

**Workgroup Consultation Response Proforma**

# GC0159:

## Introducing Competitively Appointed Transmission Owners

Industry parties are invited to respond to this consultation expressing their views and supplying the rationale for those views, particularly in respect of any specific questions detailed below.

Please send your responses to [grid.code@nationalgrideso.com](mailto:grid.code@nationalgrideso.com) by **5pm on 15 February 2023**. Please note that any responses received after the deadline or sent to a different email address may not receive due consideration.

If you have any queries on the content of this consultation, please contact Ruth Roberts [ruth.roberts@nationalgrideso.com](mailto:ruth.roberts@nationalgrideso.com) or [grid.code@nationalgrideso.com](mailto:grid.code@nationalgrideso.com)

Respondent details	Please enter your details
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**I wish my response to be:**

(Please mark the relevant box)

☒ Non-Confidential

☐ Confidential

*Note: A confidential response will be disclosed to the Authority in full but, unless agreed otherwise, will not be shared with the Panel or the industry and may therefore not influence the debate to the same extent as a non-confidential response.*

**For reference the Applicable Grid Code Objectives are:**

- To permit the development, maintenance and operation of an efficient, coordinated and economical system for the transmission of electricity*
- Facilitating effective competition in the generation and supply of electricity (and without limiting the foregoing, to facilitate the national electricity transmission system being made available to persons authorised to supply or generate electricity on terms which neither prevent nor restrict competition in the supply or generation of electricity);*
- Subject to sub-paragraphs (i) and (ii), to promote the security and efficiency of the electricity generation, transmission and distribution systems in the national electricity transmission system operator area taken as a whole;*
- To efficiently discharge the obligations imposed upon the licensee by this license and to comply with the Electricity Regulation and any relevant legally binding decisions of the European Commission and/or the Agency; and*

- e) *To promote efficiency in the implementation and administration of the Grid Code arrangements*

**Please express your views in the right-hand side of the table below, including your rationale.**

Standard Workgroup Consultation questions								
1	Do you believe that the Original Proposal better facilitates the Applicable Objectives?	Mark the Objectives which you believe the Original Solution better facilitates:						
		<table border="1"> <tr> <td>Original</td> <td><input type="checkbox"/>A</td> <td><input type="checkbox"/>B</td> <td><input type="checkbox"/>C</td> <td><input type="checkbox"/>D</td> <td><input type="checkbox"/>E</td> </tr> </table>	Original	<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E
		Original	<input type="checkbox"/> A	<input type="checkbox"/> B	<input type="checkbox"/> C	<input type="checkbox"/> D	<input type="checkbox"/> E	
<p>No. This modification seeks to implement minimum changes to the legal text of the Grid Code to introduce the concept of CATOs. We do not believe that the introduction of the concept of CATOs into the codes better facilitates the applicable objectives when compared to the baseline. At best the changes have a neutral impact compared to the baseline. There should not be an in-built presumption that introducing the concept of CATOs better facilitates applicable objectives (a), (b), or (c). In particular, the concept itself does not better facilitate 'the development, maintenance and operation of an efficient, coordinated and economical system for the transmission of electricity', or 'promote the security and efficiency of the electricity generation, transmission and distribution systems in the national electricity transmission system operator area taken as a whole'.</p> <p>There has been no technical assessment on the impact of fragmenting the grid through piecemeal development or whether the proposals will lead to increased risk to security of supply. There is the potential to introduce lengthy delays into the process of developing national infrastructure at a time when acceleration is required to meet government net zero targets.</p> <p>Furthermore, we do not believe that the benefits case for the CATO concept has been made or sufficiently evidenced. The proposer, in asserting that the applicable objectives are better facilitated, relies on that BEIS have 'indicated' that the introduction of CATOs 'could see savings of up to £1 billion by 2050 on projects tendered over the next ten years'. This has not been sufficiently evidenced by BEIS, for the proposer to adopt it and assert that the introduction of the concept of CATOs to the Grid Code will better facilitate the Applicable Objectives. Not least because BEIS' impact assessment states there will be a range of potential savings between minus £3m and £1bn, meaning at the lower end of</p>								

