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National Grid Electricity Transmission plc, STC signatories
and Other Interested Parties

Direct Dial: 020 7901 7366

24 July 2006

Our Ref: blm/I06 022

Dear Colleague,

**Modification to the System Operator - Transmission Owner Code ("STC")
- Decision and Direction in relation to Proposed Amendment CA020 "GB
Transmission System Performance Reporting".**

The Gas and Electricity Markets Authority (the "Authority"¹) has considered the issues raised in the Amendment Report² in respect of Proposed Amendment CA020 "GB Transmission System Performance Reporting".

The Committee recommended to the Authority that Proposed Amendment CA020 should be approved. The Committee recommends that should Proposed Amendment CA020 be approved, the implementation date should be 5 business days after the Authority's decision.

Having considered the Amendment Report and the recommendation of the Committee and having regard to the Applicable STC Objectives³ and Ofgem's

¹ Ofgem is the office of the Authority. The terms "Ofgem" and "the Authority" are used interchangeably in this letter.

² CA020 Amendment Report dated 20 June 2006.

³ The Applicable STC Objectives are contained in General Condition B12 of the Licence to transmit electricity treated as granted to NGET, SHETL and SPTL under section 6 of the Electricity Act 1989 (the "Transmission Licence") and are:

- (a) efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act (as amended);
- (b) development, maintenance and operation of an efficient, economical and co-ordinated system of electricity transmission;
- (c) facilitating effective competition in the generation and supply of electricity, and (so far as is consistent therewith) facilitating such competition in the distribution of electricity;
- (d) protection of the security and quality of supply and safe operation of the GB transmission system insofar as it relates to interactions between transmission licensees; and
- (e) promotion of good industry practice and the efficiency in the implementation and administration of the arrangements described in the STC.

wider statutory duties,⁴ the Authority has decided to direct an Amendment to the STC in line with Proposed Amendment CA020 as detailed in the Amendment Report.

This letter explains the background to CA020, and sets out the Authority's reasons for its decision. This letter constitutes notice by the Authority under section 49A of the Electricity Act 1989.

Background

National Grid Electricity Transmission plc ("NGET") is obliged by condition C17 of the transmission licence to:-

- Have in force a statement approved by the Authority setting out the criteria by which system availability, security and service quality of the GB Transmission System will be measured (the "Statement").
- Submit an annual report to the Authority on the performance of the GB Transmission System against the criteria defined in the Statement (the "Report").
- Define in the Statement the information that NGET requires from SP Transmission Ltd ("SPT") and Scottish Hydro Electric Transmission Ltd ("SHETL") to prepare the Report.

SPT and SHETL are obliged by condition D3 of the transmission licence to provide NGET with the information it requires to prepare the Report.

SPT submitted Amendment Proposal CA020 on 15 March 2006. Amendment Proposal CA020 is intended to establish a process in the STC to facilitate the discharge of these transmission licence requirements.

This STC Amendment Proposal was considered at the Committee meeting on 22 March 2006. The Committee determined that a Working Group should be established to consider the Amendment Proposal.

The Working Group reported to the Committee meeting on 18 April 2006. The Committee recommended that Amendment Proposal CA020 should proceed to the Assessment and Report Phase. NGET, on behalf of the Committee, issued a consultation paper on 22 May 2006 with responses invited by 6 June 2006. The final Amendment Report was submitted to the Authority on 20 June 2006.

The Modification Proposal

Amendment Proposal CA020 would establish a process in the STC to facilitate NGET's production of the Report. CA020 also includes a process to allow proposals to change the Statement to be developed by the transmission licensees.

The CA020 process is based on the existing STC process by which transmission licensees co-operate to enable NGET to produce the Seven Year Statement publications.

