

Future Arrangements for the Electricity System Operator: Informal Consultation on ESO Licence Drafting

Consultation

Publication date: 01/12/2017

Response deadline: 26/01/2018

Contact: Steven Becker / Shashi van de Graaff

Team: SO Regulation

Tel: 020 7901 7000

Email: electricitySOreform@ofgem.gov.uk

Overview:

In January 2017, we consulted on future arrangements for the electricity System Operator's (ESO) role and structure. This informal consultation is our follow up to the ESO structure section of the consultation and seeks views on our current thinking on the separation of National Grid's electricity transmission licence into Transmission Owner and System Operator functions. As outlined in our consultation in January 2017, key to this project is our belief that as the GB electricity system transforms and evolves over the coming years we need to ensure that the ESO develops so that it is better positioned to respond to and be involved in the transformation of the GB electricity system.

We believe that as a result of greater separation of the ESO from National Grid's electricity transmission business, and reiteration of the existing separation with National Grid's competitive businesses, improved benefits for system users and consumers in the long run will materialise.

Context

National Grid Electricity Transmission plc (NGET) is the electricity System Operator (ESO) for the transmission network in Great Britain. NGET is also owner of the transmission system in England and Wales. Other parts of the transmission system are owned by different Transmission Owners (TOs). In Scotland the transmission system is owned by SP Transmission Ltd (SPT) and Scottish Hydro Electric Transmission plc (SHE-T), and the offshore network is owned by a variety of Offshore Transmission Owners (OFTOs).

The changing nature of generation, particularly the increase in small generation connected at the distribution level, is highlighting the need for a more holistic and coordinated approach to planning and operating the transmission and distribution systems. The increase in new sources of flexibility also means there is a need for the ESO to review how it procures the services it requires. This evolution of the activities the ESO carries out means we need to carefully consider the governance of the ESO, to ensure that there is sufficient focus on its important role and to address any actual or perceived conflicts of interest between National Grid's ESO functions and other business interests, such as the electricity TO and the electricity interconnectors.

The role of the ESO has grown in recent years. As part of the Electricity Market Reform (EMR), the ESO has become the delivery body for the capacity market and feed-in tariffs for contracts for difference. In March 2015, the Integrated Transmission Planning and Regulation (ITPR) project concluded that the ESO should take on enhanced roles to identify the need for investment in the transmission network, and coordinate and develop investment options.

In November 2015, Government ministers called for greater independence of the ESO to allow it to take on these enhanced roles. We have been working closely with the department for Business, Energy and Industrial Strategy (BEIS) and NGET to consider how the ESO can be reformed to make it more flexible and more independent from NGET's other business interests.

Associated documents

Future Arrangements for the Electricity System Operator: Response to Consultation on SO Separation

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

Future arrangements for the electricity system operator: its role and structure

<https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-its-role-and-structure>

Future arrangements for the electricity system operator: the regulatory and incentives framework

<https://www.ofgem.gov.uk/publications-and-updates/future-arrangements-electricity-system-operator-regulatory-and-incentives-framework>

Extending competition in electricity transmission: arrangements to introduce onshore tenders:

<https://www.ofgem.gov.uk/publications-and-updates/extending-competition-electricity-transmission-proposed-arrangements-introduce-onshore-tenders>

Integrated Transmission Planning and Regulation project: final conclusions:

<https://www.ofgem.gov.uk/publications-and-updates/integrated-transmission-planning-and-regulation-itpr-project-final-conclusions>

Smart, Flexible Energy System – a call for evidence:

<https://www.ofgem.gov.uk/publications-and-updates/smart-flexible-energy-system-call-evidence>

Statement on the future of electricity system operation:

www.ofgem.gov.uk/electricity/transmission-networks/electricity-so-reform

Electricity System Operator Incentives from April 2017:

<https://www.ofgem.gov.uk/publications-and-updates/electricity-system-operator-incentives-april-2017>

Initial Proposals for electricity System Operator incentives from April 2017:

<https://www.ofgem.gov.uk/publications-and-updates/initial-proposals-electricity-system-operator-incentives-april-2017>

Industry Code Governance: Initial consultation on implementing the Competition and Markets Authority's recommendations:

<https://www.ofgem.gov.uk/publications-and-updates/industry-code-governance-initial-consultation-implementing-competition-and-markets-authority-s-recommendations>

Contents

Executive Summary	5
1. Introduction	6
Background	6
Future arrangements for the ESO	6
Guiding principles for the future separation arrangements	10
Process to be followed	11
2. NGET and ESO Licence Changes	12
Amendments to Standard Licence Conditions	12
Amendments to Special Licence Conditions	13
3. Meeting our separation commitments	23
Information Ring-Fencing	23
Governance	25
Financial Ring-Fencing	26
Physical Separation	27
Employee Incentivisation and Transfer	27
Shared Services	28
Culture & Visual Identity	29
4. Next Steps	30
Questions for Stakeholders	30
Next steps	31
Consequential activities	32
Appendices	33
Appendix 1 – Summary Table of Standard Licence Conditions	34
Appendix 2 – Summary Table of Special Licence Conditions	43
Appendix 3 - Feedback on this consultation	51

Executive Summary

In August this year, we published our Response to Consultation on SO Separation for the Future Arrangements for the Electricity System Operator (ESO), which outlined our direction of travel on the future separation arrangements for the ESO¹. We confirmed the need for increasing separation of the ESO within National Grid, in order to allow the ESO to take on enhanced roles as a result of the changing nature of the electricity system. We then detailed the minimum requirements that we thought necessary in order to achieve effective separation.

Since then, Ofgem and National Grid have continued to progress work on how to implement the legal separation of the ESO from NGET on the basis of appropriate licence changes to underpin the separation requirements.

The purpose of this document is to update stakeholders on our thinking and seek stakeholder feedback on how we intended to separate NGET's electricity transmission licence into two separate electricity transmission licences – an NGET (TO) licence, and an ESO licence.

This document provides an overview of the licence structure envisaged for the two organisations (NGET and the ESO). We reiterate the measures that are being implemented to ensure sufficient separation of the ESO, in the areas of governance, physical separation, information and financial ring-fencing, staff incentivisation and transfer, and culture and identity. We share our thinking on how we intend to treat each of NGET's existing standard and special licence conditions in order to effect separation, and provide some initial licence drafting which reflects our thinking. The proposals outlined in this document are aiming to achieve two key goals:

- 1) To underpin the minimum requirements for separation
- 2) To identify and specify interfaces between NGET, the ESO, and the wider industry

In undertaking the separation, we have reiterated that there will be no reopening of the RIIO-T1 price control (which applies to both TO and SO activities). We are aiming only for the minimum change required to effect separation, and that where appropriate, NGET's transmission licence will align as far as is possible with the Scottish TO's transmission licences. We will also remain consistent with our published regulatory stances.

We will carefully consider the views of stakeholders and incorporate this feedback into our final drafting of the SO and TO licences, and will publish a summary of stakeholder feedback to our consultation in early 2018, ahead of National Grid's s7A licence transfer request in March 2018. We will then launch a statutory consultation on the licence transfer in mid-2018.

¹ Throughout the document, we use ESO to refer to the new National Grid Electricity System Operator (NGESO).

1. Introduction

Chapter Summary

We think the ESO should be a separate company within the National Grid Group plc, with its own specific transmission licence that sets out its obligations in respect of its System Operator role. We are following several 'guidance principles' to help us to determine how each existing licence condition should be treated post-separation and whether there is a requirement for additional licence conditions.

Background

1.1. Over 65% of a consumer's annual electricity bill is made up of the costs associated with producing electricity, trading it in our wholesale market and transporting it over our electricity networks. The Electricity System Operator (ESO) sits at the centre of this electricity system. It has a number of different roles, from the day-to-day operation of the system, through to longer term network planning. The ESO role is currently carried out by National Grid Electricity Transmission plc (NGET), which is also the owner of the transmission network in England and Wales. NGET is part of the wider National Grid Group plc.

1.2. The electricity system is undergoing significant change, as we seek to decarbonise our electricity supplies and make the most of the potential of new technologies and business models. As the electricity system transforms, we believe that the role and form of the ESO needs to adapt to keep pace with this. Changes in the generation mix towards even greater volumes of new smaller scale, intermittent sources of energy, will place greater emphasis on the need to consider the system as a whole and to ensure there is sufficient flexibility to manage it. We need to ensure that the frameworks we have in place facilitate innovation and allow efficient new business models to develop.

Future arrangements for the ESO

1.3. In January 2017, BEIS, Ofgem and National Grid issued a joint statement² which stated that a more independent ESO can 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

² Statement 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

need to be underpinned by impartial governance. The statement also recognised that greater independence would increase the benefit to consumers, with a greater focus on transparency, markets and competition.

1.4. During 2017, we have developed proposals and progressed our thinking on the role, structure, regulatory and incentives framework of the ESO going forward. These documents included setting out the need to change the structure of the ESO in order to mitigate any actual or perceived conflicts of interest. We therefore proposed that the ESO should be a separate company, within the National Grid Group plc, with its own specific transmission licence, and with appropriate licence modifications to ensure sufficient separation between the ESO and other National Grid Group plc businesses. In August 2017 we published our response to the January consultation which outlined our intention to proceed with the future separation arrangements for the ESO.

