

Workgroup Consultation

CM086: Introducing Competitively Appointed Transmission Owners & Transmission Service Providers

Overview: This modification aims to introduce the concept of Competitively Appointed Transmission Owners (CATOs) to the STC to enable Onshore Network Competition for the design, build and ownership of Onshore Transmission assets.

Modification process & timetable



Have 5 minutes? Read our [Executive summary](#)

Have 20 minutes? Read the full [Workgroup Consultation](#)

Have 30 minutes? Read the full Workgroup Consultation and Annexes.

Status summary: The Workgroup are seeking your views on the work completed to date to form the final solution(s) to the issue raised.

This modification is expected to have a: **medium impact**
NGESO, Transmission Owners and CATOs (by introducing CATO arrangements)

Governance route Standard Governance with a Workgroup

Who can I talk to about the change?

Proposer(s):
Stephen Baker
Stephen.Baker@nationalgrideso.com

Gareth Stanley
Gareth.Stanley@nationalgrideso.com

Code Administrator Chair:
Catia Gomes
Catia.gomes@nationalgrideso.com

How do I respond?

Send your response proforma to stcteam@nationalgrideso.com by **5pm on 5 July 2023**

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Executive summary

This modification aims to introduce the concept of Competitively Appointed Transmission Owners (CATOs) to the STC to enable Onshore Network Competition for the design, build and ownership of Onshore Transmission assets.

What is the issue?

To allow onshore electricity network competition to be implemented effectively, the competition processes, obligations, technical requirements, charges, and remuneration principles are required to be embedded within the relevant codes and standards.

What is the solution and when will it come into effect?

Proposer's solution: The objective of this modification is to implement minimum change to the STC and STCPs to facilitate the introduction of CATOs. The approach taken is to extend existing relevant Onshore TO provisions as far as appropriate, reflecting Ofgem's expected licencing regime. This modification is the first of three proposed modifications to the STC as part of the work being done to implement Onshore Network Competition.

Implementation date: Target date Q4 2023

What is the impact if this change is made?

Introducing the concept of CATO into the relevant industry codes establishes the obligations of CATOs and those entities interacting with the CATO assets, ensuring the safe, secure, and coordinated operation of the System.

Interactions

The introduction of competition affects the STC, Grid Code, CUSC and SQSS.

What is the issue?

On 28 March 2022 Ofgem published its decision¹ to proceed with implementation of the Early Competition model. This has been underpinned by the publication of the Energy Security Bill², introduced to Parliament on 6 July 2022 which makes provision to enable competitive tenders for delivery of onshore electricity network assets. The Bill will introduce powers to enable the Secretary of State to appoint a body to run tenders and to set criteria to determine a network project's eligibility to be competed. It will also extend Ofgem's power to make regulations which will set out the process by which tenders will be run.

To allow Early Competition to be implemented effectively, the competition processes, obligations, technical requirements, charges, and remuneration principles are required to be embedded within the relevant codes and standards. The introduction of Early Competition affects the STC, Grid Code, CUSC and SQSS among others. NGENSO are proposing this modification in association with the modifications that will be progressed to the other GB Codes and frameworks during the period between Autumn 2022 and Autumn 2023.

Why change?

Introducing the concept of CATOs to the relevant industry codes ensures the safe, secure and coordinated operation of the Transmission System by establishing both the obligations on CATOs and those entities interacting with CATO assets and CATOs themselves. The first phase of the Early Competition procurement process (the pre-tender) is set to commence in the first quarter of 2024, necessitating that the proposed modifications be raised and progressed in line with the Code Administrator proposed timetable.

Following the completion of a competitive tender, a CATO will be awarded a Transmission Licence and categorised as an Onshore Transmission Owner. As a Licensed TO, CATOs will be subject to broadly the same obligations and frameworks as other Onshore Transmission Owners.

What is the solution?

Proposer's solution

The objective of this modification is to introduce the concept of CATO throughout the STC, in addition to other consequential changes. This modification is the first of three proposed modifications to the STC as part of the work being done to implement Onshore Network Competition. The second and third modifications are seeking to:

- Determine a process for establishing the TO-CATO interface, and;
- Establish the obligations of CATOs in relational to completing additional works on their system.

The subjects of modifications 2 and 3 are out of scope of this first modification, although all three will be presented to Ofgem simultaneously.

