





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.





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|----|---------------------------------|
| 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 References to NGET have been replaced by NGENSO, where relevant, throughout the STC Section B in order to ensure the System Operator and Transmission Owner obligations are clear.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, NGENSO as a new STC Modification Panel member and as a voting member in the STC Group.

The purpose of this document is to consult on the proposal presented within CM067 with STC Parties and other interested Industry members. Representations made in response to this Proposed STC Modification Report will be considered by the STC Panel and agreed for inclusion the Final STC Modification Report to be submitted to the Authority.

Published on: 31 May 2018

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| Length of Consultation: 20 Working Days | |
| Responses by: 28 June 2018 | |
|  | This modification proposal was raised on 17 April 2018 and was presented by the Proposer to the Panel on 25 April 2018. The STC Panel unanimously agreed that CM065 should follow a standard governance route and proceed to Industry Consultation for 20 working days. |
|  | 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 tabled at the STC Panel | 25 April 2018 | |
| Panel agreed standard governance route | 25 April 2018 | |
| | |  07976 940 855 Proposer: Bec Thornton  bec.thornton@nationalgrid.com  07887 822443 |

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|---|-------------------|
| Issue Industry Consultation for 20 Business days | 31 May 2018 |
| Industry Consultation Closes | 28 June 2018 |
| Issue Proposed STC Modification Report to Industry and Authority for 5 Working days | 9 July 2018 |
| Panel to agree Final STC Modification Report | 25 July 2018 |
| Final STC Modification Report issued to the Authority | 7 August 2018 |
| Indicative Authority Decision | 11 September 2018 |
| Implementation | 1 April 2019 |
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Proposer Details

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| Details of Proposer: (Organisation Name) | NGET |
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| <p>Capacity in which the STC Modification Proposal is being proposed:</p> <p>(i.e. STC Party, Party Representative or person or persons having a relevant interest as may be designated in writing for this purpose by the Authority</p> | <p>STC Party</p> |
| <p>Details of Proposer's Representative:</p> <p>Name: Bec Thornton</p> <p>Organisation: NGET</p> <p>Telephone Number: 07887 822443</p> <p>Email Address: Bec.thornton@nationalgrid.com</p> | |
| <p>Details of Representative's Alternate:</p> <p>Name: John Martin</p> <p>Organisation: NGET</p> <p>Telephone Number: 07794 050359</p> <p>Email Address: John.martin2@nationalgrid.com</p> | |
| <p>Attachments (Yes):</p> <p>STC Section B - Governance</p> <p><u>For information:</u></p> <p>1. Modification Proposals for other Sections and Schedules of the STC (except for Schedules 2 and 14 as no changes are required) will be submitted to the STC Modification Panel in parallel to this one.</p> | |

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"/> |

Although this modification proposal does not directly impact upon other industry codes, other proposed code modifications are being simultaneously raised to other industry codes (Grid Code, CUSC, BSC, Distribution Code, DCUSA, SQSS) 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).

On 1 April 2019 and following the legal separation of the System Operator and Transmission Owner within National Grid Group, 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

This proposal aims to modify 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

In order to implement legal separation, 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.

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

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

On 22 September 2017, NGET published an open letter detailing its approach to modifying the relevant Industry Codes² confirming NGET's intention to raise one Code Modification Proposal for each Industry Code. Subsequent work identified that 5 STC modification proposals were required. CM067 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

On 25 April 2018, the STC Panel agreed with the Proposer's view that this Modification should proceed along the standard governance route for an Authority decision.

3 Why change

Following the joint statement issued by BEIS, Ofgem and National Grid on 12 January 2017 entitled "Statement on the future of Electricity System Operation"³ and the subsequent consultation response by Ofgem on 3 August 2017 to the ESO separation⁴, changes to the STC were identified to reflect the System Operator requirements and to place the current Transmission Owner requirements on NGET as a Transmission Owner.

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

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 Panel View

On 25 April 2018, the STC Panel agreed that CM067 should be progressed using the standard route and be issued to Industry Consultation for 20 Working days. The views of the STC Panel were as follows:

National Grid

National Grid is supportive of CM067 and agrees it should follow a standard route and the Authority make the decision.

Offshore Transmission Owners (OFTO's)

The OFTO's are supportive of CM067 and agree it should follow a standard route and the Authority make the decision.

Scottish Hydro Electric Transmission plc (SHET)

SHET is supportive of CM067 and agree it should follow a standard route and the Authority make the decision.

SP Transmission Limited (SPT)

SPT is supportive of CM067 and agree it should follow a standard route and the Authority make the decision.

5 Code Specific Matters

Technical Skillsets

Not applicable for this Modification.

Reference Documents

Please refer to Section 3 above for further information.

6 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.

7 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 NGENSO 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

8 Relevant Objectives

| 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 | |

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| legally binding decision of the European Commission and/or the Agency. | |
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The Proposer believes that this change will better facilitate relevant objective (a), by attributing the appropriate obligations to NGESO as System Operator and the Transmission owners in accordance with the new NGESO Transmission Licence and modified NGET Transmission Licence obligations.

9 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.

10 Legal Text

Text Commentary

Modify Section B, Paragraphs 6.1 and 6.7.

Please refer to Attachment 1 for proposed text.

11 Recommendations

At the STC Panel meeting on 25 April, the STC Panel:

- Agree unanimously that CM067 should follow the standard route with the Authority making the decision
- Agreed that the report should be issued for Industry Consultation for 20 working days.