1.5. Since the publication of our August document, we have been working with National Grid to take forward the separation arrangements for the ESO. This document follows on from our August document and the follow-up work that we have undertaken. It sets out our thoughts on guiding principles with respect to the licences that will apply to NGET and the ESO post separation, the process to be followed in order to achieve such separation and the detailed requirements of the licence conditions that will underpin that separation. We also highlight areas in which National Grid has an alternative view on how a licence condition should be treated in the new framework from that which we are proposing in this document.

1.6. In our August document, we set out our views on the minimum requirements for the level of separation that should be in place between the ESO and other National Grid Group plc businesses. Importantly, the separate company's role will be solely that of Electricity System Operator and it should operate (with very few exceptions) autonomously from all other affiliates of National Grid Group plc. The remaining electricity Transmission Owner business of National Grid will continue to hold its own specific transmission licence relating to its Transmission Owner role. Our expectation is that this role and the duties of National Grid's Transmission Owner business will increasingly align with those of the two other onshore Transmission Owners (SPT and SHETL).

1.7. Currently, NGET operate a 'One SO' business model for a joint SO for electricity and gas, which includes a number of 'dual fuel' staff that work across both the electricity system operator and the gas System Operator. During the development of proposals for ESO separation, National Grid put forward its views that there would be considerable benefits to continuing to run a 'One SO' business model post separation to ensure continuation of efficiency savings that arise from the provision of an overarching perspective on customer engagement, market insights, industry strategy and business change. Stakeholders also were supportive of the continuation of the One SO model to drive these benefits. In our August document, we agreed that it would be in the interests of customers to agree to this model and agreed that the steps National Grid proposed to mitigate any potential adverse impact on separation were appropriate. These arrangements will need to be provided for within NGET and the ESO's licences.

1.8. In our August 2017 document, we set out our view that a number of measures need to be in place in order to ensure a sufficient level of separation of the ESO. These include:

- **Information Ring-Fencing:** We will ensure there are sufficient controls to restrict information sharing. Any information that is received by the ESO must be treated in an appropriate manner, and only disclosed to other parties under certain circumstances.
- **Financial Separation:** We will ensure that controls are in place so that the ESO has sufficient financial separation from the rest of National Grid Group plc. We expect the ESO to have its own statutory and regulatory accounts and assets, maintain an appropriate credit rating, and follow specific rules around indebtedness and availability of financial resources.
- **Physical separation:** ESO staff will be physically separated from the rest of National Grid Group plc staff. To facilitate this, in addition to the National Control Centre in Wokingham (which is already only used by the ESO), a physically separated wing will be created in National Grid's existing headquarters in Warwick for ESO staff. The ESO component of the building will have a separate entrance and staff facilities (including canteen, post and welfare facilities) from the rest of National Grid Group plc.
- **Governance:** The ESO needs to be governed by its own board, with at least three sufficiently independent directors and no more than four National Grid Executive members. Members of the ESO Board will not be permitted to sit on the National Grid Group plc board or the boards of other National Grid Group plc electricity subsidiary companies. We also consider it appropriate to require the ESO to provide reporting requirements on National Grid to provide information to Ofgem on the operation of the board and where appropriate we will make this information public. There will be a compliance sub-committee (chaired by an independent board member) which will have an important function in monitoring the effectiveness of the new governance arrangements. In addition, we think that there are incentives on National Grid to ensure the ESO board works effectively so as not to undermine the effectiveness of the separation in the eyes of industry, the regulator and Government.
- **Employee incentivisation and transfer:** While almost all ESO staff will be employed on ESO contracts, a small number of dual fuel staff will remain on their existing contracts as a result of the One SO model. Almost all ESO staff will work on ESO issues only and will be incentivised on ESO performance. There will need to be robust arrangements to manage staff transfers which will need to prevent any real or perceived conflicts of interest. The role of the ESO's compliance officer will be crucial to ensuring the effectiveness of these arrangements. We are proposing that the ESO and National Grid Group plc provide regular information on these staff movements to both Ofgem and the wider stakeholder community to monitor this going forward.
- **Shared Services:** Transactional Services (HR, Procurement, Tax & Treasury, Investor Relations and Audit) will be shared with the ESO on the same basis as they are currently provided across National Grid. Strategic Services (Finance,

Corporate Affairs) provided to the ESO will be managed under a Business Partner arrangement. There will be a separate ESO regulatory function. Any perceived conflicts of sharing services will be managed through system and information access controls.

- **Identity³:** Steps are being taken by National Grid to develop a new SO identity via the 'One SO' business model which identified behaviours/character traits for the new organisation and set out what this would look and feel like for people. National Grid has indicated that it will develop a distinct and explicit visual identify of the new "National Grid ESO". Once the ESO is created, it will be vital that at each point in engagement with customers and stakeholders it is made clear whether the contact is with the ESO.

1.9. Our proposal is that the separation for the ESO will be achieved via the transfer of part of the existing transmission licence held by NGET to the ESO. In addition, a number of modifications will be required to be made to the transmission licences retained by NGET and transferred to the ESO. Modifications will be made for two purposes: to reflect the separation of functions or to ensure there are clear separation requirements. These modifications will require:

- Minor modifications to the Standard Conditions of all Transmission Licences, via s11A of the Electricity Act 1989 ('the Act'). These changes will therefore result in minor modifications of the SPT and SHETL transmission licences and of offshore transmission licences as well as those of NGET and the ESO;
- Duplication of and modifications to the Standard Conditions that would be specific to the two National Grid transmission licensees by making use of the provisions within s7A (Transfer of Licences) of the Act. These modifications will be effected through Special Condition (SpC) 1C (Amended Standard Conditions) of each licence;
- Modifications to the Special Conditions of NGET's Transmission Licence using the provisions of s7A of the Act;
- Duplication of and modification to the existing Special Conditions of the NGET Transmission Licence that are to be transferred across to the new ESO licence from the NGET licence using the provisions of s7A of the Act; and
- Modification of the Special Conditions of the ESO's Transmission Licences to effect separation using the provisions of s7A of the Act.

³ This was previously referred to as Culture and Branding.

Guiding principles for the future separation arrangements

In undertaking the separation of the ESO from the rest of National Grid Group plc, we have been following several guiding principles. In doing so, we will also remain consistent with our published regulatory stances⁴.

No re-opening of RIIO-T1

1.10. We recognise that NGET's current price control (RIIO-T1) applies to both its SO and TO activities. As part of the separation process, we are intending to split NGET's RIIO-T1 price control settlement between the SO and TO companies. This includes determining how the RIIO-T1 licence conditions should be split between the licences, plus also considering consequential changes to the RIIO-T1 financial model and handbook. There will be a need to consider the appropriate allocation of revenues, incentives and outputs between SO and TO. However, it should be noted that **we are not intending to re-open the overall National Grid settlement in this process**; rather this is about how it should be allocated across SO and TO.

Minimal change for separation

1.11. We seek only to undertake changes that are necessary in order to separate NGET's existing licence into TO and SO functions, and make the ESO sufficiently separate from the rest of National Grid Group. This means no betterment or gold-plating of NGET's existing licence.

Alignment with Scottish TOs

1.12. Where a change needs to be made to NGET's licence, we will seek to align the licence change with the Scottish TOs' transmission licences where appropriate. This is particularly the case when determining how NGET should interact with the ESO going forward.

No housekeeping

1.13. As part of this exercise we do not propose to make any licence modifications that we deem to be 'housekeeping', or policy changes that are not needed as a minimum requirement for separation. We consider that this exercise should only affect licence conditions modifications (and introduce new licence conditions where appropriate) that are required in order to implement the changes described above.

⁴ Ofgem's regulatory stances are published on our website:
<https://www.ofgem.gov.uk/publications-and-updates/ofgems-regulatory-stances>

Process to be followed

1.14. We have previously proposed that legal separation of NGET's SO and TO functions could be achieved using existing legal provisions. More specifically, the consultation proposed that the best route to achieving legal separation within National Grid was via a voluntary application from NGET to transfer that part of its existing transmission licence relating to SO functions from NGET to the ESO under Section 7A (Transfer of licences) of the Act. NGET would retain that part of the existing transmission licence relating to TO functions only.

1.15. Section 7A of the Act requires a licensee to ask the Authority for consent to transfer all or part of an existing licence to another entity. If the Authority decides to consent to the partial transfer of the existing NGET licence to the ESO, we will also be able to modify the licence conditions within the retained and transferred licences as part of this process and impose appropriate conditions (that is of conditionality) on the transfer.

1.16. The outcome of this process will result in two transmission licences: one held by NGET (TO) and one held by the ESO.

1.17. We expect the new transmission licences (together with the required changes to all transmission licences) to take legal effect on 1 April 2019 (the start of the financial year). We expect that National Grid will take steps to increase separation ahead of this date, for example by moving forward with physical separation measures and piloting new ways of working for the separate SO and TO functions.

1.18. This work is part of a broader workstream also looking at how we incentivise the new ESO. We will continue to progress our work on the new ESO regulatory and incentives framework, with a final decision on 2018-21 incentives published by early 2018.

Content of this document

1.19. As discussed above, the focus of this document is the licence modifications that are required in order to implement the separation of the ESO from NGET's TO Business. Chapter 2 details the changes that we are minded to make to separate NGET's existing transmission licence into an NGET licence and an ESO licence. Chapter 3 details the way in which we are meeting our separation commitments. Chapter 4 details the next steps that we will be taking in this process. Appendix 1 and 2 contain summary tables of the way we intend to treat each of the existing NGET standard and special licence conditions. Appendixes 4, 5 and 6 contain the detailed drafting of the new NGET and ESO transmission licences.

