

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 References to NGET have been replaced by NGENSO, where relevant, throughout the STC Section B in order to ensure the System Operator and Transmission Owner obligations are clear.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.







This Final Modification Report has been prepared in accordance with the terms of the STC. An electronic version of this document and all other CM067 related documentation can be found on the National Grid website via the following link:

<https://www.nationalgrideso.com/codes/system-operator-transmission-owner-code/modifications/national-grid-legal-separation-3>

At the STC Panel meeting on 29 August 2018, the Panel members unanimously recommended that CM067 should be implemented.

	The purpose of this document is to assist the Authority in making its determination on the proposed implementation of CM067.
	<b>High Impact:</b> None
	<b>Medium Impact</b> None
	<b>Low Impact</b> National Grid, Scottish Power Transmission, SHE Transmission, Offshore Transmission Owners

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## Timetable

STC Modification Proposal tabled at the STC Panel	25 April 2018
Panel agreed standard governance route	25 April 2018
Issue Industry Consultation for 20 Business days	31 May 2018
Industry Consultation Closes	28 June 2018
Issue draft STC Modification Report to Industry and Authority for 5 Working days	9 July 2018

Panel to agree Final STC Modification Report	29 August 2018
Final STC Modification Report issued to the Authority	1 November 2018
Indicative Authority Decision	6 December 2018
Implementation	1 April 2019

**Proposer Details**

<b>Details of Proposer:</b> (Organisation Name)	NGET
Capacity in which the STC Modification Proposal is being proposed:  (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	STC Party

Authority	
<p><b>Details of Proposer's Representative:</b></p> <p>Name: Bec Thornton</p> <p>Organisation: NGET</p> <p>Telephone Number: 07887 822443</p> <p>Email Address: <a href="mailto:Bec.thornton@nationalgrid.com">Bec.thornton@nationalgrid.com</a></p>	
<p><b>Details of Representative's Alternate:</b></p> <p>Name: John Martin</p> <p>Organisation: NGET</p> <p>Telephone Number: 07794 050359</p> <p>Email Address: <a href="mailto:John.martin2@nationalgrid.com">John.martin2@nationalgrid.com</a></p>	
<p><b>Attachments (Yes):</b></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*

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

This document is the Final STC Modification Report document that contains the responses to the Industry Consultation that was issued on 31 May 2018 for 20 Working days. contains the responses to CM067 Industry Consultation that was issued on 31 May 2018 for 20 Working days.

CM067 aims 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.

One response was received to the Industry Consultation which supported the modification. This response can be found in Annex 2 of this document.

At the STC Panel on 29 August 2018 the Panel voted on CM067, assessing against the Applicable STC Objectives. The STC Panel unanimously agreed that CM067 better facilitates the STC Objectives, in particular object (a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act' and recommended that it should be implemented.

The Final Modification Report has been prepared in accordance with the terms of the STC. An electronic copy can be found on the National Grid Website <https://www.nationalgrideso.com/codes/system-operator-transmission-owner-code/modifications/national-grid-legal-separation-3> along with the STC Modification Proposal Form.

## 2 Original Proposal

### 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 consultation<sup>1</sup>.

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 Codes<sup>2</sup> 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.

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

<sup>2</sup> NGET's Open Letter [Open Letter 22 Sept 2017](#)

### 3 Proposer's Solution

Following the joint statement issued by BEIS, Ofgem and National Grid on 12 January 2017 entitled "Statement on the future of Electricity System Operation"<sup>3</sup> and the subsequent consultation response by Ofgem on 3 August 2017 to the ESO separation<sup>4</sup>, 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.

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 Governance

#### Justification for Standard Governance Route

On 25 April 2018, all STC Panel Representatives reviewed the STC Modification Proposal and unanimously agreed that CM067 should be progressed along the standard governance route firstly being issued to Industry Consultation for 20 working days and be submitted to the Authority for decision.

### 5 Industry Consultation Responses

One response was received to the Industry Consultation. The full response can be found under Annex 2 of this document. The respondent agreed that the proposal helps achieve legal separation of NGET's SO and TO functions. They stated that it better facilitates objectives (a) and (e) in fulfilling what will be a licence obligation and in promoting good industry practice, noting the principle of these changes is that there is no betterment.

### 6 Impacts and Other Considerations

All parties to the STC are impacted to the extent that the relationship between all the 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

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<sup>3</sup> Consultation and Decision documents [Future Arrangements Electricity System Operator](#)

<sup>4</sup> Ofgem's Consultation Response [Future Arrangements Electricity System Operator Ofgem Response](#)

## Consumer Impacts

N/A

## 7 Code Specific Matters

### Technical Skillsets

Not applicable for this Modification.

### Reference Documents

Please refer to Section 3 above for further information.

## 8 Relevant STC Applicable 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 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.

## 9 Panel Recommendation Vote

On 29 August 2018, the STC Panel held their recommendation vote on CM067. The Panel unanimously agreed that CM067 better facilitated STC applicable objective (a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act’.

The views of the STC Panel were as follows:

### **National Grid**

National Grid voted that Modification Proposal CM067 better facilitated STC applicable objective (a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act’.

### **Offshore Transmission Owners (OFTOs)**

The OFTO group voted that Modification Proposal CM067 better facilitated STC applicable objective (a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act’.

### **(SHET) Scottish Hydro Electric Transmission**

(SHET) Scottish Hydro Electric Transmission voted that Modification Proposal CM067 better facilitated STC applicable objective (a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act’.

### **SP Transmission Limited (SPT)**

SP Transmission voted that Modification Proposal CM067 better facilitated STC applicable objective (a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act’.

## 10 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 baseline text may need to be revised in light of Business as Usual modifications to the STC. The Code Administrator will ensure that the Proposer and Panel are aware of any Business as Usual Modification Proposals that may require subsequent modifications prior to 1 April 2019.

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 1<sup>st</sup> April 2019 following The Authority’s determination.

## 11 Legal Text

### Text Commentary

Modify Section B, Paragraphs 6.1 and 6.7.

Please refer to Annex 1 for proposed text.

## 12 Annex 1- Legal Text

The legal text for CM067 can be found on National Grid’s website via the following link:

<https://www.nationalgrideso.com/codes/system-operator-transmission-owner-code/modifications/national-grid-legal-separation-3>

## 13 Annex 2- Industry Consultation Response

Table 1: Response Proforma

<b>Respondent:</b>	<i>Rob Wilson</i>
<b>Company Name:</b>	<i>NGET</i>
<b>Please express your views regarding the Industry Consultation, including rationale. (Please include any issues, suggestions or queries)</b>	<p>For reference, the Applicable STC objectives are:</p> <p>(a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act</p> <p>(b) development, maintenance and operation of an efficient, economical and coordinated system of electricity transmission</p> <p>(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</p> <p>(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</p> <p>(e) promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC.</p> <p>(f) facilitation of access to the national electricity transmission system</p>

		<p>for generation not yet connected to the national electricity transmission system or distribution system;</p> <p>(g) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.</p>
Q	Question	Response
1	<p><b>Do you believe that CM067 better facilitates the STC objectives? Please include your reasoning.</b></p>	<p>This modification helps to achieve legal separation of NGET's SO and TO functions. As such it better facilitates objectives (a) and (e) in fulfilling what will be a licence obligation and in promoting good industry practice.</p> <p>The principle of these changes is that there is no betterment.</p>
2	<p><b>Do you support the proposed implementation approach? If not, please provide reasoning why.</b></p>	<p>Yes</p>
3	<p><b>Do you have any other comments?</b></p>	<p>No</p>