The changes listed below, which are non-exhaustive, are made on the assumption that a CATO will be granted a Transmission License and will be categorised as an Onshore

¹ <https://www.ofgem.gov.uk/publications/decision-early-competition-onshore-electricity-transmission-networks>

² [Energy Security Bill - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/bills/2022/energy-security-bill)

Transmission Owner. Our initial assessment indicated that this would include introducing the CATO concept to the STC throughout, in addition to other consequential changes. The list below covers the proposed high-level changes.

Workgroup considerations

The Workgroup convened 5 times to discuss the perceived issue, detail the scope of the proposed defect, devise potential solutions and assess the proposal in terms of the Applicable Code Objectives.

Consideration of the proposer's solution

The Workgroup requested the following changes to the TOR

- Extension of TOR (d) to the following (d) Consider the cross-code impacts that this modification has, with particular consideration of any consequential impacts to Grid Code, SQSS and CUSC.
- Additional TOR (e) Ensure that the proposed STC changes effectively implement the CATO regime in a proportionate manner, adopting minimum necessary change.

The proposer delivered a presentation on the Competitively Appointed Transmission Owners (CATOs). Issues highlighted by Workgroup members are as follows:

- Concerns regarding the lack of Connections material in the modification scope and the need to have a clear link between obligations and cost recover when looking into Connections. Proposer advised that Connections Interface will be dealt with in CM087 and for User Connections a new modification will be raised to deal with the matter.
- Questions raised regarding the revenue recovery mechanism for CATOs and if it has been established that it will be recovered in a same way the onshore TOs currently do. The Proposer advised that the basis is that the CATOs will have a tender revenue stream and won't have a RIIO business plan price control approach. The Proposer also advised that is expected for the process to be similar to the onshore TOs and reflective of the process for OFTOs (as they have tender revenue streams and site-specific charges).
- Consider the impact these changes will have on TNUoS - The Proposer clarified a CUSC modification had been raised, explaining that TNUoS would be used to recover TRS funding mechanisms for CATOs, however it is now the Proposer view that this would be better placed within the licence (establishing all the rights and obligations) rather than in the CUSC and is now considering withdrawing the CUSC modification.

Initial thoughts on Legal Text Review

The Workgroup discussed the legal text with suggestions and updates taken on board by the proposer displayed within the draft legal text in Annex 3, focusing on the following:

- CATOs representation at Panel - The need for wording to be aligned with the OFTOs provision. A Workgroup member advised that a Modification was raised to reduce the Workgroup members to 3 (CM083), Panel approved and is pending Ofgem decision. Workgroup member agreed that CATOs should be included in the Workgroups but the quoracy shouldn't be changed, should stay as 3 members. Proposer agreed to incorporate this.

- Workgroup asked for obligations be to define for CATOs instead of using the obligations for Transmission Owners.
- Workgroup member advised legally that more specification is needed regarding the location of CATOs (E&W or Scotland), suggested that maybe the license location or the boundaries of influence could help with the matter.
- Workgroup questioned if differentiation of OFTOs and CATOs was overcomplicating the process. One suggestion was made to add 'Admission of Parties to the Code' to encompass all transmission licensees. The Proposer agreed to review considering a minimal change approach.
- Workgroup member questioned the wording used for the 'Onshore Transmission System' and suggested the right term should be 'Onshore Transmission Owner'. The Proposer disagreed and felt this would have a knock-on effect and potentially exceed the remit of the CM086 modification.
- STCP 01-1
 - 3.16.1 - Concerns raised with regards the incorporation of CATOs in this clause. Different views to whether is appropriate for NGENSO to take control, with a Workgroup member advising that it depends on the tender requirements and in a case of a smaller CATO it could be OK for NGENSO to take control. Other Workgroup member disagreed and advised that if CATOs are treated as TOs they should have control of the operations.
- SCHEDULE 10
 - PART 7 – The Proposer enquired if an equivalent is needed for a CATO as it broadly follows the onshore model and felt this would apply in the same way. A Workgroup member disagreed and felt it was not relevant. The Proposer agreed and explained that interruption charges apply to all TOs (on-shore and off-shore) and that applying a CATO compensation payment on top of that, it felt like a double jeopardy for CATOs and a level of penalization that isn't there for other TOs and on that basis the Proposer will include the suggestion that Part 7 isn't duplicated for CATOs.