SPT considers that the proposed CA020 process would facilitate the development of the Statement which would aid the transmission licensees in the development,

⁴ Ofgem's statutory duties are wider than the matters that the Panel must take into consideration and are detailed primarily in the Electricity Act 1989 as amended, including by the Enterprise Act 2002; the Energy Act 2004; the Transitional Provisions; and the Utilities Act 2000.

maintenance and operation of an efficient, economical and co-ordinated system of electricity transmission.

STC Parties Assessment

NGET is supportive of CA020. NGET reported that the implementation of the proposed CA020 changes to the STC would not: -

- Have a physical impact on NGET's transmission system.
- Require changes to the IS systems.
- Require additional works or monies.

SHETL is supportive of CA020. SHETL reported that there will be no significant additional costs as a result of these proposed changes to the STC. SHETL considers that the proposed STC process in CA020 is consistent with other STC processes for jointly produced documents.

SPT is supportive of CA020. SPT reported that the implementation of the proposed CA020 changes to the STC would not: -

- Have a physical impact on SPT's transmission system.
- Require changes to the IS systems.
- Require additional works or monies.

Alternative Amendments

No alternative amendments to CA020 were submitted.

Respondents' views

No responses were received from any other industry parties.

Committee's views and Recommendation

The Committee recommends that CA020 should be approved and the implementation date be 5 business days following the Authority's decision.

The STC Committee considers that CA020 will better facilitate the achievement of the Applicable STC Objectives. In particular the STC Committee considers that CA020 would: -

- Aid the licensees in the development, maintenance and operation of an efficient, economical and co-ordinated system of electricity transmission by establishing an STC process for the development of the Report.
- Enable the more efficient discharge of the obligations imposed by standard conditions C17 and D3 of the transmission licence by providing clarity in a detailed STC process.

Ofgem's view

Having considered the Amendment Report in the context of the Applicable STC Objectives and its statutory duties, Ofgem considers that the Amendment Proposal CA020 would better facilitate the achievement of the relevant STC Objectives.

Ofgem notes that CA020 is intended to establish a new process in the STC which would define detailed arrangements for the exchange of information required for the production of the Report. Ofgem considers that the proposed STC process will define specific working arrangements for the production of the Report. Ofgem agrees with the Committee's view that this additional clarity will enable

the more efficient discharge by the licensees of their relevant licence obligations in respect of the Report (conditions C17 and D3 of the transmission licensee).

Ofgem acknowledges that the CA020 process provides for the transmission licensees to:-

- Agree a timetable for the works required to prepare the Report.
- Exchange relevant information.
- Agree the content of the Report.

Ofgem further notes that the CA020 process provides for circumstances where licensees are unable to reach agreement and that the Authority may be required to have a dispute resolution role should the dispute not be resolved under the Escalation process in the STC⁵.

Ofgem notes that the proposed changes to the STC will not change NGET's licence obligation to provide the Authority with a copy of the Report by the end of July each year. Ofgem acknowledges that under the CA020 process, NGET's view on the content of the Report will prevail if agreement is not reached with either SPT or SHETL. Ofgem considers that this provision is necessary to ensure that NGET could not be prevented by the STC process from discharging its licence obligation.

Ofgem notes that CA020 process also provides for the exchange of information between transmission licensees to develop proposals to change the Statement. Ofgem considers that there may be occasions where the criteria in the Statement may need to be reviewed and that it may be appropriate for transmission licensees to develop change proposals. However, Ofgem notes that changes to the Statement can only be made with the Authority's consent.

The Authority's Direction

The Authority has decided to direct that Proposed Amendment CA020, as set out in the Amendment Report, should be made and implemented.

The modification is to be implemented and take effect 5 business days after the Authority's decision.

In accordance with Condition B12.7 (c) of NGET's Transmission Licence, NGET shall modify the STC in accordance with this direction of the Authority.

If you have any queries in relation to the issues raised in this letter, please feel free to contact me on the above number or alternatively contact Bridget Morgan on 020 7901 7080.

Yours sincerely,



John Scott
Technical Director

Signed on behalf of the Authority and authorised for that purpose by the Authority

⁵ STC Section H3