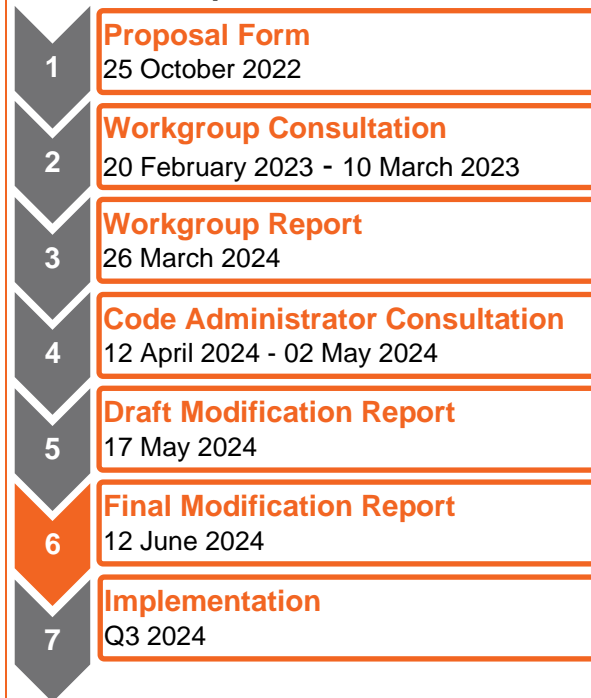


Final Modification Report

GSR031: Introducing Competitively Appointed Transmission Owners

Overview: This modification aims to introduce the concept of Competitively Appointed Transmission Owners (CATOs) to the SQSS 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 [Final Modification Report](#)

Have 120 minutes? Read the full Final Modification Report and Annexes.

Status summary: This report has been submitted to the Authority for them to decide whether this change should happen.

Panel recommendation: The Panel has recommended unanimously that the Proposer's solution is implemented.

This modification is expected to have a: **Medium impact** on the ESO, Transmission Owners and potential CATO parties (by introducing CATO arrangements)

Governance route Standard Governance modification with assessment by a Workgroup.

Who can I talk to about the change?

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Executive summary

What is the issue?

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

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 SQSS Code 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.

Implementation date: Q3 2024

Workgroup conclusions: The Workgroup concluded unanimously that the Original better facilitated the Applicable Objectives than the Baseline.

Panel recommendation: The Panel has recommended unanimously that the Proposer's solution is implemented.

What is the impact if this change is made?

The introduction of the CATO concept will impact the ESO, Transmission Owners and CATOs (by introducing CATO arrangements) and users.

Interactions

There are further modifications for the other electricity industry codes such as [Grid Code \(GC0159\)](#), [CUSC \(CMP403 and CMP404\)](#), BSC and STC ([CM086](#) and [CM087](#))

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 (The Energy Bill was given Royal Assent on 26 October 2023) 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 need to be embedded within the relevant codes. The introduction of Early Competition affects the Grid Code, SQSS, CUSC and STC among others. The ESO 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 Spring 2024.

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. The first phase of the Early Competition procurement process (the pre-tender) is set to commence in 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, endeavouring to ensure a level playing field.

What is the solution?

Proposer's solution

The objective of this modification is to implement minimum changes to the SQSS to facilitate the introduction of CATOs. The changes, which are non-exhaustive, are made on the assumption that a CATO will be granted a Transmission Licence and will be categorised as an Onshore Transmission Owner. Our initial assessment indicated that this would include introducing the Competitively Appointed Transmission Owner concept to the **SQSS Terms and Definitions**, in addition to other consequential changes including but not limited to changes to **Specifying the Standards that will apply to CATO assets in the respective incumbent TO areas**.

This will be achieved through the proposed high-level changes to the SQSS legal text.

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

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

Workgroup considerations

The Workgroup convened 6 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 Objectives.

Consideration of the proposer's solution

The Proposer took the Workgroup through the background and the aim of the modification to introduce the concept of Competitively Appointed Transmission Owners (CATOs) for the purposes of introducing Onshore Network Competition for the design, build and ownership of Onshore Transmission assets.