2. NGET and ESO Licence Changes

2.1. After the partial licence transfer, both NGET and the ESO will hold Transmission Licences. We envisage that:

- The ESO licence will include the Standard Licence Conditions (SLCs) in sections A, B and C of the existing licence along with a number of special conditions, some of which will be transferred across from the NGET existing licence and others will be duplicated and appropriately modified.
- The remaining NGET licence will be similar to that of the Scottish TOs, i.e. it will include the SLCs in sections A, B and D (which will be turned on by a direction issued under paragraph 2 of standard licence condition A3) of the existing licence along with a number of special conditions currently in the existing NGET licence.

Amendments to Standard Licence Conditions

2.2. Once the licence transfer has taken effect, NGET will retain the TO related elements of its current licence. It will have section D (Transmission Owner Standard Conditions) switched on by virtue of a Section D Direction under Standard Licence Condition A3 (Application of Section D). The SO related elements of NGET's existing transmission licence will be transferred to the ESO licence, and as a consequence, NGET will have section C (System Operator Standard Conditions) switched off by virtue of a cessation notice under Standard Condition A2 (Application of Section C). Once the licence transfer has been completed, NGET's standard licence condition provisions will therefore consist of:

- Part I: Terms of the Licence
- Part II: The Standard Conditions
- Section A. Interpretation, Application and Payments
- Section B. General
- Section D. Transmission Owner Standard Conditions

2.3. The ESO will receive the SO related elements of the former NGET licence via the s7A transfer and have Section C (System Operator Standard Conditions) switched on by virtue of a Section C Direction under Standard Condition A2 (Application of Section C). Once the licence transfer has been completed, the ESO's standard licence condition provisions will consist of:

- Part I: Terms of the Licence
- Part II: The Standard Conditions
- Section A. Interpretation, Application and Payments
- Section B. General
- Section C. System Operator Standard Conditions

2.4. Detailed drafting of our current proposals for what the new NGET and ESO standard licence conditions will look like is available in Appendix 4. This drafting highlights changes to the current conformed copy of the NGET transmission licence.

2.5. A summary of how each standard licence condition will be treated (i.e. whether it will be turned on in NGET's licence, the ESO licence, or both licences, as well as whether any modifications will be made) is detailed in Appendix 1. Standard licence conditions that we are particularly interested in seeking stakeholder comment on, or which involve a more substantial change from the current licence conditions, are highlighted below:

A1 (Definitions)

Licensee's transmission system

2.6. We propose amending the definition of "licensee's transmission system" to take into account that the ESO will not have its own Transmission Area.

B22 (Requirements for sufficiently independent directors)

2.7. We are minded to modify B22 for the ESO licence via Special Condition 1C to have three Sufficiently Independent Directors (SIDS), rather than two. This will reflect the policy commitment made in our Response to Consultation document, which explained that the ESO Board will contain three SIDs.

References to AA5A

2.8. The existing licence drafting contains references to AA5A, which has been replaced by Special Condition 4C. All references to AA5A will be updated for the statutory licence consultation via a Section 11A change to refer to Special Condition 4C.

Amendments to Special Licence Conditions

2.9. We have considered each of the existing special licence conditions within NGET's electricity transmission licence to determine whether they should apply to the TO, the ESO, or both in future. TO related special conditions will be retained within NGET's transmission licence. SO related special conditions will be included within the new ESO transmission licence. Special licence conditions that relate to or are relevant to both TO and SO activities will be included in both NGET's licence and the new ESO transmission licence.

2.10. A summary of how each special licence condition will be treated (i.e. whether it will be in NGET licence, the ESO licence, or both licences, as well as whether any modifications will be made) is detailed in Appendix 2. Detailed drafting of our current proposals for what the new NGET and ESO special licence conditions will look like is

available in Appendix 5 and 6. This drafting highlights changes to the current conformed copy of the NGET transmission licence.

2.11. Special licence conditions that we are particularly interested in seeking stakeholder comment on, or which involve a more substantial change from the current licence conditions, are highlighted below:

2A (Activities restrictions)

2.12. Special Condition 2A places restrictions on the activities that the licensee can undertake. In the current form of 2A, the activities restrictions are linked to the transmission area which is a TO concept. As the ESO will not have a transmission area, we are minded to not include Special Condition 2A in the ESO licence.

2.13. However, we are considering whether to include a new licence condition for the ESO which restricts the activities that it can undertake, such as building assets.

2.14. We welcome stakeholder views as to whether placing an activities restriction licence condition on the ESO is necessary.

2B (Restriction on the use of certain information)

2.15. In its current form, Special Condition 2B applies where the licensee has received an application for connection to the National Electricity Transmission System in either England or Wales, or in an area which is outside the licensee's Transmission Area. Once separation has taken place, this condition will no longer apply to the TO in its current form, as the TO will not receive connections applications. However, we are minded to keep 2B in the TO licence in a modified form, as we think it is still necessary to place restrictions on the way the TO can use information. Therefore, we are minded to keep 2B in NGET's TO licence, but change the wording to reflect the 2B licence condition that is currently used in the Scottish TO licences, which refers to restriction on the use of information more broadly (rather than specifically in relation to connection applications).

2.16. Discussions with National Grid have indicated that they agree that 2B should not be included in NGET's licence in its current form, as the TO will no longer receive connection applications. However, National Grid disagrees that a modified 2B to reflect the wording of the Scottish TO licences should be included in NGET's licence. They have argued that the original intention of 2B in the Scottish TO licences was to ensure unbundling of the vertically integrated Scottish companies. As NGET will not be vertically integrated, their view is that 2B is not relevant for their transmission licence.

2.17. We acknowledge National Grid's view that the original intention of 2B was to ensure unbundling of the vertically integrated companies, and note that NGET will not be vertically integrated. However, we are still minded to include 2B in the NGET licence as a regulatory mechanism to ensure that NGET treats information in a confidential manner. The wording of the Scottish TO licences does not refer specifically to vertical

integration. Rather, its wording has the effect of ensuring that the licensee treats all information as confidential, with a small number of detailed exceptions. We think this provision is still relevant and necessary as an information ring-fencing provision on the TO.

2.18. For the ESO, we are minded to remove 2B from the ESO licence as the ESO will not have a Transmission Area, and therefore this condition will not continue to apply in this format. However, existing condition 2O does provide for restrictions on the use of information relating to the role of the System Operator. We therefore intend to place restrictions on the use of information by the ESO by developing the current drafting in 2O as part of the creation of a new ESO business separation special licence condition.

2.19. We welcome stakeholder views on whether a modified version of Special Condition 2B, which more closely aligns with 2B in the Scottish TO licences, is necessary for NGET.

2C (Prohibited Activities and Conduct of the Transmission Business)

2.20. Special Condition 2C prohibits the licence holder from holding a transmission licence that has Section E (Offshore Transmission Owner Standard Conditions) in effect, and places requirements on the conduct of the transmission business. This condition was originally placed in NGET's licence as a result of the TO and SO operating under joint ownership. We have considered whether to remove this condition as part of separation as NGET and the ESO will no longer be under joint ownership. However, we believe that removing this condition and allowing NGET to acquire OFTO business would constitute a substantial policy change and go beyond our core principle of under taking the minimal changes required for separation. We think that it is necessary to first see how the separation arrangements are working as a whole, and we will then assess in future whether 2C should be removed as an obligation on NGET and the ESO. We consider that such a change (on whether NGET should be able to hold an OFTO licence) will need further and targeted consultation which is outside the scope of this project.

2.21. Therefore, for the purpose of licence separation, we are minded to keep 2C in both the TO and SO licence, to prevent NGET and the ESO from holding an OFTO licence, and to ensure the NGET and the ESO continue to conduct their transmission business in the manner best calculated to meet its licence obligations.

2.22. We welcome stakeholder views on whether Special Condition 2C should apply to NGET and the ESO.

2H (Appointment of a Compliance Officer)

2.23. Special Condition 2H is closely linked to Special Condition 2B, as it details the requirements for the licence holder to appoint a Compliance Officer for the purpose of

facilitating compliance with Special Condition 2B. As we are minded to keep 2B in the TO licence only, we are minded to keep 2H in the NGET licence as well.

2.24. As stated above, National Grid's view is that Special Condition 2B should not apply to the TO and consequentially they also consider that Special Condition 2H should not apply.

2.25. Special Condition 2H currently only applies to TO functions within the licence. We therefore do not intend to include Special Condition 2H within the ESO licence.

2.26. We welcome stakeholder views as to whether Special Condition 2H should be included as a licence condition in NGET's licence.

2I (Independence of and appointment of managing director of the Transmission Business)

2.27. Special Condition 2I is not currently used in NGET's transmission licence. However, 2I is used in the Scottish TO licences to ensure that the licensee establishes and maintains the full managerial and operational independence of the Transmission Business from any of the licensee's affiliates and related undertakings. This includes appointing a Managing Director of Transmission to be responsible for the conduct of the Transmission Business and any external transmission activities. Whilst we have stated that one of our guiding principles is to align NGET's TO licence with the Scottish TO licences, our current view is that Special Condition 2I is not required in NGET's licence, as the situation that it is looking to manage (in respect of a vertically integrated undertaking) is not applicable in respect of NGET.

2.28. However, we do think that the requirements of independence and the need for an independent managing director are relevant to the ESO. Therefore, we are considering whether to create a new 2I for the ESO, where the wording is made relevant for the ESO and its activities.

