

To:

National Energy System
Operator, all holders of an
electricity transmission licence,
and other interested parties

Email: industrycodes@ofgem.gov.uk

Date: 11 December 2024

Dear colleagues,

Decision on proposed modifications to conditions A1 and E7 of the electricity system operator licence and on modifications to standard conditions A1, D1, D3 and E16 of the electricity transmission licence

We¹ published a consultation on proposed changes to conditions A1 (Definitions) and E7 (Transmission system security standard and quality of service) of the Electricity System Operator Licence and to standard conditions D3 and E16 (Transmission system security standard and quality of service) of the Electricity Transmission Licence on 8 October 2024.² This letter sets out our decision to make modifications to the electricity system operator and electricity transmission licences to implement the changes we consulted upon, with a few minor alterations, after having carefully considered responses to our consultation.

The reason for our proposal to amend the existing licence conditions was to place obligations on National Energy System Operator (NESO) to maintain the National Electricity Transmission System Security and Quality of Supply Standard (SQSS). This will enable the Secretary of State to designate the SQSS as a 'qualifying document' for the purposes of Schedule 12 of the Energy Act 2023 (the Act), which will allow us to use our transitional powers under the Act with respect to the SQSS.

¹ References to the "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Authority refers to the Gas and Electricity Markets Authority (GEMA). The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day-to-day work.

² [SQSS code maintenance: Statutory consultation on proposed modifications to the electricity system operator and electricity transmission licences | Ofgem](#)

These transitional powers are intended to facilitate the implementation of the new code governance framework provided for in Part 6 of the Act. We therefore consider the implementation of these licence modifications to be an important step towards realising the benefits of code reform.

Responses to our consultation

We received four responses to our consultation, including responses from NESO, electricity transmission owners, and a member of the public. Three of these responses were supportive of the modifications and one was opposed, the latter of which was on process grounds rather than the substantive content of the proposed licence modification. We have responded to all comments below, and outlined a number of changes to our drafting as a result of them, which are included in the Schedules to the notices published alongside this decision letter.

NESO response

NESO's response was broadly supportive of our proposed modifications but suggested a need for alignment between the licence and the SQSS Governance Framework. We note that paragraph E7.18 as drafted will require NESO to progress any modifications to the SQSS necessary to comply with the new licence condition by 31 March 2025. This could mean, for example, bringing a suitably modified version of the existing voluntary SQSS Governance Framework into the code itself.

NESO also commented that condition E7.14 as drafted made no provision for a Panel, and suggested that a more prescriptive governance framework would facilitate better management of the SQSS. We consider that condition E7.14 does make provision for an SQSS Panel, with panel composition currently provided for in the SQSS Governance Framework. We consider that the licence is sufficiently prescriptive, with scope for the code to set out further prescription on governance, as is currently done in the voluntary Governance Framework.

Other responses

One respondent made a similar point about alignment between the licence and the SQSS Governance Framework. We consider that we have addressed this with our response above.

A respondent also asked for clarity on why we have made reference to small participants and consumer representatives in paragraph E7.15(b) (i) and (ii), considering this to be a departure from the existing governance framework. We noted in our consultation that, by

describing the requirements at the interface between network licensees and their customers, technical standards have direct impacts on consumers. We therefore consider it appropriate that consumer representatives should be able to consider modification proposals, and that any views expressed by consumer representatives or small participants are properly considered.

However, we recognise that the existing SQSS Governance Framework³ (at paragraph 5.2.4.2(a)) requires only that an industry consultation for each modification is published on the Independent System Operator and Planner's (ISOP) website. We consider this to be sufficient for bringing modifications to the attention of consumer representatives, noting our intention to formalise existing governance arrangements rather than substantively changing the day-to-day governance of the SQSS at this time, and have clarified the drafting accordingly in Schedule 1 to the notice published alongside this decision letter. We also note that paragraph 5.2.5.1 of the SQSS Governance Framework already requires the Panel Secretary to incorporate comments on the industry consultation in the Modification Report.

One respondent suggested defining the National Electricity Transmission System Security and Quality of Supply Standard as the 'SQSS' in the electricity Transmission Licence as well as the ESO licence. We agree that this would be helpful and have included this change to our drafting in Schedule 1 to the notice published alongside this decision letter.

Another respondent asked for reassurance that we followed due process in sending copies of our consultation to relevant people as required by the Electricity Act 1989. We can confirm that, in accordance with s11A(4)(b) of the Electricity Act 1989, we sent copies of our consultation on the date of publication to the Secretary of State, Citizens Advice, Consumer Scotland and all relevant licence holders.

Another comment sought clarity on our reasons for modifying the Electricity System Operator Licence rather than the electricity Transmission Licence, as proposed in our January 2024 consultation on the implementation of code reform,⁴ and asked why a copy of the original licence was not included in our consultation. The change to which licence we proposed to modify was due to the designation of NESO as the Independent System Operator and Planner (ISOP) and it being granted an Electricity System Operator (ESO) licence on 1 October 2024. The licence text contained in both the new ESO licence (granted as of 1 October 2024) and the electricity transmission licence at the time of publication of

³ [SQSS Code Documents | National Energy System Operator](#)

⁴ <https://www.ofgem.gov.uk/consultation/energy-code-reform-implementation-consultation>

our consultation (8 October 2024) was used as a baseline, with our proposed changes shown by way of strikethrough for deleted text and double underline for the new proposals.

One respondent called for clarity on the timing of formalising the process of SQSS code modification. We note that paragraph E7.18 requires NESO to progress any changes necessary to the SQSS to comply with condition E7 by 31 March 2025.

Finally, one respondent suggested that more fundamental modification of the SQSS was needed to better align existing industry processes and the overarching obligations of the SQSS. We have noted this comment but, as the respondent acknowledged, we consider this to be outside the scope of these modifications, which are intended to enable the SQSS to be designated as a 'qualifying document' for the purposes of Schedule 12 to the Energy Act, to help us realise the benefits of energy code reform through use of our transitional powers. Once the SQSS has been designated, we will keep its governance arrangements under review as the work on the implementation of code reform continues to progress, and we will consult on any future proposals in due course.

Our decision

Following careful consideration of responses, we have decided to implement the licence modifications set out in Schedules 1 and 2 of this document. These modifications incorporate the minor changes we have noted above into the drafting we proposed in our October consultation. The Schedules published alongside this document include tracked-change versions of the modifications we will be implementing, with alterations from the text included in our statutory consultation highlighted in yellow.

The licence modifications will come into effect on 7 February 2025. A copy of this letter will be published on our website.

Yours sincerely



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Ofgem