



Making a positive difference
for energy consumers

All interested parties,
stakeholders in GB and beyond,
and other regulatory bodies

Email: electricitySOreform@ofgem.gov.uk

06 February 2019

Dear colleagues,

Open letter setting out additional licence modifications that are required as a consequence of the partial transfer of the electricity transmission licence held by National Grid Electricity Transmission Plc (NGET) to National Grid Electricity System Operator Limited (NGESO).

This letter is to inform interested parties of the further licence modifications that are required as a consequence of the partial transfer of the electricity transmission licence from NGET to NGESO, that will take effect from 1 April 2019.

The proposed additional modifications are in relation to three licence conditions: Special Condition 20 of the NGESO licence and Special Condition 3A of both the NGET and NGESO licences. This letter is intended to provide interested parties with information on the proposed changes and the reasons behind them.

Background

Currently the System Operator (SO) functions for the electricity transmission network in Great Britain (GB) are undertaken by NGET. In November 2015, Government ministers expressed the desire to make the electricity SO (ESO) more independent. On 12 January 2017, we issued a consultation on our views on the future arrangements for the ESO's role and structure¹. We subsequently published our response to that consultation on the 3 August 2017, confirming that we would proceed with the separation of NGET's ESO functions from its transmission owner (TO) functions². On 1 December 2017, we published our informal consultation³ on ESO licence drafting and following this a further update⁴ on 14 March 2018.

On 29 March 2018 NGET sought consent from the Authority, under section 7A of the Electricity Act 1989, to the partial transfer of NGET's existing transmission licence to NGESO. As no direction was received from the Secretary of State to not proceed with the partial transfer, we gave a Notice to Consent⁵ to the partial transfer of NGET's licence on 24 May 2018. On 4 September 2018, we published

¹ <https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-its-role-and-structure>. Consultation responses can be found under the heading 'response documents'.

² <https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-response-consultation-so-separation>

³ <https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-informal-consultation-eso-licence-drafting>

⁴ <https://www.ofgem.gov.uk/publications-and-updates/industry-update-following-our-future-arrangements-electricity-system-operator-informal-consultation-eso-licence-drafting>

⁵ <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>

our consent on the proposed partial transfer of the transmission licence held by NGET to NGESO and the associated licence modifications required to separate the ESO functions⁶.

Proposed additional modifications and reasons

Following the publication in September 2018 of the Authority's consent to the partial transfer of NGET's transmission licence to NGESO, additional modifications to both NGET's and NGESO's licence have been identified as required ahead of the partial transfer taking effect on 1 April 2019. The proposed modifications provide additional safeguards in ensuring that the separated businesses of NGET and NGESO continue to function effectively and efficiently. We consider that these changes are a necessary final step in the ESO Legal Separation Programme.

The proposed additional modifications are in relation to Special Condition 20 of the licence conditions subject to transfer to NGESO and Special Condition 3A of both the NGET and NGESO licences and are being proposed under the provisions of section 7A(4) of the Electricity Act 1989. The purpose of the proposed modifications is summarised below and the proposed modifications to the licence text can be found in the Annex to this notice.

The new text that is to be incorporated in paragraph 20.14 in the NGESO licence relates to the disclosure of System Operator Functions Information (SOFI) and is summarised below:

- 20.14(b): The modification provides further clarity to ensure the current arrangements in the System Operator and Transmission Owner Code (STC) are upheld. The STC Schedule Three is written as permitting but not requiring the disclosure of information between the system operator and transmission owners.
- 20.14 (e): The new text provides further clarity regarding the disclosure of SOFI to the Authority and BEIS.
- 20.14(g): The new text enables the disclosure of SOFI to the gas system operator and the rationale of when it is appropriate and correct for this information to be shared.
- 20.14(h): The modifications enable the licensee to share SOFI with the shareholder (and ultimate controller) for the purposes of effective corporate governance.
- 20.14(i): To ensure that the licence is future proofed and reflects the emerging nature of the NGESO's new relationships and obligations, this modification would allow for disclosure of SOFI where the Authority authorises such in writing in advance.

The proposed modifications to paragraph 20.20 in NGESO's licence provides further clarity on the obligations related to the content of NGESO's compliance statement.

The modifications to Special Condition 3A in NGET's licence provide additional specification of the value of the 'FINT' term for 2019/20 and 2020/21.

The modifications to Special Condition 3A in NGESO's licence provide additional clarity and specification on the 'FINT' term:

- 3A.4: The modification corrects a minor typographical error
- Annex 1: The modification confirms the value of FINT for 2019/20 and 2020/21.

Next Steps

Subject to the Secretary of State not directing that the proposed modifications not being made, the licence modifications outlined in this letter will take effect from 1 April 2019.

If you have any queries regarding the information contained within this letter, please contact us at the email address listed above.