2.29. We welcome the views of stakeholders as to whether this condition should apply to NGET and/or the ESO going forward.

20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities)

2.30. Special Condition 20 (SpC20) currently sets out the business separation requirements between the licensee and the Relevant Other Competitive Businesses, the licensee's obligations as to its conduct in performing its Relevant System Planning Activities, and the process the licensee must follow to comply with these obligations. While the focus of this condition is on separating SO activities from other competitive businesses, we consider that going forward it can also provide the basis for the physical, legal and regulatory separation of the ESO from NGET's Transmission Ownership (TO) businesses.

2.31. We are minded to keep SpC20, subject to applicable modifications, in the TO licence in order to maintain sufficient ring-fencing for NGET. However, as we are proposing to include Special Condition 2B in the TO licence, and as NGET will no longer be involved in Relevant System Planning Activities, the restriction on the use of certain information will not need to be included within SpC20 for the TO. We would welcome the views of Stakeholders as to whether these conditions together provide sufficient safeguards regarding the separation of the TO Business and the treatment of information within it.

2.32. We consider that further changes to Special Condition 20 will be necessary to facilitate the retention of the One SO model (discussed in Chapter 1). Changes will need to be made to this condition to enable the arrangements proposed for the One SO model to take place. We consider that the provisions of SpC20 should include details regarding the interface between the ESO and the gas System Operator, to ensure that the sharing of information between the two entities takes place in specific circumstances and is subject to controls. In order ensure that stakeholders can be sufficiently comfortable with the separation of the ESO in practice, we consider that the provisions that National Grid Group plc is required to make should be set out in SpC20, whilst the details of how those provisions are met can be set out in the accompanying Compliance Statement. We are continuing to liaise with National Grid regarding the details of how it intends to meet the basis of separation as set out in our Response to Consultation Document. We will be consulting further with stakeholders on the detailed drafting of Special Condition 20.

2.33. We welcome the views of stakeholders as to whether an amended SpC20 as described above will provide sufficient safeguards regarding the separation of the ESO business.

Chapter 3: Transmission – Revenue Restriction

Chapter 3 of NGET’s Special Licence conditions relates predominantly to TO obligations.

3A (Restriction of Transmission Network Revenue)

2.34. The purpose of this condition is to establish the charging restrictions that determine the level of Maximum Revenue that may be recovered by the licensees through Transmission Network Charges. Currently, NGET as SO collects Transmission Network Charges on behalf of the TO part of its current licence predominately through its Base Revenue term, BRt, and on behalf of other TOs though the Pass Through term PT.

2.35. National Grid’s proposal is to amend 3A in the licence for the ESO by removing the term Base Revenue (BRt) as there will be no Base Revenue for the ESO in relation to Transmission Network Revenue. In order to ensure minimal impact on the recovery and passing of these charges the following changes are envisioned:

- NGET TO will have its own Allowed Transmission Owner Revenue term, NGETTOt, and will notify to the SO the revenue it should recover on its behalf as a pass through item (see below under 3B).
- In addition, the term OIP will be removed as the Stakeholder Satisfaction Output will remain in the TO licence only (see below).
- The term Transmission Investment in Renewable Generation (TIRG) is removed as this relates to the TO only, and will be recovered in the TO's Allowed Transmission Owner Revenue term, NGETTOt.

2.36. For the TO licence, National Grid's proposal is to amend the existing 3A by replacing "Maximum Revenue" with "Allowed Transmission Owner Revenue" term. The definition of Maximum Revenue will be defined as per the Scottish TO licences.

3B (Calculation of allowed pass-through items)

2.37. The purpose of this condition is to provide for the calculation of the term Pt. Currently, as noted above, NGET as SO collects Transmission Network Charges on behalf of other TOs though the Pass Through term PTt (the allowed pass-through revenue adjustment).

2.38. NGET proposes that SO will recover revenue on behalf of NGET in the same manner as it does for other TOs. As a result, NGET propose that the TO's notification of Base Revenue, TNGET, will be included in the list of pass through items in the SO licence.

2.39. For the TO licence, the existing pass through items relating to the notified revenue of the other TOs, will no longer be included in the list of pass through items, but will be retained in the SO licence.

3C (Reliability Incentive Adjustment in respect of Energy Not Supplied)

2.40. The purpose of this condition is to calculate the Reliability Incentive Adjustment term RIt, reflecting the licensee's performance against a reliability incentive relating to energy not supplied, for the purposes of Special Condition 3A.

2.41. NGET propose that as this incentive is only a TO obligation it should be removed from the SO licence, but retained unchanged in the TO licence.

3D (Stakeholder Satisfaction Output)

2.42. The purpose of this condition is to set out the mechanism for calculating the value of the licensee's Stakeholder Satisfaction Output (SSOt) term. The SSO aims to encourage transmission owners to be more outwardly focused and responsive to changing stakeholder needs. The SSO is derived from the Stakeholder Engagement

Reward Term, which is an annual discretionary reward of up to 0.5% of annual allowed revenue, and the Stakeholder Satisfaction Survey Term (which relates to the outcomes of Customer & Stakeholder Satisfaction Surveys) which, depending on the licensee's performance, can result in a financial penalty or reward of up to +/-1% of its annual revenue.

2.43. We are minded to keep Special Condition 3D in the TO licence only. The existing amount of 0.5% for the Stakeholder Engagement Reward, and +/-1% of TO revenue available for the Stakeholder Satisfaction Survey would remain available and stay within the ETO licence. The change would be effective post separation (i.e. from 2019-20), whereby the TO survey base only will be used from this point.

2.44. We welcome stakeholder views on whether Special Condition 3D should remain within NGET's licence only, and whether our proposed approach to Special Condition 3D within NGET's licence is appropriate.

3F (Adjustment in Respect of the Environmental Discretionary Reward Scheme)

2.45. This condition establishes the Environmental Discretionary Reward (EDR) scheme for the purpose of determining the value of an EDR_t term, and making provisions for arrangements relating to administration, governance and revision of the EDR scheme. The purpose of the EDR scheme is to sharpen transmission licensees' focus on strategic environmental considerations and organisational and cultural changes to facilitate growth in low carbon energy. Under the current arrangements, in order to apply for an EDR, a company must submit an EDR application which requires evidence of activities and behaviours set out in the EDR scorecard. There are seven key strategic and operational categories measured under the EDR scheme, at least half of which refer to both SO and TO activities.

2.46. We are minded to keep Special Condition 3F in NGET's licence only, as the reward relates primarily to TO activities, and remove links any links to SO activities. This would also align more closely with the Scottish TO EDR scheme.

2.47. We welcome stakeholder views as to whether our proposal to keep Special Condition 3F in NGET's licence only and remove links to SO activities is appropriate.

3H (The Network Innovation Allowance)

2.48. The purpose of this condition is to calculate the value of the Network Innovation Allowance (NIA) term that applies in Part B of Special Condition 3A (Restriction of Transmission Network Revenue) with respect to the funding of innovative projects carried out by the licensee. The NIA is a set allowance that each of the RIIO network licensees receives to fund smaller scale innovative projects. Under the current arrangements, the NIA provides funding equivalent to 0.7% of NGET's base revenue.

Licensees can recover 90% of the costs of projects from customers through this mechanism.

2.49. We have considered whether the NIA should apply to NGET, the ESO, or both, as part of separation. We think that the NIA is still relevant for both NGET and the ESO, and are therefore minded to include amended versions of Special Condition 3H in both licences. We are minded to allocate funding equivalent to 0.7% of NGET's allowed revenue across the NGET and ESO licences for the remainder of RIIO-T1. It should be noted that this will not require reopening the RIIO-T1 price control. Under the current arrangements for NGET, the SO is allocated a portion of this for separate projects as set out in Final Proposals.

2.50. We are minded to assign 0.5% of NGET revenue to the NGET licence to be consistent with the minimum level of funding available to any TO in the existing RIIO-T1 deal. This would allow NGET to continue its current level of spending on NIA projects.

2.51. We are minded to assign the remaining 0.2% of NGET revenue to the ESO licence. This would allow the ESO to continue its current level of spending on NIA projects. The considered approach on how to achieve this is to link the ESO incentive licence term to NGET revenue.

2.52. For the 0.5% available to the TO, there will be a split between 25% internal costs and 75% external costs. For the 0.2% available to the ESO, the split between 25% internal costs and 75% external costs is less appropriate due to the nature of innovation projects that an ESO business would be likely to develop. National Grid have proposed that they would seek a consent from the Authority to amend the internal cost percentage, as provided for within this condition.

2.53. We are considering what licence changes are needed to best effect this proposal.

2.54. We welcome stakeholder views on our proposal for assigning 0.5% of NGET revenue to the NGET licence, and 0.2% of NGET revenue to the ESO licence, for the remainder of RIIO-T1.

3I (The Network Innovation Competition)

2.55. The purpose of this condition is to establish the Network Innovation Competition (NIC). The NIC is a competition that can provide funding for larger development and demonstration projects.

2.56. There are currently two versions of the NIC condition, one for NGET and one for the two Scottish TOs. NIC funding for all projects is currently recovered under Part D: Determination of the NICF Term in NGET's licence. NGET then transfers sums to other licensees as directed by the Authority.

2.57. We are minded to keep Special Condition 3I in in both NGET and the ESO's licence, as both licensees will be able to participate in the NIC post-separation. However, we are considering what amendments need to be made to the licence drafting to effect this.