- A Workgroup Member queried where the involvement of Transmission Service Providers was within the Modification, the Proposer confirmed that the Modification focused on CATOs not Transmission Service Providers. – Request sent to Panel on 25 January 2023 to alter the modification title from “GSR031: Introducing Competitively Appointed Transmission Owners & Transmission Service Providers” to “GSR031: Introducing Competitively Appointed Transmission Owners.

The Proposer stated that the modification aims to implement minimal changes to the SQSS legal text, and the Workgroup was broadly supportive of the proposed changes that included:

- Adding the definition of “Competitively Appointed Transmission Owner” (Section 11 Terms and Definitions).
- Amending the definition of “Onshore Transmission Licensee” to include CATO (Section 11 Terms and Definitions); and
- Adding a clause for where CATOs interface with more than one TO, with the higher standard being determined within the tendering process (Added 1.23.3 (not intended to extent the applicability of the criteria of 4.6.6 into assets beyond NEG T Transmission system) to Section 1 Overlap of Criteria).
 - 9 examples have been identified within the SQSS regarding difference between connecting to more than one TO which the Proposer believes are resolved with their proposed legal text alongside the existing geographically defined threshold classifications.

The Workgroup discussed the draft legal text and main highlights were:

- Terminology used to describe the Onshore Transmission Licensee, as there was concern that were it amended to say ‘person or company’ instead of stipulating the individual Transmission Licensee there could be unintended consequences.
- Whether a new clause (where a CATO interfaces with more than one Transmission Licensee) was required to provide clarity to new entrants or whether it would sit better under the existing 1.23 clause (overlap of criteria)
- There was a similar debate around the necessity for a separate new clause (where a CATO transmission system connects to a single Transmission Licensee) as the Proposer believed that it provided clarity for new entrants.

The Workgroup agreed that rather than having stand-alone clauses outlining the CATO interfaces with Transmission Licensees, it would be simpler for industry for this information to be included throughout the existing legal text.

The Workgroup had a discussion around “Transmission Area” and “Transmission System Area”, the Workgroup agreed that the basis for this modification is that there are only 3 Transmission Areas and the CATOs will exist within one or more (that will be defined within their Licence’s). It is anticipated that the CATO Licence will further specify where CATOs will interface with parts of a transmission system within a transmission area.

Workgroup Consultation Summary

The Workgroup held their Workgroup Consultation between 20 February 2023 – 10 March 2023 and received 2 non – confidential responses. The full responses and a summary of the responses can be found in Annex 5.

In summary:

- One respondent supports the modification but advises that the defect in the SQSS will only exist when the enabling legislation has been enacted. The respondent believes the modification should not be submitted for decision until the relevant enabling legislation has been enacted.
- The other respondent doesn’t support the implementation approach and advises that the Proposer assumption is that CATOs will be treated as TOs, and in this case introducing the concept to the legal text is not improving the Code, as the arrangement to TOs already exist. The respondent raised concerns that the impact assessment only compared the cost of setting up the framework, therefore does not answer the question if the Early Competition regime would deliver benefits to consumers relative to TO delivery under the RIIO framework. The respondent also suggests adding to the Terms of Reference (similar to CM086 and CM087) and that the Proposer should reassess the modification against the Code objectives.

Based on the feedback given by the Workgroup the Proposer agreed to review their assessments against the SQSS objectives, as there was concern that rather than assessing against enabling CATOs to connect to the system the assessment had been based on the benefits of introducing CATOs.

The Workgroup agreed to submit two new Terms of Reference to the SQSS Panel to reflect the changed in the Terms of Reference for modification [GC0159](#).

It was suggested that the primary Legislation should be passed before the modification is approved. The Proposer and Workgroup agreed to have the primary legislation in place prior to submitting the modification.

Post Energy Bill 2023 Royal Assent

The Workgroup convened on the 30 November 2023 to progress the work on this modification ,following the [Energy Act 2023](#) receiving the Royal Assent on the 26 October 2023.