		<p>the impact assessment there would be a negative impact. We have raised concerns that the impact assessment only compares the cost of setting up the framework (i.e. the costs to the ESO of implementing the tender process and resourcing up) to the potential benefits. It therefore does not answer the question if competition would actually deliver benefits to consumers relative to TO delivery under the RIIO framework.</p> <p>We commissioned Oxera to prepare an alternative CBA that compared TO delivery to competitive delivery, and they concluded that, under a central case, there is likely to be negative outcomes for consumers. Oxera's report details concerns that the impact assessment omitted crucial areas including: the risk of a substantial delay in delivering key transmission network infrastructure; the risk of failure, either operational (of the assets) or financial (i.e. if the owner/operator enters insolvency)—the effect of the regime on security of supply; and depending on the design of the incentive regime post-bidding, there could be a risk of lower service levels and/or asset condition—although there may be steps that could be taken to mitigate this risk. Oxera's report is based on real world empirical evidence, of which the BEIS impact assessment is sorely lacking. Based on this evidence we do not believe that the Original Proposal better facilitates the Applicable Objectives (a), (b), or (c).</p> <p>If Applicable Objectives (a), (b), and (c) are negative or neutral, then the effort required to implement neutral benefit would mean applicable objective (e) is negative as there would be a negative impact on efficiency in the implementation and administration of the Grid Code arrangements.</p>
2	Do you support the proposed implementation approach?	<p><input type="checkbox"/> Yes</p> <p><input checked="" type="checkbox"/> No</p> <p>Due to the essential role electricity network infrastructure provides in keeping the lights on, enabling the transition to net zero emissions, and securing the country's future security of supply and energy independence, we believe the concept of CATOs should not be codified until sufficient evidence has been provided by policy makers that four key tests have been satisfied prior to its introduction:</p> <ol style="list-style-type: none"> <li>1. Maintain security of supply and the high reliability standards and performance of GB's electricity networks for consumers. Avoiding fragmentation of responsibility; and ensuring new entrants are subject to the same rules, responsibilities, and obligations of incumbent GB Transmission Owners.</li> </ol>

		<ol style="list-style-type: none"> <li>2. Accelerate, not delay, the delivery of the UK's legally binding net zero emissions reduction targets and efforts to secure the country's future energy independence.</li> <li>3. Provide demonstrable benefits to, and be supported by, consumers, businesses, industry, and electricity generators; underpinned by robust and transparent economic impact assessments.</li> <li>4. Lessons must be learned from extending competition in the energy retail market.</li> </ol> <p>These four key tests have not yet been met by policy makers and therefore we are concerned by the continuing implementation and codifying of CATOs as a concept within the industry codes. There is a real risk that the continued implementation of the CATO framework leads to suboptimal outcomes, delays to achieving net zero targets and increased risk and cost to consumers. We would strongly encourage the proposer to review the process for implementation with the necessary policymakers.</p> <p>Furthermore, the implementation date is dependent on Ofgem decisions confirming the assumptions CATO will be granted a Transmission License and will be categorised as an Onshore Transmission Owner as well as clarity on the roles and responsibilities of CATOs. We also note concerns raised by the Work Group that this modification presents a lot of changes and complexity and that it might rely on STC changes for support. Therefore, the implementation date should be reconsidered until these requirements have been satisfied. We would encourage the proposer to review and consult on its proposals once these key decisions have been made on the future of the framework.</p> <p>The proposed implementation approach, however, that no systems or processes will be required to change as a result of this modification is appropriate. It is consistent with the principle that CATOs will be treated as licenced TOs within the codes and therefore there is no requirement for changes to systems or processes.</p>
3	Do you have any other comments?	<p>Yes. The modification has the inbuilt assumptions CATO will be granted a Transmission License and will be categorised as an Onshore Transmission Owner. The codification of CATOs should always reflect this assumption. Where codification of the concept of CATOs deviates from this assumption a detailed justification case should be developed by the proposer and presented to the workgroup.</p>

		<p>Future proofing of the modification should be considered to ensure that duplication of effort from the proposer and workgroup members is not required. Energy Code Reform proposals seek to abolish code panels, including the Grid Code, and replace them with Stakeholder Advisory Forums, and where necessary a Technical Committee for decision making. Should this occur, the codification of the governance and membership of the Stakeholder Advisory Forums and/or Technical Committees should reflect the equivalent representation and membership of the existing panels. This would ensure that duplication of effort in ensuring appropriate representation of impacted parties is not required and minimum change required because of any decisions on Energy Code Reform.</p> <p>We note the dependency that this modification has on the outcome of modification GC0117, and this should be considered in the workgroups, any proposals, and implementation timescales.</p> <p>We also note that for STC modifications CM086 and CM087, the Workgroup added to their Terms of Reference:</p> <ul style="list-style-type: none"> <li>• Consider the cross-code impacts that this modification has, with particular consideration of any consequential impacts to [STC, Grid Code, SQSS and CUSC as appropriate], and</li> <li>• Ensure that the proposed [STC, Grid Code, SQSS and CUSC as appropriate] changes effectively implement the CATO regime in a proportionate manner, adopting minimum necessary change whilst also ensuring that the new arrangements are future proofed as much as possible.</li> </ul> <p>These requirements should be added to the terms of reference for GC0159, and should be added to all CATO modifications including CMP403 and CMP404.</p>
4	Do you wish to raise a Workgroup Consultation Alternative Request for the Workgroup to consider?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No  None.

### Specific Workgroup Consultation questions

5	The Grid Code does not specify how TOs initially form/create their RES. Noting the	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
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	workgroup discussion on this point, do you have a preferred approach that CATOs might follow to do this?	
		It would be pragmatic for CATOs to initially create their RES in a way that is cognisant of, and with reference to, the RES applicable to the TO in whose licence area they are located. Any CATO RES created in this way should place no obligation on existing TOs to maintain their RES for the benefit of CATOs or extend any existing RES related IP to them.