

STC Initial Modification Report

At what stage is this document in the process?

CM067: National Grid Legal Separation - consequential changes to reference NGENSO into STC Section B and changes to STC Modification Panel membership to add NGENSO as Member.

01

Initial Modification Report

02

Industry Consultation

03

Draft Final Modification Report

04

Final Modification Report




Purpose of Modification: This proposal seeks to modify the System Operator Transmission Owner Code (STC) to reflect the creation of a new National Grid Electricity System Operator (NGESO) that is legally separated from National Grid Electricity Transmission Limited. References to NGET have been replaced by NGESO, where relevant, throughout the STC Section B in order to ensure the System Operator and Transmission Owner obligations are clear. Changes also include in Section B, NGESO as a new STC Modification Panel member and as a voting member in the STC Group.








The Proposer recommends that this modification should:

- proceed to Consultation

This modification was raised 17 April 2018 and will be presented by the Proposer to the Panel on 25 April 2018. The Panel will consider the Proposer's recommendation and determine the appropriate route.

	High Impact: None
	Medium Impact None
	Low Impact National Grid, Scottish Power Transmission, SHE Transmission, Offshore Transmission Owners

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Timetable		
The timetable was approved at the Panel on 25 April 2018.		
STC Modification Proposal issued to the STC Panel	25 April 2018	
Panel agreed that CM067 should proceed using the normal governance route	25 April 2018	
Issue Industry Consultation for 20 Working days	31 May 2018	
Industry Consultation Closes	28 June 2018	
Issue Draft Final Modification Report to Industry and Authority for 5 Working days	9 July 2018	
Draft Final Modification Report issued to the STC Panel	17 July 2018	
Panel Recommendation Vote	25 July 2018	

Details of Proposer's Representative:	
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Attachments (Yes):	
STC Section B - Governance	
<u>For information:</u>	
1. Modification Proposals for other Sections and Schedules (except for Schedules 2 and 14 as no changes are required) of the STC will be submitted to the STC Modification Panel in parallel to this one;	

Impact on Core Industry Documentation.
Please mark the relevant boxes with an "x" and provide any supporting information

BSC	<input type="checkbox"/>
Grid Code	<input type="checkbox"/>
CUSC	<input type="checkbox"/>
Other	<input type="checkbox"/>

Although this modification proposal does not directly impact other industry codes, other proposed modifications to industry codes (Grid Code, CUSC, BSC, Distribution Code, DCUSA, SQSS) are being raised in parallel to this modification proposal as a result of creating a legally separate system operator.

1 Summary

Defect

The STC defines the relationship between the Transmission System Owners and National Grid as the National Electricity Transmission System Operator (NETSO).

Following legal separation of the System Operator and Transmission Owner within National Grid Group, on 1st April 2019, the STC will no longer place the correct relevant obligations on those two National Grid new legal entities.

The STC currently states that membership of the STC Modification Panel has NGET members and Transmission Owner members and will need to include NGESO and System Operator.

What

It is proposed that the structure of the STC is modified to introduce the new NGESO legal entity, and the existing NGET legal entity in a new role as a relevant transmission licensee.

The relevant obligations of the System Operator will move to NGESO and National Grid Electricity Transmission plc (NGET) as a Transmission Owner will reflect obligations already in the STC that currently apply to Onshore Transmission Owners.

In addition to the above, the STC is to be modified to include NGESO as a member of the Modification Panel as the System Operator.

Why

Changes are required to NGET's existing licence required to implement legal separation; all system operator obligations will be transferred into a new transmission licence for the NGESO and as such need to be reflected accordingly within the electricity codes. The licence changes are the subject of ongoing consultation¹.

NGET is currently a member of the STC Modification Panel, but when legal separation occurs and NGET will be a Transmission Owner, it will mean that there is no System Operator membership of the panel. As the STC defines the relationship between Transmission Owners and System Operator, the System Operator needs to be a member of the Panel and be able to vote as a member.

How

NGET published an open letter on its approach to modifying the relevant Industry Codes on 22 September 2017² stating that NGET intended to raise one Code

¹ [Future Arrangements electricity System Operator Informal consultation on ESO Licence Drafting](#)

² NGET's Open Letter [Open Letter 22 Sept 2017](#)

Modification proposal for each Industry Code, but further work into assessing the changes required means that for the STC, 5 modifications need to be raised. CMXXX is the one of these.