Draft legal text

Legal text changes details are attached as a per Annex 1:

Clerical changes to the suite of STCP to refer to CATO are also being made as part of the work to introduce the concept of CATO.

What is the impact of this change?

Proposer's assessment against STC Objectives

Relevant Objective	Identified impact
(a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act	Positive The proposed modification ensures that commercial

	and technical obligations of CATOs, as transmission licensees, are clearly established.
(b) development, maintenance and operation of an efficient, economical and coordinated system of electricity transmission	Neutral [Please provide your rationale]
(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	Neutral [Please provide your rationale]
(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	Neutral [Please provide your rationale]
(e) promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC	Neutral
(f) facilitation of access to the national electricity transmission system for generation not yet connected to the national electricity transmission system or distribution system;	Neutral
(g) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.	Neutral

Note: the proposer has revised the stated impact of these changes, taking on feedback from Workgroup during post-consultation Workgroup discussions.

Proposer's assessment of the impact of the modification on the stakeholder / consumer benefit categories	
Stakeholder / consumer benefit categories	Identified impact
Improved safety and reliability of the system	Neutral
Lower bills than would otherwise be the case	Neutral
Benefits for society as a whole	Neutral [Click or tap here to enter text.]

ESO

Reduced environmental damage	Neutral
Improved quality of service	Neutral

Standard Workgroup consultation question: Do you believe that CM086 Original proposal better facilitates the Applicable Objectives?

When will this change take place?

Implementation date

Target date Q4 2023

Date decision required by

January 2024 to achieve implementation in time for receiving bids from Q1 2024.

Implementation approach

No system or process change required

Standard Workgroup consultation question: Do you support the implementation approach?

Interactions

- | | | | |
|---|--|--|--|
| <input checked="" type="checkbox"/> Grid Code | <input checked="" type="checkbox"/> BSC | <input checked="" type="checkbox"/> CUSC | <input checked="" type="checkbox"/> SQSS |
| <input type="checkbox"/> European Network Codes | <input type="checkbox"/> Other modifications | <input type="checkbox"/> Other | |

The proposed code changes form part of the package of work to establish the frameworks for competition in onshore electricity networks, which has a key role to play in improving efficiency in network investment and driving innovative solutions to network needs, helping us meet our decarbonisation targets at the lowest cost to consumers.

Introducing the concept of CATO into the relevant industry codes establishes the obligations of CATOs and those entities interacting with the CATO assets, ensuring the safe, secure, and coordinated operation of the System.

Grid Code, CUSC and SQSS modifications have been raised. Initial engagement with Elexon indicated no consequential changes to BSC but engagement ongoing to ensure any potential changes are identified.

How to respond

Standard Workgroup consultation questions

1. Do you believe that CM086 Original proposal better facilitates the Applicable Objectives?
2. Do you support the proposed implementation approach?
3. Do you have any other comments?
4. Do you wish to raise a Workgroup Consultation Alternative request for the Workgroup to consider?

The Workgroup is seeking the views of STC Users and other interested parties in relation to the issues noted in this document and specifically in response to the questions above. Please send your response to stcteam@nationalgrideso.com using the response proforma which can be found on the STC CM086 [modification page](#).

In accordance with Governance Rules if you wish to raise a Workgroup Consultation Alternative Request, please fill in the form which you can find at the above link.

If you wish to submit a confidential response, mark the relevant box on your consultation proforma. Confidential responses will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel, Workgroup or the industry and may therefore not influence the debate to the same extent as a non-confidential response.

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
CATO	Competitively Appointed Transmission Owner
CM	Code Modification
CUSC	Connection and Use of System Code
NETS	National Electricity Transmission System
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standard
TO	Transmission Owner

Annexes

Annex	Information
Annex 1	Proposal form
Annex 2	Terms of reference
Annex 3	Legal text

Reference material

- [Energy Security Bill](#)
- [BEIS Guidance Note: Energy Security Bill factsheet: Competition in onshore electricity networks](#)
- [NGESO Early Competition Plan final publication](#)
- [Ofgem's Decision on the development of early competition in onshore electricity transmission networks sets out the model of early competition and criteria for network project eligibility to be competed \(2022\)](#)