It was agreed by the Workgroup that the Legislation is as expected, and all the work done within this modification is accurate and reflective of it.

The Workgroup Report was presented to the SQSS Panel on 24 January 2024.

The Panel agreed that the Workgroup needed to update the legal text; specifically, that the Large Power Station, Medium Power Station, Small Power Station, and Transmission System definitions should be aligned with the Grid Code.

The Workgroup convened on the 20 March 2024 and agreed with the changes to the legal text and that their votes had been unchanged from 15 December 2023.

The SQSS Panel received the Workgroup Report at its meeting on 9th April and agreed that the Terms of Reference had been completed. During those deliberations a Panel member flagged that the reference at the bottom of page 5 to the Workgroup discussions around “Transmission Area” and “Transmission System” appeared to be erroneous as the ‘Transmission Area’ of a CATO would be set out in Special Condition 1B of the Transmission Licence for that CATO (as it is currently with the existing onshore TOs) and that this could thus include a CATO (as an onshore transmission licensee) connecting three onshore points but where much of the associated transmission elements are in offshore waters. The hypothetical example given was a sub-sea link between Aberdeenshire (Peterhead) and the Thames Estuary (Grain) with a ‘t’ spur to East Lothian (Torness) which would thus involve the CATO and all three current onshore TOs. The Panel agreed to note this in the context of the proposed wording at 1.23.3 and to flag this in the Code Administrator Consultation.

Legal text

The legal text for this change can be found in Annex 3.

The main changes to the SQSS are largely inconsequential and cover issues mainly relating to Definitions.

What is the impact of this change?

Proposer’s assessment against Code Objectives

Proposer’s assessment against SQSS Objectives	
Relevant Objective	Identified impact
(i) facilitate the planning, development and maintenance of an efficient, coordinated and economical system of electricity transmission, and the operation of that system in an efficient, economic and coordinated manner;	Positive 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.
(ii) ensure an appropriate level of security and quality of supply and safe operation of the National Electricity Transmission System;	Neutral
(iii) facilitate effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the distribution of electricity; and	Positive The Energy Bill, approved 26 October 2023, provides for tendering of onshore transmission projects and their delivery by competitively appointed transmission owners (CATOs).

(iv) facilitate electricity Transmission Licensees to comply with any relevant obligations under EU law	Neutral -
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Note: The Proposer 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
Reduced environmental damage	Neutral
Improved quality of service	Neutral

Workgroup vote

The Workgroup met on 15 December 2023 to carry out their Workgroup vote. The full Workgroup vote can be found in Annex 6. The table below provides a summary of the Workgroup members view on the best option to implement this change.

The Applicable SQSS Objectives are:

- i) facilitate the planning, development and maintenance of an efficient, coordinated and economical system of electricity transmission, and the operation of that system in an efficient, economic and coordinated manner;
- ii) ensure an appropriate level of security and quality of supply and safe operation of the National Electricity Transmission System;
- iii) facilitate effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the distribution of electricity; and
- iv) facilitate electricity Transmission Licensees to comply with any relevant obligations under EU law.

The Workgroup concluded unanimously that the Original better facilitated the Applicable Objectives than the Baseline.

Option	Number of voters that voted this option as better than the Baseline
Original	6

Code Administrator Consultation Summary

The Code Administrator Consultation was issued on the 12 April 2024 closed on 02 May 2024 and received 1 response. A summary of the response can be found in the table below, and the full response can be found in Annex 8.

Code Administrator Consultation summary	
Question	
Do you believe that the Original Proposal better facilitates the Applicable SQSS Objectives?	The respondent stated that the change would better facilitate objectives i) and iii).
Do you support the proposed implementation approach?	The respondent supports the implementation approach.
Do you have any other comments?	This modification forms part of a suite of modifications across the Codes to enable implementation of Early Competition through the CATO regime. The delivery of transmission projects through early competition will play a role in this and supports delivery and value to the consumer.
Legal text issues raised in the consultation	
No legal text issues were raised as part of the Code Administrator Consultation.	

