for incumbent TOs and CATOs.
- Another participant suggested removing the explicit names of SPT and SHETL and focusing the definition on the transmission licence. The names of the Scottish TOs are only used in one instance which is discussed below so it wouldn't be a significant problem regarding obligations. However, as before, it was noted that the definition might change in light of NG separation and it is difficult at the moment to prejudge whether this will be linked with the transmission licence or not.

3.3. Geographical reference: on one occasion there is explicit mention of geographical areas in the STC (Section C para 3.1 'Interface Agreement'). It wasn't very clear why this reference exists; participants broadly thought this was due to historical reasons (eg arrangements at BETTA). **National Grid (Joanna Carter) took an action to look into the reasons behind this geographical**

**reference.** It was agreed that in the case that this is purely for historical reasons, this issue is likely to be covered under the code review on the separation of NGET.

#### 4. STC: obligations on CATOs

4.1. Where specific clarification for CATOs in the STC was identified, several obligations were discussed. The table below provides a summary of the group discussion.

| STC Obligation   | Key questions / points considered  |
|--|--|
| <p><b>Transmission Planning</b><br/>(Section D Part 1, para 2.1)</p>                         | <ul style="list-style-type: none"> <li>Should a CATO have the onshore TO obligation (i.e. develop and maintain a separate Transmission Investment Plan on an ongoing basis) or the OFTO obligation (i.e. develop and maintain a TIP only when it plans to make changes to the network)?</li> </ul> <p>Participants broadly agreed that the onshore obligation would be more appropriate. It was noted that the OFTO obligation is likely to be linked to the generation specific aspect, i.e. OFTOs unlikely to make changes to their network and the obligation is only by exception. It was also noted however that the obligation on CATOs would have to be proportionate and reasonable, i.e. CATOs shouldn't be expected to maintain very detailed TIP when there are no changes to be made. However, it is more likely that these details would be dealt with by the licence.</p>  |
| <p><b>Co-ordination of Transmission Investment Plan</b><br/>(Section D Part 1, para 2.3)</p> | <ul style="list-style-type: none"> <li>Where, as a result of a TO's TIP, there is a change to a OFTOs' network, the TO will compensate the OFTO for the reasonable and proper cost and expense of such a change. Question: what happens when a change is necessary to an onshore network?</li> </ul> <p>Participants noted that in the case of OFTOs it is highly unlikely they will themselves make any changes and they do not have a financial mechanism to pay for these changes. Participants therefore thought that a similar condition should be in place to compensate CATOs given similarities in the financial regime.</p> <p>Participants also noted that we will need to consider what happens if a CATO makes changes that impacts on other TOs or CATOs. It was also noted that the definition of 'reasonable and proper costs' might change to 'reasonable, efficient and proportionate' in light of changes brought in by European Network Codes.</p> <p><b>It was agreed that these issues will be looked at further and that any change will need to be consistent with the licence.</b></p> |
| <p><b>NOA</b> (Section D Part 1, para 5)</p>   | <p>In this initial review no changes were identified to the STC obligation as it covers transmission owner broadly and CATOs are expected to comply with this obligation.</p>  |
| <p><b>Transmission Technical Criteria</b> (Section D Part 1, para 2.2)</p>                   | <ul style="list-style-type: none"> <li>Should a CATO's system meet the onshore performance standards or OFTO requirements (set out in Section K)?</li> </ul> <p>There was agreement that a CATO's system should meet the onshore performance standards, and that CATO-specific standards were not necessary</p>  |
| <p><b>Black Start</b> (Section C Part 3, para 5.1)</p>                                       | <p>In this initial review it was considered that the STC obligation is sufficient but this will need to be further considered as part of the Grid Code review.</p>   |
| <p><b>Transmission Interface Site</b> (Section C, para 3.2)</p>                              | <p>This obligation is in relation to connection between an OFTO and a TO. The assumption was that we do not need to extend the definition of an interface site to include the interface between an onshore and a CATO. <b>National Grid (Joanna Carter) took an action to look into the background for this obligation, to understand whether the concept of a CATO-onshore TO interface site is required.</b></p> <p>It was noted that Scottish TOs also have in place site responsibility schedules.</p>   |
| <p><b>TO Construction Offers</b><br/>(Section D Part 2, para 4.1)</p>                        | <ul style="list-style-type: none"> <li>Does the STC need to refer to the CATO's 'limited' obligations relating to new conditions?</li> </ul> <p>It was noted that given the difference in regulatory regimes (between CATO and TO) there should be a reference to CATOs. This would have implications on how the CATO is defined in the code.</p> <p>A participant suggested that the cap could be increase as future investment could be caught up by the cap. <b>It was agreed that these issues will be looked at further and that any change will need to be consistent with the licence.</b></p>  |

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| <p><b>Offshore Transmission Construction Securities</b><br/>(Section D Part 2, para 8.1)</p> | <ul style="list-style-type: none"> <li>As set out in the Aug 2016 consultation, we propose that CATOs are obliged to provide securities.</li> </ul> <p>National Grid noted that the implications are wider from a system perspective; CATOs should provide security at least as much as OFTOs. Others agreed that CATOs should provide security but that this shouldn't necessarily be different from OFTOs.</p> <p><b>NGET took away an action to consider whether CATO need to provide securities in the manner of OFTOs, or should be treated the same as the Scottish TOs in the code.</b></p> |
| <p><b>NSLPA</b> (Section G, para 3.4-3.9)</p>  | <ul style="list-style-type: none"> <li>Ofgem assumption that a CATO equivalent is required, but only where CATO owns and operates assets directly linked to a nuclear generation site.</li> </ul> <p><b>National Grid (Joanna Carter) noted that nuclear sites agreements are a wider issue and they will come back with further information on this.</b></p>  |

## 5. STC: governance arrangements

5.1. Two options for CATO membership of the STC Modification Panel and their implications were discussed:

- (1) Individual CATO membership: this option was dismissed as it was agreed it would not be future proof, it could be too burdensome for each CATO, and membership should be proportionate.
- (2) 'CATO' group membership: this was the preferred option as it appeared the most future proof and proportionate. This would mean that there should be up to 2 persons representing CATOs on the Mod Panel and there would be one collective vote for the CATO group. It was noted that a CATO party category would have to be defined and election procedures established. Experience from OFTOs should help establish these.

In addition, it was suggested that membership on the evaluation workgroup should be reviewed as having the obligation to have at least one member representing CATOs may be too burdensome for the CATO company. They could still contribute to the workgroup but wouldn't be obliged to do so.

## 6. Attendees - 14 February workshop

| Name            | Company                   |
|-----------------|---------------------------|
| John Sinclair   | Balfour Beatty Investment |
| Joanna Carter   | National Grid             |
| Caroline Wright | National Grid             |
| Alan Kelly      | SP Energy Networks        |
| Garth Graham    | SSE                       |
| Paul Neilson    | SHE Transmission          |
| Andrew Ryan     | Ofgem                     |
| Arina Cosac     | Ofgem                     |