

The Company Secretary
National Grid Electricity Transmission plc
1-3 Strand
London
WC2N 5EH

Email: electricitySOreform@ofgem.gov.uk

Date: 01 April 2019

Dear Company Secretary,

Direction under Standard Condition A3 (Application of Section D) to have the standard conditions in Section D switched on and a cessation notice under Standard Condition A2 (Application of Section C) to have the standard conditions in Section C switched off in the transmission licence of National Grid Electricity Transmission (NGET).

This letter directs under paragraph 2 of Standard Condition A3 (Application of Section D) that the standard conditions in Section D shall have effect in NGET's transmission licence. The letter also constitutes a cessation notice under paragraph 3(b) of Standard Condition A2 (Application of Section C) to provide for the standard conditions in Section C to cease to have effect in NGET's transmission licence.

The Direction and the cessation notice come into effect from 1 April 2019 to coincide with the partial transfer of NGET's electricity transmission licence to National Grid Electricity System Operator Limited (NGESO).

Background

In January 2017, BEIS, Ofgem and National Grid issued a joint statement¹ which stated that a more independent Electricity System Operator (ESO) could realise benefits for consumers by enabling a more competitive and flexible system. The statement set out our joint views that the ESO 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 ESO would need to be underpinned by impartial governance. The joint statement also recognised that greater ESO 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 ESO from NGET². This set out our thinking on how we expect NGET's electricity transmission licence to be split into two separate electricity transmission licences – an NGET TO licence and an ESO licence.

¹Statement 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

² 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>

NGET submitted its formal application to transfer part of its existing transmission licence to the new ESO entity in March 2018. We consulted on the proposed partial transfer of the transmission licence held by National Grid Electricity Transmission and the associated licence modifications required to separate the ESO functions³ and published our decision on 4 September 2018.⁴

Direction and Cessation Notice

The Authority directs under paragraph 2 of Standard Condition A3 (Application of Section D) that the standard conditions in Section D shall have effect in NGET's transmission licence. This letter also constitutes a cessation notice under paragraph 3(b) of Standard Condition A2 (Application of Section C) to provide for the standard conditions in Section C to cease to have effect in NGET's transmission licence.

The Direction and the Cessation Notice is to come into effect from 1 April 2019 to coincide with the effective date of the Authority's decision to consent to the partial transfer of NGET's electricity transmission licence to NGESO. This Direction and Cessation Notice is being made in order to reflect the new arrangements that will be in place once NGESO takes over the electricity system operator functions from NGET.

From the 1 April 2019 NGET's electricity transmission standard licence conditions under Part II will therefore consist of:

- Section A. Interpretation, Application and Payments
- Section B. General
- Section D. Transmission Owner Standard Conditions

This decision constitutes notice pursuant to section 49A of the Electricity Act 1989.

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

Yours sincerely,

Louise van Rensburg
Deputy Director, Energy System Transition

Duly authorised on behalf of the Gas and Electricity Markets Authority

01 April 2019

³ 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>

⁴ <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>