The introduction of the new “NGESO” entity into the CUSC and STC is achieved through a novation agreement for each code. The novation agreement will be entered into by NGET and on behalf of the STC parties. The authority for NGET to do this is given through the provisions to be introduced in to the respective Code (STC Section I) as part of the code modification. The intended form of novation is included within the draft legal text.

The STC will be modified to include NGESO as having up to 2 seats on the STC Modification Panel and NGET will be treated as a Transmission Owner and have up to 2 seats on the STC Modification Panel. In addition the STC will be modified to include NGESO as part of the voting Group as a Panel member.

2 Governance

Justification for Normal Procedure

The Proposer does not see any justification for either the Self-Governance or the Urgent Modification processes to be used and that the normal governance process should be followed with the Authority making the decision.

The STC Modification Panel has already had an opportunity to see the Proposers draft proposed text and no issues have to date been raised to imply a different governance process would be preferable.

Requested Next Steps

This modification should:

- proceed to Consultation

3 Why change

Following the joint statement titled “Statement on the future of Electricity System Operation” issued by BEIS, Ofgem and National Grid on 12 January 2017³ and consequential consultation response by Ofgem on ESO separation on 3 August 2017⁴, the obligations in the STC will need to be modified to reflect the System Operator requirements and to place the current Transmission Owner requirements on NGET as a Transmission Owner.

³ Consultation and Decision documents [Future Arrangements Electricity System Operator](#)

⁴ Ofgem’s Consultation Response [Future Arrangements Electricity System Operator Ofgem Response](#)

NGET and NGESO will become separately licensed entities as a consequence of NGET partially transferring its existing licence to NGESO (the System Operator elements only) to NGESO under section 7A Electricity Act 1989 and NGET will retain the Transmission Owner elements.

4 Code Specific Matters

Technical Skillsets

N/A

Reference Documents

Please refer to Section 3. Above for further information.

5 Solution

NGET has been replaced by NGESO where relevant throughout the STC Sections and Schedules in order to ensure the SO and TO obligations are clear.

Modify Section B to include NGESO as an STC Modification Panel member and as part of the voting Group.

6 Impacts & Other Considerations

All parties to the STC are impacted, to the extent that the relationship between the all Transmission Owners will change to be with NGESO not NGET.

Does this modification impact a Significant Code Review (SCR) or other significant industry change projects, if so, how?

N/A

Consumer Impacts

N/A

7 Relevant Objectives

Mandatory for the Proposer to complete.

Relevant Objective	Identified impact
(a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act	Positive

(b) development, maintenance and operation of an efficient, economical and coordinated system of electricity transmission	
(c) facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the distribution of electricity	
(d) protection of the security and quality of supply and safe operation of the national electricity transmission system insofar as it relates to interactions between transmission licensees	
(e) promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC.	
(f) facilitation of access to the national electricity transmission system for generation not yet connected to the national electricity transmission system or distribution system;	
(g) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.	

The Proposer believes that this change will better facilitate relevant objective (a), by attributing the appropriate obligations to NGENSO as System Operator and the Transmission owners in accordance with the new NGENSO Transmission Licence and modified NGET Transmission Licence obligations.

8 Implementation & Transition

Legal text for CM067 has been drafted using the baseline of April 2018 STC text and as the modification progresses through the governance process, the text may need to be revised in light of Business as Usual modifications to the STC. The Code Administrator will ensure that the Proposer is aware of any Business as Usual Modification Proposals and the Proposer will take into account any relevant amendments to the CM067 that may need to be made prior to 1 April 2019 and notify the STC Modification Panel should anything in CM067 require further modification as a result of this.

CM067 may require transitional changes to the STC and these will be discussed with the STC Panel and drafted into the legal text CM067 as and when the Proposer becomes aware of these.

CM067 together with the other four associated STC Modification proposals and the associated STC novation agreement in respect of National Grid's legal separation are all interdependent and as such, are all required to be implemented as a single update to the STC on 1st April 2019 following The Authority's determination.

9 Legal Text

Text Commentary

Modify Section B, Paragraphs 6.1 and 6.7.

Please refer to Attachment 1 for proposed text.

10 Recommendations

Proposer's Recommendation to Panel

Panel is asked to:

Issue this modification directly to Consultation.