2.58. One option would be to leave the drafting for Special Condition 3I unchanged in the ESO licence, while NGET's licence drafting would be amended to reflect the drafting of Special Condition 3I used in the Scottish TO licences.

2.59. Another option would be to leave the drafting for Special Condition 3I unchanged in NGET's licence, while the ESO's licence drafting would be amended to reflect the drafting of Special Condition 3I used in the Scottish TO licences.

2.60. We welcome stakeholder views as to whether the NIC should apply to both NGET and the ESO going forward, and how the licence drafting should be amended to effect this.

Chapter 4: System Operator – Revenue Restriction

2.61. Chapter 4 of NGET's special transmission licence conditions refer solely to SO functions and activities. We are minded to transfer Chapter 4 into the ESO licence unchanged, with the exception of a small number of minor changes in references to NGET which will need to be updated. Appendices will also need to be updated to refer to the ESO. No part of Chapter 4 will be included in NGET's licence.

2.62. It should be noted, however, that we are currently consulting on making changes to Chapter 4 of NGET's special transmission licence conditions as part of our new SO incentives regime.

Chapter 5: Price Control Financial Instruments

2.63. We are minded to keep Chapter 5 in the NGET and the ESO licences as there will continue to be a single Price Control Financial Model (PCFM) which contains both NGET TO and SO revenue calculations. The PCFM will remain unchanged for the remainder of T1 (i.e. up to end March 2021), including the post-separation period. A small number of minor amendments will need to be made to terms to reflect the licence split.

2.64. Post-separation, we expect that the TO and SO will now each require a representative at the RIIO-ET1 Price Control Financial Model Working Group. This is a change from the current arrangements, whereby a single NGET representative has attended the working group to cover both the TO and SO role.

Chapter 6: Annual Iteration Process – Adjustments to the Transmission Network Revenue Restriction

2.65. We are minded to keep Chapter 6 in the TO licence only, as the condition relates solely to TO functions and revenue. A small number of minor amendments will need to be made to terms to reflect the licence split.

Chapter 7: Annual Iteration Process – Adjustments to the System Operator Revenue

2.66. We are minded to keep Chapter 7 in the SO licence only, as the conditions relate solely to SO functions and revenue. A small number of minor amendments will need to be made to terms to reflect the licence split.

Chapter 8: Other Revenue Related Conditions

2.67. We are minded to keep Chapter 8 in both NGET and the ESO's licence, as the conditions relate to both TO and SO functions and revenue. A small number of minor amendments will need to be made to terms to reflect the separation.

3. Meeting our separation commitments

Chapter Summary

This chapter outlines the measures we are implementing to ensure that there is sufficient separation for the ESO across each of the separation areas.

3.1. This chapter outlines the key commitments we have made on separation as detailed in our Joint Statement of Intent with BEIS and National Grid, and reiterated in our August Response to Consultation document. It explains the way in which we will capture each of these commitments within the regulatory framework. We welcome stakeholder views on our thinking for achieving these commitments.

Information Ring-Fencing

3.2. A key agreement on separation as detailed in our Joint Statement of Intent with BEIS and National Grid, was that the ESO would "have relevant information ring-fenced from other National Grid businesses and have appropriate shared service arrangements, so that National Grid's TO staff will only have access to the same system information as the other transmission owners". This commitment was reiterated in our August Response to Consultation document, where we stated that we would ensure that sufficient information ring-fencing controls were in place as part of the separation process to ensure that National Grid TO can access information on an equal basis to other TOs. We therefore need to ensure that information the ESO holds cannot be shared with other National Grid Group plc companies.

How this will be captured within the regulatory framework:

3.3. **Modification to Special Licence Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities)** to ensure that information cannot be shared by the ESO to other National Grid Group plc companies.

- This condition ensures that information is not directly or indirectly disclosed to, solicited, or used by any person who is not engaged in ESO functions (with the exception of a small number of dual fuel staff who will work across the ESO and the gas System Operator).
- It will also require the ESO to appoint a compliance officer who is responsible for facilitating compliance with the obligations listed in this condition.

3.4. **Minded to modify Special Condition 2B (Restriction on the use of certain information)** in NGET's licence – to ensure that NGET also continues to treat the information that it receives confidentially.

- This condition ensures that “any information relating to or deriving from the management or operation of the Transmission Business shall, for the purposes of this condition, be treated as confidential information”. This means that NGET will be unable to disclose or authorise access to confidential information, with a small number of exceptions detailed in the licence.
- Special Condition 2H (Appointment of a compliance officer) will continue to apply for NGET, which requires the appointment of a compliance officer to ensure compliance with the obligations set out in Special Condition 2B.

3.5. **A modified version of Special Condition 20 in NGET's licence** which will ensure that there is legal and functional separation between NGET and other National Grid Group plc companies.

- It also requires that a Compliance Officer is appointed to ensure NGET complies with the requirements listed in this condition, as well as ensuring compliance with Special Condition 2C (Prohibited Activities and Conduct of the Transmission Business).
- The condition also requires NGET to appoint a Single Appointed Director who oversees the duties of the compliance officer, and who sits on the managerial board and reports on the way that NGET is fulfilling the obligations set out in the new business separation condition.

3.6. **Special Condition 2C (Prohibited Activities and Conduct of the Transmission Business) will also continue to apply to the ESO and NGET.**

- This condition requires that the licensee conducts its activities in a way which ensures that any affiliate does not obtain an unfair commercial advantage including any such advantage from a preferential or discriminatory arrangement.
- National Grid Gas is also subject to a similar obligation in respect of its conduct of the gas transportation business by virtue of Standard Special Condition A6 of its licence.
- As a result of these conditions, information exchange between the ESO, NGET and National Grid Gas must be on the same basis that such information would be exchanged with third parties where to do otherwise would confer an unfair commercial advantage on the other licensee.

3.7. Section 105 of the Utilities Act will also continue to apply to the ESO, NGET, and National Grid Gas (NGG).

- This provides that, subject to limited exceptions, neither NGET nor National Grid Gas can disclose information which has been obtained under or by virtue of the Electricity Act 1989 or the Gas Act 1986 and which relates to the affairs of any individual or particular business. This obligation reinforces the separation of the ESO, NGET and NG Gas to prevent the unauthorised disclosure of information.

3.8. Dual fuel staff, who will have access to information across both the ESO and the gas System Operator, will be unable to share information with other National Grid Group plc businesses as a result of the regulatory, contractual and statutory obligations in respect of information security and confidentiality.

3.9. To further reinforce the commitment to information ring-fencing, confidentiality obligations stemming from both contractual obligations and industry code provisions will continue to apply to employees of the ESO, NGET and National Grid Gas.

Governance

3.10. The Joint Statement detailed our intention to have an ESO with a governance structure that mitigates potential or perceived conflicts of interest, and is able to adapt further to the changing system in future. In order to deliver this, we agreed that the ESO should have its own Board, with three independent directors. No members of the SO Board will sit on the National Grid Group plc board or the boards of other National Grid Group plc electricity subsidiary companies.

How this will be captured in the regulatory framework:

3.11. **Modification to Special Licence Condition 20** (*Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities*) for the ESO's licence to detail the governance requirements for the ESO. This includes:

- That the SO Executive Committee will run the day-to-day operations of the ESO.
- That a separate ESO Board will be established, consisting of the Chair, three Senior Managers of the SO (who have no relationship with other parts of National Grid Group plc), and three Sufficiently Independent Directors (SIDs)
- That the CEO of the SO will also be the Chair of the ESO Board

- That the CEO of the SO will have limited participation on other Boards – i.e. only in respect to matters that concern the SO business

3.12. We will ensure that the SIDs sitting on the ESO Board meet the requirements for SIDs as detailed in Standard Condition B22 (Requirements for Sufficiently Independent Directors).

Financial Ring-Fencing

3.13. In our Response to Consultation document, we detailed our commitment to ensuring sufficient financial ring-fencing and creditworthiness of the ESO. We expect the ESO to have its own statutory and regulatory accounts and assets, to maintain an appropriate credit rating, and to follow specific rules around indebtedness and availability of financial resources. There is to be no cross-subsidisation between the ESO and other National Grid Group plc businesses.

How this will be captured within the regulatory framework:

3.14. The ESO will be subject to a range of financial restrictions detailed in the standard licence conditions. These conditions also apply to NGET and National Grid Gas. They include:

- **Standard Condition B5 (Prohibition of cross-subsidies)** prevents the ESO from giving or receiving any cross-subsidy from other business of the licensee or an affiliate of the licensee
- **Standard Condition B6 (Restriction on Activity and Financial Ring Fencing)** limits the scope of activity which the ESO may be involved in to system operation activities, de-minimis business or consented activity
- **Standard Condition B7 (Availability of Resources)** requires the ESO to at all times have sufficient resources to conduct its activities
- **Standard Condition B8 (Undertaking from Ultimate Controller)** National Grid Group plc undertakes that neither it nor any group company will act so as to put each licensee in breach of their respective licence or Act under which such is granted.
- **Standard Condition B9 (Indebtedness)** ensures that any indebtedness or lending must be on an arms' length basis and on normal commercial terms and the former must be for a purpose permitted by the ESO
- **Standard Condition B10 (Credit Rating)** requires the ESO to maintain an investment grade issue credit rating.

3.15. **Modification of Special Condition 20 for** NGET also requires NGET to appoint a compliance officer who is responsible for ensuring compliance with standard conditions B5 and B6.