Yours faithfully

Grendon Thompson
Head of ESO Regulation

⁶ <https://www.ofgem.gov.uk/publications-and-updates/consent-partially-transfer-electricity-transmission-licence-held-national-grid-electricity-transmission-plc-national-grid-electricity-system-operator-limited-0>

Annex

NGESO Special Licence Conditions proposed modifications

2O.14 Paragraph 2O.13 shall not apply to the disclosure of System Operator Functions Information:

- (a) where the licensee is specifically required to do so as a condition of this licence;
- (b) as required or permitted under the STC;
- (c) to persons engaged in the provision of Shared Services, to the extent necessary to allow them to carry out their respective functions in support of the System Operator Functions;
- (d) to persons in Dual Fuel Roles, to the extent necessary to allow them to carry out Dual Fuel Activities;
- (e) which is required by any requirement of law or regulation, or the rules of any governmental or regulatory authority having jurisdiction over the licensee; or for the purposes of facilitating the performance of any functions of the Secretary of State or the Authority;
- (f) where the licensee has obtained prior written consent for such disclosure from the owner(s) of such System Operator Functions Information, provided that the extent of such disclosure is consistent with the consent obtained;
- (g) to National Grid Gas plc (“NGG”) where such disclosure is required by NGG for purposes connected with the carrying on of NTS System Operation Activity, as defined by special condition 1A.4 of NGG’s gas transporter licence, and so authorised by the gas transporter licence granted to NGG under the Gas Act 1986;

(hg) to the shareholder of the licensee (being the ultimate controller of the licensee in accordance with paragraph (a) of the definition of ultimate controller in condition A1 (Definitions and interpretation)) to the extent that such disclosure is reasonably required to ensure effective corporate governance through enabling the shareholder to:

- (i) provide effective oversight of the licensee;
- (ii) consider and decide on matters that are required to be referred to it for approval; and
- (iii) comply with any reporting requirement prescribed by a requirement of law, regulation or the rules of any authority having jurisdiction over the shareholder.

Provided always that that the use of such information by the shareholder of the licensee is at all times in accordance with the terms of the ultimate controller undertaking provided by the shareholder pursuant to condition B8 (Undertaking from ultimate controller); or

(ih) where authorised in advance in writing by the Authority.

20.20 The compliance statement must in particular (but without prejudice to the generality of paragraph 20.16) set out how the licensee will meet:

- (a) the objectives in Part A of this condition;
- (b) the business separation requirements provided for in Part B, with specific reference to:
 - (i) the arrangements for managerial and operational separation (including (but not limited to) arrangements to ensure the independence of the licensee's chief executive, directors, senior managers and staff), as required in paragraph 20.8;

- (ii) the arrangements for access restrictions, including processes to partition and control access to and visibility of data within operational information systems, as required in paragraphs 2O.9, 2O.10 and 2O.11;
- (iii) the treatment of Shared Services across the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, together with a list of those services which fall under the definition of Shared Services. This treatment will include providing for certain Shared Services to be provided to the licensee under a dedicated business partner arrangement to ensure any real or perceived conflict of interests are addressed;
- (iv) the arrangements to manage the transfer of employees between the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses, such arrangements to include treating all such transfers as sensitive and accordingly subject to the review of the compliance officer appointed under Part E of this condition;
- (v) the arrangements relating to the recruitment and employment of the licensee's employees and the incentivisation of the licensee's managers which, save for managers in Dual Fuel Roles engaged in Dual Fuel Activities, will be linked to the performance of the licensee only;
- (vi) developing and maintaining a new visual and corporate identity for the licensee's Transmission Business that shall be distinct from those of the Relevant Other Competitive Businesses and the Relevant Regulated Businesses;
- (vii) a description of the Dual Fuel Activities and Dual Fuel Roles

- (c) the restrictions on the use of System Operator Functions Information and the exceptions to such restrictions provided for in Part C; and
- (d) the appointment of a compliance officer and compliance reporting, provided for in Part E.

3A.4 Part B definition of FINt amendment:

FINt: Means the amount set out in Appendix 1 of this condition and represents the costs to the licensee relating to the provision of financial facilities allocated from National Grid Electricity Transmission ~~Limited~~plc

3A Appendix 1

Values for the FINt term (2009/10 prices) by licensee
(see paragraph 3A.4 of this condition)

Licensee		FIN (£m)							
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity System Operator Limited	Financing cost	-	-	-	-	-	-	the <u>7.18</u>	the <u>6.34</u>
	Parent company guarantee	-	-	-	-	-	-	the <u>0</u>	the <u>0</u>

NGET Special Licence Conditions proposed modifications

3A Appendix 2

Values for the FINt term (2009/10 prices) by licensee
(see paragraph 3A.4 of this condition)

Licensee		FIN (£m)							
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
National Grid Electricity Transmission plc	Financing cost	-	-	-	-	-	-	the <u>7.18</u>	the <u>6.34</u>
	Parent company guarantee	-	-	-	-	-	-	the <u>0</u>	the <u>0</u>