Panel Recommendation/Determination vote

The Panel met on the 03 June 2024 to carry out their recommendation vote. They assessed whether a change should be made to the SQSS by assessing the proposed change and any alternatives against the Applicable Objectives.

Vote 1: Does the Original facilitate the Applicable Objectives better than the Baseline?

Panel Member: **Alan Creighton, DNO Representative**

	Better facilitates AO (i)?	Better facilitates AO (ii)?	Better facilitates AO (iii)?	Better facilitates AO (iv)?	Overall (Y/N)
Original	Yes	Yes	Neutral	Neutral	Yes
Voting Statement					
The modification facilitates the creation of CATOs. I would also like to make the following observation on the proposed legal text: 1 The Grid Code modification uses the term 'Competitively Appointed Transmission Licensee' rather than 'Competitively Appointed Transmission Owner', although the definitions are the same. Consistency between the codes would be less confusing.					

Panel Member: **Garth Graham, Generation Representative**

	Better facilitates AO (i)?	Better facilitates AO (ii)?	Better facilitates AO (iii)?	Better facilitates AO (iv)?	Overall (Y/N)
Original	Yes	Yes	Neutral	Yes	Yes
Voting Statement					
I believe that GSR031 does better facilitate the SQSS Applicable Objectives in respect of (i), (ii), and (iv) whilst being neutral in terms of (iii).					

The reasons for the change arises from the policy objectives that Parliament approved, with the recent Energy Act, that introduces CATOs.

In coming to this view I am mindful of the UK Government’s positive response, in November 2023, to the Winser Review and in particular the statement (on page 36) that: *“The government agrees that greater coordination between the ESO and later the FSO (once established), Ofgem, TOs and equipment manufacturers on equipment standards would be beneficial.”* [emphasis added].

The Government then goes on to state (also on page 36), under ‘Next Steps’, that: *“Key stakeholders will convene in 2023 to discuss manufacturing efficiency and international compatibility benefits associated with standardisation proposals that fall within the scope of its function. The TOs, and ESO (and then FSO, when established) will design a process to implement equipment standardisation recommendations, agreed at the forum, by the end of 2024.”* [emphasis added].

This being so, I observe that this should ensure a harmonised approach to equipment standards, for transmission owners, across GB; making the second part of 1.23.3 (“that section would have to meet the criteria applicable to the transmission systems it extends between”) effectively superfluous as all the three existing TOs and any future CATOs will all be operating to the same, single, criteria (rather than plural criteria, as at present) across GB.

The above, in my view, is evidence in support of this proposal being better in respect of (i), (ii), and (iv).

Furthermore, as such this will further facilitate and support the move to CATOs in a way that helps minimises the cost to end consumers, as evidenced in the Winser Review (at 5.3 Standardisation of Equipment Challenge) which stated that the potential benefits, of a harmonised equipment standard, *“include speed of supply, diversity of supply, lower cost through economies of scale, and introduction of innovation, amongst others”*.

Panel Member: **Antony Johnson, ESO Representative**

	Better facilitates AO (i)?	Better facilitates AO (ii)?	Better facilitates AO (iii)?	Better facilitates AO (iv)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Yes

Voting Statement

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.

The Energy Bill, approved 26 October 2023, provides for tendering of onshore transmission projects and their delivery by competitively appointed transmission owners (CATOs).

Panel Member: **Le Fu, NGET Representative**

	Better facilitates AO (i)?	Better facilitates AO (ii)?	Better facilitates AO (iii)?	Better facilitates AO (iv)?	Overall (Y/N)
Original	Yes	Neutral	Yes	Neutral	Yes
Voting Statement					
No statement provided.					