Physical Separation

3.16. A key commitment made in our Joint Statement was that ESO employees would be physically separate from other National Grid Group plc electricity subsidiary companies. In our Response to Consultation document, we explained that we think this can best be achieved by locating the ESO within a physically separated wing of National Grid's existing headquarters in Warwick, as well as the Wokingham office which is ESO only.

How this will be captured within the regulatory framework:

3.17. **Modification to Special Licence Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities)** for the ESO:

- This will specify that arrangements must be in place to restrict access by persons engaged in the management or operation of other National Grid Group plc company to any part of the premises which is occupied by persons engaged in the management or operation of the ESO, or any equipment, facilities or property employed for the management or operation of the ESO (with the exception of a small number of dual fuel staff). This means that only ESO employees and dual fuel staff will be able to access ESO premises, equipment, facilities and property without restriction.

Employee Incentivisation and Transfer

3.18. In our January consultation document on the future arrangements of the ESO, we proposed a range of measures which could apply to the future ESO to make it more independent from the rest of National Grid. This included requirements around employee separation, specifying that ESO staff should be incentivised on ESO performance, and that there should be appropriate arrangements in place to manage staff transfers between the ESO and other parts of National Grid Group plc's businesses. The need for employee separation was also reflected in our Joint Statement, which included the commitment that that ESO executives and managers would have annual performance bonus payment awards linked to the performance of the ESO, and not to wider National Grid Group plc performance.

3.19. In our Response to Consultation document, we reiterated these views. We also noted that the ESO will be governed by National Grid Group's HR policy, which includes advertising all vacancies internally and some externally. We noted our expectation that National Grid Group plc will provide ongoing publication of recruitment statistics to Ofgem as part of the required annual compliance return in

order to ensure transparency of staff movement and demonstrate the independence of the ESO.

3.20. We believe that these employee separation measures need to be codified in the ESO licence in order to ensure that the ESO has both real and perceived separation from the rest of National Grid Group plc.

How this will be captured within the regulatory framework:

3.21. **Modification to Special Licence Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities)** for the ESO. This will specify that ESO employees will be employed directly by the ESO and that the ESO's managers are incentivised on the ESO's performance, with the exception of a small number of dual fuel staff who will work across the electricity and gas System Operators. This condition also specifies several restrictions on ESO employee transfer and recruitment, including:

- ESO employees will be governed by National Grid Group's HR policy (which includes advertising all vacancies internally, and some externally);
- The ESO is required to provide ongoing publication of recruitment statistics to the Authority as part of their required annual compliance return in order to ensure transparency of staff movement and demonstrate the independence of the licensee; and
- All employee moves between the ESO and other National Grid Group plc companies will be treated as "Sensitive Moves" and reviewed by the licensee's Compliance Officer. If ESO employees transfer to a role in another National Grid Group plc company, a "cooling off" period may be enforced. This period would be decided on a case by case basis, depending on sensitivity of the role and security.

3.22. We also expect National Grid Group plc to undertake an extensive training programme of compliance briefings at separation, and that ESO, NGET and National Grid Gas employees will sign an Individual Compliance Statement covering their obligations.

Shared Services

3.23. Currently, there are a range of services that are shared across National Grid Group plc. In our Response to Consultation document, we stated that we believe that National Grid's business partner model for sharing services provides a robust solution to reducing risks caused by sharing of services while also minimising costs to consumers. However, we also recognise that compliance will play an important role and that there needs to be sufficient protections set out in the licence requirements

and compliance documentation to ensure that there is no real or perceived conflicts of interest.

How this will be captured within the regulatory framework:

3.24. Modification to Special Licence Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) for the ESO – this will require the ESO to set out in its Compliance Statement the measures it will put in place to ensure that the use of Shared Services across the businesses of the Ultimate Controller do not compromise the separation of the ESO from other National Grid Group plc companies.

Culture & Visual Identity

In our Response to Consultation document, we recognised that stakeholders would like the ESO to have a separate culture and identity from the rest of National Grid Group plc, and that one way in which this can be achieved is via separate branding for the ESO. In response to stakeholder concerns, we expect the ESO to have a separate visual identity and culture from other National Grid Group plc businesses.

How this will be captured within the regulatory framework:

3.25. Modification to Special Licence Condition 20 (Business separation requirements and compliance obligations, and conduct of the System Operator in performing its Relevant System Planning Activities) for the ESO. This will require the ESO to develop a new and distinct visual and corporate identity, which is separate from other National Grid Group plc companies.

4. Next Steps

Chapter Summary

We welcome responses to the proposals we have set out in this consultation. Subject to those responses, we will continue implementing the legal separation of the ESO from NGET, and will monitor the separation closely. We will incorporate stakeholder feedback from this consultation into our final drafting of the statutory licence consultation that we will hold in 2018.

Questions for Stakeholders

4.1. We welcome responses to the proposals we set out in this consultation, and to the specific questions we have asked, by 26 January 2018. Please send responses to electricitySOreform@ofgem.gov.uk.

General Questions

1. Do you agree that the licence changes we are proposing are sufficient for ensuring effective separation between the ESO and all other National Grid Group transmission and competitive businesses?
2. Do you agree with the Guiding Principles that we have set out? Are there any further principles that we should consider?

Standard Licence Conditions

3. Do you think that our proposals for Independent Directors will provide sufficient separation?

Special Licence Conditions

4. Do you think that the ESO should have a licence condition which restricts the activities it can undertake? If so, what activities should be restricted?
5. Do you think allowing NGET to acquire OFTO business is beyond the scope of the separation project and therefore should not be considered at this stage?
6. Do you think a modified version of Special Conditions 2B and 2H are necessary for NGET?
7. Do you think that Special Condition 2C should apply to NGET in its current form?
8. Do you think that allowing NGET to acquire OFTO business is beyond the scope of the separation project?

9. Do you think Special Condition 2I should apply to NGET and/or the ESO?
10. Do you think an amended version of Special Condition 2O, as described in this document, will provide sufficient safeguards regarding the separation of the ESO from other National Grid Group plc companies?
11. Do you think an amended version of Special Condition 2O for NGET is required for business separation requirements and compliance obligations?
12. Do you think that Special Condition 3D should be included in NGET's licence only?
13. Do you agree with our proposal to keep Special Condition 3F in NGET licence only? This includes updating the EDR guidance so that the reward is calculated solely on TO activities.
14. Do you agree with our proposal for amending Special Condition 3H (Network Innovation Allowance), to assign 0.5% of NGET revenue to the NGET licence and the remaining 0.2% of NGET revenue to the NGESO licence?
15. Do you think both the NGESO and NGET should participate in the Network Innovation Competition going forward? How should the licence drafting of Special Condition 3I be amended to effect this?

Next steps

- 4.2. We will carefully consider the views of stakeholders and incorporate this feedback into our final drafting of the SO and TO licences. We will publish a summary of stakeholder feedback to our consultation in February 2018.
- 4.3. We expect to publish an informal update to this document, with further detail on our intended licence drafting, in early 2018 where stakeholders will have a chance to contribute their views.
- 4.4. We expect to receive National Grid's 7A licence transfer request in March 2018.
- 4.5. We will notify the Secretary of State on modification of licence conditions affected by the s7A transfer request in April 2018.
- 4.6. We will then run a statutory consultation on the licences in June 2018.
- 4.7. The new licences will come into effect from 1 April 2019. We expect National Grid to take some steps to increase separation ahead of this date.
- 4.8. We will monitor the separation closely and will undertake a review in 2020-21 to see how effective the measures are in delivering the benefits of separation.

Consequential activities

4.9. In addition to the development of separate licences for the SO and TO there are a number of other consequential activities that need to be undertaken. These are:

Transfer of relevant assets

4.10. We expect NGET to submit an Asset Transfer Request in March 2018 to request that relevant SO assets are transferred to the ESO. Any relevant asset transfer is subject to our consent pursuant to Standard Licence Condition B3 (Disposal of relevant assets and restrictions on charges over receivables).

Certification

4.11. The ESO will need to be certified by the Authority, in order to comply with the ownership unbundling requirements of the Third Package⁵. We do not expect that certification of the ESO will directly impact on NGET's existing certification. However, this will need to be assessed once we have received all the relevant certification information. It should be noted that NGET will still be subject to its ongoing notification duties.

Possible changes to Industry Codes and other documentation

4.12. The Connection and Use of System Code (CUSC), the SO-TO Code (STC), the Grid Code and the Balancing and Settlement Code (BSC), the Fuel Security Code (FSC), the GB Distribution Code (DCode), the Distribution Connection and Use of System Agreement (DCUSA), The National Electricity Transmission System Security and Quality of Supply Standards (NETS SQSS) and the Electricity Supply Emergency Code (ESEC) may need to be modified to reflect the new arrangements. The allocation of roles and responsibilities under the European network codes will also need to be reviewed. Our expectation is that potential changes to these documents will be considered in the relevant fora and taken forward in the appropriate manner.

Reassignment of consents and derogations

4.13. NGET has a number of directions, derogations and consents granted by the Authority in accordance with the existing NGET transmission licences. Many of these will need to be transferred to the ESO or, in the case of licence consents, duplicated in favour of the ESO. We are currently considering how best to ensure legal effectiveness of these instruments post-separation.

⁵ The term 'Third Package' refers to Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity.

