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Direct Dial: 0207 901 3178
Email: electricitySOreform@ofgem.gov.uk

Date: 04 September 2018

Dear colleague,

The Authority's decision to consent to the partial transfer of National Grid Electricity Transmission plc's Electricity Transmission Licence in accordance with the provisions of section 7A of the Electricity Act 1989

This letter sets out the Authority's¹ decision to consent to the partial transfer of National Grid Electricity Transmission plc's (NGET) Electricity Transmission Licence in accordance with the provisions of section 7A of the Electricity Act 1989.

The consent is a consequence of NGET's recent application to partially transfer its transmission licence to the new entity, National Grid Electricity System Operator Limited (NGESO) which from April 2019 will be responsible for the electricity system operator functions. We gave notice on 24 May 2018 (the Notice) of the intention to consent to the partial Licence transfer and no objections were received within the period of notice.

This consent forms a core element of our work to separate the electricity system operator functions from NGET's licence.

Background

In January 2017, BEIS, Ofgem and NGET issued a joint statement² which stated that a more independent electricity system operator could realise benefits for consumers by enabling a more competitive and flexible system. The statement set out our joint views that the electricity system operator should be underpinned by a governance structure that mitigates any actual or perceived conflicts of interest, and is ready to adapt further as system challenges continue to evolve. The statement recognised that a more independent electricity system operator would need to be underpinned by impartial governance. The joint statement also recognised that greater electricity system operator independence could increase consumer benefits through a greater focus on transparency, markets and competition.

In December 2017, we published a consultation document providing detail on how we expect to implement the legal separation of the system operator functions from NGET³. This

¹ The terms "we", "us", "our", "Ofgem" and "the Authority" are used interchangeably in this document and refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

²Statement on the future of Electricity System Operation
https://www.ofgem.gov.uk/system/files/docs/2017/01/statement_on_the_future_of_electricity_system_operation.pdf

³ Future Arrangements for the Electricity System Operator: Informal Consultation on ESO Licence Drafting
<https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-informalconsultation-eso-licence-drafting>

set out our thinking on how we expected the system operator functions in NGET's electricity transmission licence to be separated from its licence so that it was no longer required to carry out system operation. These functions would be transferred to a new entity which would assume responsibility for system operation. The effect of this will result in a new transmission licensee dedicated to system operation.

NGET submitted its formal application to transfer part of its existing transmission licence to the new system operator entity in March 2018. We recently consulted on the proposed partial transfer of the transmission licence held by NGET and the associated licence modifications required to separate the system operator functions.⁴

The Authority's Decision

In accordance with the provisions set out in 7A(4) of the Act, the Authority consents to NGET's request to transfer part of its Licence to NGESO and modify the licence conditions in the manner specified in the Consent. Published alongside this letter is a copy of the Consent. Subject to the licensee complying with the provisions of paragraph 9 of the Consent, this decision will have effect from 1 April 2019.

Next Steps

While the work around transferring the system operator functions to a new licensee has been completed we recognize that additional work will be required to give effect to the provisions in the licence ensuring the business of system operation and transmission remain independent of each other. This will be effected through a compliance statement which will be finalized before 1 April 2019.

In advance of 1 April 2019 we will work closely with the NGESO to ensure that all arrangements are in place to meet its obligations as set out in its transmission licence and future compliance statement. We welcome the steps already undertaken, such as the physical separation of system operator staff based in Warwick. We note that NGET and the NGESO continue to develop and adapt their organisational structure in response to commercial and regulatory requirements. They will need to ensure that robust arrangements are in place to prevent any real or perceived conflicts of interest for NGESO staff and other staff in preparation for separation in April 2019.

Yours faithfully,

Frances Warburton

Director, Energy System Transition, Systems & Networks

Duly authorised on behalf of the Gas and Electricity Markets Authority

04 September 2018

⁴ ESO Separation - notice of proposal to partially transfer an electricity transmission licence held by National Grid Electricity Transmission Plc to National Grid Electricity System Operator Limited
<https://www.ofgem.gov.uk/publications-and-updates/eso-separation-notice-proposal-partially-transfer-electricity-transmission-licence-held-national-grid-electricity-transmission-plc-national-grid-electricity-system-operator-limited>

ESO Separation - notice of proposed modifications to the standard conditions of all electricity transmission licences
<https://www.ofgem.gov.uk/publications-and-updates/eso-separation-notice-proposed-modifications-standard-conditions-all-electricity-transmission-licences>