Panel Member: **Mike Lee, OFTO Representative**

	Better facilitates AO (i)?	Better facilitates AO (ii)?	Better facilitates AO (iii)?	Better facilitates AO (iv)?	Overall (Y/N)
Original	Yes	Yes	Neutral	Neutral	Yes
Voting Statement					
<p>The Energy Bill was approved in October 2023, and this introduces the concept of competitive tendering of onshore transmission projects and delivery of such infrastructure by competitively appointed transmission owners. OFTOs support the introduction of competition in onshore transmission, as the OFTO regime has been shown to bring significant benefits for consumers.</p> <p>Introducing the concept of CATOs in the industry codes is an essential prerequisite of this and we support the proposed amendments.</p>					

Panel Member: **Roddy Wilson, Scottish Hydro Electricity Transmission Representative**

	Better facilitates AO (i)?	Better facilitates AO (ii)?	Better facilitates AO (iii)?	Better facilitates AO (iv)?	Overall (Y/N)
Original	Yes	Yes	Neutral	Neutral	Yes
Voting Statement					
<p>This modification reflects the introduction of CATOs in the recent Energy security bill legislation and hence is positive under objective (i). It makes the changes to the SQSS to include CATOs alongside the existing provisions for existing onshore Transmission Owners. As such it is neutral with respect to the other three objectives since these equally apply to existing licensees as well as CATOs. Going forward it is important that the inclusion of CATOs within the SQSS and subsequent implementation maintains security of supply and the existing high reliability standards and performance of GB's electricity networks for consumers and avoids fragmentation of responsibility.</p>					

Panel Member: **Graeme Vincent, SP Transmission Representative**

	Better facilitates AO (i)?	Better facilitates AO (ii)?	Better facilitates AO (iii)?	Better facilitates AO (iv)?	Overall (Y/N)
Original	Yes	Yes	Neutral	Neutral	Yes
Voting Statement					
<p>Recognising Competitively Awarded Transmission Owners within the SQSS will ensure that the national electricity transmission system is planned, developed and maintained to a consistent standard by all appropriate parties.</p>					

Vote 2 – Which option best meets the Applicable Objectives?

Panel Member	BEST Option?	Which objectives does this option better facilitate? (If baseline not applicable).
Alan Creighton	Original	i and ii
Garth Graham	Original	i,ii, and iv
Antony Johnson	Original	i and iii
Le Fu	Original	i and iii
Mike Lee	Original	i and ii
Roddy Wilson	Original	i and ii
Graeme Vincent	Original	i and ii

Panel conclusion

The Panel has recommended unanimously that the Proposer's solution is implemented.

When will this change take place?**Implementation date**

Target date Q3 2024

Date decision required by

Q2 2024.

Implementation approach

No systems or processes will be required to change as a result of this modification.

Interactions

Grid Code BSC STC CUSC
 European EBR Article 18 Other Other
 Network Codes T&Cs³ modifications

Acronyms, key terms and reference material

Acronym / key term	Meaning
BSC	Balancing and Settlement Code
CATO	Competitively Appointed Transmission Owner
CMP	CUSC Modification Proposal
CUSC	Connection and Use of System Code
EBR	Electricity Balancing Guideline
GC	Grid Code
Q1	Quarter 1 (January to March)
Q2	Quarter 2 (May to June)
Q3	Quarter 3 (July to September)
Q4	Quarter 4 (October to December)

³ If the modification has an impact on Article 18 T&Cs, it will need to follow the process set out in Article 18 of the Electricity Balancing Regulation (EBR – EU Regulation 2017/2195) – the main aspect of this is that the modification will need to be consulted on for 1 month in the Code Administrator Consultation phase. N.B. This will also satisfy the requirements of the NCER process.

SQSS	Security and Quality of Supply Standards
STC	System Operator Transmission Owner Code
T&Cs	Terms and Conditions

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 \(2022\)](#)
- [Energy Act 2023](#)

Annexes

Annex	Information
Annex 1	Proposal form
Annex 2	Terms of reference
Annex 3	Legal Text
Annex 4	What is a CATO
Annex 5	Workgroup consultation responses
Annex 6	Workgroup vote
Annex 7	Distribution List
Annex 8	Code Administrator Consultation Responses