Appendices

Index

Appendix	Name of Appendix	Page Number
1	Summary Table of NGET Standard Licence Conditions	34
2	Summary Table of NGET Special Licence Conditions	43
3	Feedback on this consultation	51
4	Standard Licence Conditions for NGET & NGESO	See separate document linked on consultation website
5	Special Licence Conditions (NGET)	See separate document linked on consultation website
6	Special Licence Conditions (NGESO)	See separate document linked on consultation website

Appendices 4, 5 and 6 are available as subsidiary documents to this consultation on our website.

Appendix 1 – Summary Table of Standard Licence Conditions

The table below reflects our minded-to position for the treatment of each of NGET’s existing electricity transmission standard licence conditions in order to achieve separation of the ESO. We welcome stakeholder views on any of these proposals.

Item	Licence Condition	Ofgem's view on licence condition post-separation	
		Ofgem's View – NGET	Ofgem's View - NGESO
Section A (Interpretation, Application and Payments)			
1	A1 Definitions and Interpretations	Applicable to NGET	Applicable to NGESO
2	A2 Application of Section C	Not applicable to NGET	Applicable to NGESO The existing Section C Direction applicable to NGET will be revoked under paragraph 3(b) and a new Section C Direction applicable to NGESO will be issued under paragraph 2(a).
3	A3 Application of Section D	Applicable to NGET A new section D Direction will need to be issued to NGET under paragraph 2.	Not applicable to NGESO
4	A4 Payments by Licensee to Authority	Not applicable to NGET	Applicable to NGESO This condition only applies where a Section C direction remains in force, meaning that it will only apply to NGESO.
5	A5 Application of Section B	Applicable to NGET	Applicable to NGESO
6	A6 Application of Section E	Applicable to NGET	Applicable to NGESO

7	A7 Offshore Transmission Implementation	Applicable to NGET	Applicable to NGESO
Section B (General)			
8	B1 Regulatory Accounts	Applicable to NGET	Applicable to NGESO
9	B2	Not used	Not used
10	B3 Disposal of relevant assets and restrictions on charges over receivables	Applicable to NGET	Applicable to NGESO
11	B4 Provision of information to the Authority Used	Applicable to NGET	Applicable to NGESO
12	B5 Prohibition of cross-subsidies	Applicable to NGET	Applicable to NGESO
13	B6 Restriction on Activity and Financial Ring Fencing	Applicable to NGET	Applicable to NGESO
14	B7 Availability of Resources	Applicable to NGET	Applicable to NGESO
15	B8 Undertaking from ultimate controller	Applicable to NGET	Applicable to NGESO
16	B9 Indebtedness	Applicable to NGET	Applicable to NGESO
17	B10 Credit Rating	Applicable to NGET	Applicable to NGESO
18	B11 Security arrangements	Applicable to NGET	Applicable to NGESO

19	B12 System Operator – Transmission Owner Code	Applicable to NGET	Applicable to NGESO
20	B13 BETTA Implementation	Applicable to NGET	Applicable to NGESO
21	B14 BETTA run-off arrangements scheme	Applicable to NGET	Applicable to NGESO
22	B15 Regulatory Instructions and Guidance	Applicable to NGET	Applicable to NGESO
23	B16 Electricity Network Innovation Strategy	Applicable to NGET	Applicable to NGESO
24	B17	Not used	Not used
25	B18 Offshore Transmission Owner of Last Resort	Applicable to NGET	Applicable to NGESO
26	B19 Connect and manage implementation	Applicable to NGET	Applicable to NGESO
27	B20 Regional Cooperation	Applicable to NGET	Applicable to NGESO
28	B21 Notification of changes that may affect eligibility for certification	Applicable to NGET	Applicable to NGESO
29	B22 Requirement for sufficiently independent directors	Applicable to NGET	Applicable to NGESO

30	B23 Data assurance requirements	Applicable to NGET	Applicable to NGESO
Section C (System Operator Standard Conditions) Note: Section C will only apply to NGESO by virtue of a Section C Direction under Condition 2A.			
31	C1 Interpretation of Section C	N/A	Applicable to NGESO
32	C2 Prohibited Activities	N/A	Applicable to NGESO Minor amendments to text to remove double obligation on NGET as a result of interaction with Standard Condition D6.
33	Balancing and Settlement Code	N/A	Applicable to NGESO
34	C4 Charges for use of system	N/A	Applicable to NGESO
35	C5 Use of system charging methodology	N/A	Applicable to NGESO
36	C5A Use of system charging requirements under the Electricity Directive	N/A	Applicable to NGESO

37	C6 Connection Charging Methodology	N/A	Applicable to NGESO
38	C6A Connection charging requirements under the Electricity Directive	N/A	Applicable to NGESO
39	C7 Prohibition on discriminating between users	N/A	Applicable to NGESO
40	C8 Requirement to offer terms	N/A	Applicable to NGESO
41	C9 Functions of the authority	N/A	Applicable to NGESO
42	C10 Connection and Use of System Code (CUSC)	N/A	Applicable to NGESO
43	C11 Production of information about the national electricity transmission system	N/A	Applicable to NGESO
44	C12 Limits on the level to which transmission services are provided	N/A	Applicable to NGESO

45	C13 Adjustments to use of system charges (small generators)	N/A	Applicable to NGESO
46	C14 Grid code	N/A	Applicable to NGESO
47	C15 Compliance with Distribution Codes	N/A	Applicable to NGESO
48	C16 Procurement and use of balancing services	N/A	Applicable to NGESO
49	C17 Transmission system security standard and quality of service	N/A	Applicable to NGESO
50	C18 Requirement to offer terms for connection or use of the GB transmission system during the transition period	N/A	Applicable to NGESO
51	C19	N/A	Not used
52	C20 Assistance for areas with high	N/A	Applicable to NGESO

	distribution costs scheme: restrictions on revenue		
53	C21 Assistance for areas with high distribution costs scheme: payments from authorised suppliers	N/A	Applicable to NGESO
54	C22 Assistance for areas with high distribution costs scheme: payments to a relevant distributor	N/A	Applicable to NGESO
55	C23 Assistance for areas with high distribution costs scheme: annual statement	N/A	Applicable to NGESO
56	C24 Energy Administration and Energy Supply Company Administration: National Electricity Transmission System Operator Shortfall Contribution Obligations	N/A	Applicable to NGESO
57	C25 Provision of information and assistance to the Authority in relation to applications requiring the appointment of an offshore	N/A	Applicable to NGESO

	transmission owner		
58	C26 Requirements of a connect and manage connection	N/A	Applicable to NGESO Minor amendments to text to reflect that NGESO's role in enabling and wider works is to 'facilitate' the works rather than 'complete' them.
59	C27 The Network Options Assessment process and reporting requirements	N/A	Applicable to NGESO
Section D (Transmission Owner Standard Conditions)			
Note: Section D will only apply to NGET by virtue of a Section D Direction.			
60	D1 Interpretation of Section D	Applicable to NGET	N/A
61	D2 Obligation to provide transmission services	Applicable to NGET	N/A
62	D3 Transmission system security standard and quality of service	Applicable to NGET	N/A
63	D4	Not used	N/A
64	D4A Obligations in relation to offers for connection etc	Applicable to NGET	N/A
65	D4B Functions of the Authority	Applicable to NGET	N/A
66	D5 Prohibition on engaging in preferential or discriminatory behaviour	Applicable to NGET	N/A

Future Arrangements for the Electricity System
Operator: Informal Consultation on ESO Licence Drafting

67	D6 Prohibition on selling electricity	Applicable to NGET	N/A
68	D7	Not used	N/A
69	D8	Not used	N/A
70	D9	Not used	N/A
71	D10	Not used	N/A
72	D11	Not used	N/A
73	D12 Scottish Settlement Agreement	Applicable to NGET	N/A
74	D13	Not used	N/A
75	D14	Not used	N/A
76	D15 Obligations relating to the preparation of TO offers during the transition period	Applicable to NGET	N/A
77	D16 Requirements of a connect and manage connection	Applicable to NGET	N/A

Appendix 2 – Summary Table of Special Licence Conditions

The table below reflects our minded-to position for the treatment of each of NGET's existing electricity transmission special licence conditions in order to achieve separation of the ESO. We welcome stakeholder views on any of these proposals.

Item	Licence Condition	Ofgem's view on licence condition post-separation	
		Ofgem's View – NGET	Ofgem's View - NGESO
1	Special 1A - Definitions and Interpretations	Chapter 1 will be amended where appropriate once the remaining special licence conditions are finalised	
2	Special 1B - Transmission Area		
3	Special 1C - Amended Standard Conditions		
4	Special 2A - Activities Restrictions	This condition will continue to be in effect in NGET's licence unchanged as this is clearly a TO obligation	This condition will not be in effect in NGESO's licence as this is a TO only obligation. We are considering whether to create a new special licence condition which places restrictions on the activities that the NGESO can undertake.
5	Special 2B - Restriction on the Use of Information	This condition will be in effect in NGET's licence, modified to more closely resemble the Scottish TO 2B licence condition.	This condition will not be in effect in NGESO's licence. Instead, information ring-fencing provisions will be included in the modified Special Licence Condition 20 for NGESO.
6	Special 2C - Prohibited Activities and Conduct of Transmission Business	Retain in NGET's licence.	This condition will be duplicated and transferred across to NGESO's licence.
7	Special 2D	Not used	Not used
8	Special 2E	Not used	Not used

Future Arrangements for the Electricity System
Operator: Informal Consultation on ESO Licence Drafting

9	Special 2F - Role in Respect of the National Electricity Transmission System Operator Area located in Offshore Waters	Transferred from NGET's licence because this is clearly an SO obligation and is not included in Scottish TO licences.	Transferred to the NGESO's licence only as clearly an SO obligation.
10	Special 2G - Prohibition on Engaging in Preferential or Discriminatory Behaviour	Transferred from NGET's licence as this condition does not appear in the Scottish TO licence	Transferred to NGESO's licence Paragraph 2 will be deleted as no longer relevant from a policy perspective.
11	Special 2H - Appointment of Compliance Officer	This condition will be in effect in NGET's licence, modified to more closely resemble the Scottish TO 2B licence condition.	This condition will not be in effect in NGESO's licence. Instead, requirements for appointment of a compliance officer will be included in the modified Special Licence Condition 2O for NGESO.
12	Special 2I - Independence and Appointment of a Managing Director	Not used	We are considering whether to include a new version of Special Condition 2I for NGESO detailing the requirements for the independence and appointment of a Chief Executive Officer.
13	Special 2J - Network Access Policy	Retain in NGET's licence with minor modifications to reflect TO only obligations	A modified version of Special Condition 2J will be included in NGESO's licence to reflect the SO's role in coordinating with the TOs over the development of Network Access Plans.
14	Special 2K - Transmission Losses	Retain in NGET's licence unchanged	Will not be in effect in NGESO's licence as this is a TO only obligation
15	Special 2L - Methodology for Network Output Measures	Retain in NGET's licence unchanged	Will not be in effect in NGESO's licence as this is a TO only obligation
16	Special 2M - Specification of Network	Retain in NGET's licence unchanged	Will not be in effect in NGESO's licence as this is a TO only obligation

Future Arrangements for the Electricity System
Operator: Informal Consultation on ESO Licence Drafting

	Replacement Outputs		
17	Special 2N (SO) - EMR	N/A	Transferred to NGESO's licence with minor changes as this is clearly an SO obligation
18	Special 2N (TO) - Provision of Information to System Operator	Retain in NGET's licence with wording amended to reflect Scottish TO licence wording	N/A
19	Special 2O - Business separation requirement and compliance obligations and conduct of the System Operator in performing its Relevant System Planning Activities.	We are considering whether a new version of Special Condition 2O should be included in NGET's licence to place business separation requirements on NGET.	Will be modified to capture business separation requirements for NGESO.
20	Special 3A - Restriction of Transmission Network Revenue	Retain in NGET's licence with amendments to terms/formulas	Duplicated and transferred to NGESO's licence with amendments to terms/formulas
21	Special 3B Calculation of allowed Pass-Through Items	Retain in NGET's licence with amendments to terms/formulas	Duplicated and transferred to NGESO's licence with amendments to terms/formulas
22	Special 3C - Reliability Incentive Adjustment in Respect of Energy Not Supplied	Retain in NGET's licence unchanged as this is clearly a TO only obligation	Will not be in effect in NGESO's licence as this is a TO only obligation
23	Special 3D - Stakeholder Satisfaction Output	Retain in NGET's licence. Remove the Customer Satisfaction Survey term and amend the Stakeholder Satisfaction Survey Term to	Will not be in effect in NGESO's licence as this is a TO only obligation

		ensure all SO questions are removed.	
24	Special 3E - Incentive in Respect of Sulphur Hexafluoride Gas Emissions	Retain in NGET's licence unchanged as this is clearly a TO only obligation	Will not be in effect in NGESO's licence as this is a TO only obligation
25	Special 3F - Adjustment in Respect of the Environmental Discretionary Reward Scheme	Retain in NGET's licence. Remove links to SO activities in EDR Guidance Document.	Will not be in effect in NGESO's licence as this is a TO only obligation
26	Special 3G - Financial Incentive for Timely Connections Output	Not used	Not used
27	Special 3H - The Network Innovation Allowance	Retain in NGET's licence. We are considering whether further modifications are required.	Duplicated and transferred to NGESO's licence. We are considering whether further modifications are required.
28	Special 3I - The Network Innovation Competition	Retain in NGET's licence. Considering whether further modifications are required.	Duplicated and transferred to NGESO's licence. We are considering whether further modifications are required.
29	Special 3J - Transmission Investment for Renewable Generation	Retain in NGET's licence as TO only obligation	Will not be in effect in NGESO's licence as this is a TO only obligation
30	Special 3K - Allowances in Respect of a Security Period	Retain in NGET's licence as TO only obligation, and modified wording to match Scottish TOs licence	Duplicated and transferred to NGESO's licence
31	Special 3L - Pre-construction Engineering Outputs for prospective Strategic Wider Works	Retain in NGET's licence as TO only obligation	Will not be in effect in NGESO's licence as this is a TO only obligation

32	All Specials in Chapter 4	Do not include in NGET's licence as SO only obligation	Include all in NGESO's licence as SO only obligation. Some minor changes to references to NGET in some Appendices will need to be updated to refer to NGESO.
33	Special 5A - Governance of ET1 Price Control Financial Instruments	Retain in NGET's licence, with removal of references to SOMOD. Separate NGET and NGESO representatives will be needed at PCFM Working Group.	Duplicated and transferred to NGESO's licence, with removal of references to MOD. Separate NGET and NGESO representatives will be needed at PCFM Working Group.
34	Special 5B - Annual Iteration Process for the ET1 Price Control Financial Model	Retain in NGET's licence with minor amendments to update terms.	Duplicated and transferred to NGESO's licence with minor amendments to update terms.
35	Special 6A - Legacy Price Control Adjustments (Transmission Owner)	Retain in NGET's licence only	Will not be in effect in NGESO's licence as this is a TO only obligation
36	Special 6B - Supplementary provisions in relation to transmission asset owner incentives scheme activity in the legacy period	Retain in NGET's licence only	Will not be in effect in NGESO's licence as this is a TO only obligation

37	Special 6C - Determination of PCFM Variable Values for Totext Incentive Mechanism Adjustments - Transmission Owner	Retain in NGET's licence only	Will not be in effect in NGESO's licence as this is a TO only obligation
38	Special 6D - Specified financial adjustments - Transmission Owner	Retain in NGET's licence only	Will not be in effect in NGESO's licence as this is a TO only obligation
39	Special 6E - The Innovation Roll-Out Mechanism	Retain in NGET's licence only	Will not be in effect in NGESO's licence as this is a TO only obligation
40	Special 6F - Baseline Generation Connections Outputs and Generation Connections volume driver	Retain in NGET's licence only with minor amendments	Will not be in effect in NGESO's licence as this is a TO only obligation
41	Special 6G - Mitigating the impact of Pre-existing Transmission Infrastructure on the visual amenity of Designated Areas	Retain in NGET's licence only	Will not be in effect in NGESO's licence as this is a TO only obligation
42	Special 6H - Arrangements for the recovery of uncertain costs	Retain in NGET's licence only	Will not be in effect in NGESO's licence as this is a TO only obligation

Future Arrangements for the Electricity System
Operator: Informal Consultation on ESO Licence Drafting

43	Special 6I - Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure	Retain in NGET's licence only	Will not be in effect in NGESO's licence as this is a TO only obligation
44	Special 6J - Allowed Expenditure for Incremental Wider Works	Retain in NGET's licence only with minor amendments	Will not be in effect in NGESO's licence as this is a TO only obligation
45	Special 6K - Allowed Expenditure for meeting planning requirements and volume driver	Retain in NGET's licence only	Will not be in effect in NGESO's licence as this is a TO only obligation
46	Special 6L - Baseline Demand Related Infrastructure Outputs and Allowed Expenditure volume driver	Retain in NGET's licence only with minor amendments	Will not be in effect in NGESO's licence as this is a TO only obligation
47	All Specials in Chapter 7	Will not be in effect in NGET's licence as SO only obligation	Include all in NGESO's licence as SO only obligation. This chapter should not require adjustment as a consequence of the TO/SO split (as it relates solely to the System Operator) save that references to NGET in Appendices need to change to NGESO.
48	Special 8A - Disapplication of Relevant Special Conditions	Retain in NGET's licence with minor amendment to remove references to SO Special Conditions (as this will be put in SO licence)	Duplicated and transferred to NGESO's licence with minor amendment to remove references to TO Special Conditions (as this will be put in TO licence)

Future Arrangements for the Electricity System
 Operator: Informal Consultation on ESO Licence Drafting

49	Special 8B - Services treated as Excluded Services	Reatin in NGET’s licence Remove 8B.8(b)(c) as these relate to SO activities Add Outage Changes and NIC payments made by the SO	Duplicated and transferred to NGESO’s licence
50	Special 8C - Basis of transmission owner charges	Include in NGET’s licence with drafting to align with the Scottish TO licences	Do not include in NGESO’s licence as this relates to TO activities only

Appendix 3 - Feedback on this consultation

We want to hear from anyone interested in this document. Send your response to the person or team named at the top of the front page.

We've asked for your feedback in each of the questions throughout it. Please respond to each one as fully as you can.

Unless you mark your response confidential, we'll publish it on our website, www.ofgem.gov.uk, and put it in our library. You can ask us to keep your response confidential, and we'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.

If the information you give in your response contains personal data under the Data Protection Act 1998, the Gas and Electricity Markets Authority will be the data controller. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.

General feedback

We believe that consultation is at the heart of good policy development. We are keen to hear your comments about how we've conducted this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send your comments to stakeholders@ofgem.gov.uk