

Draft Final Modification Report

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

1	Proposal Form 22 December 2022
2	Workgroup Consultation 05 June 2023 - 05 July 2023
3	Workgroup Report 05 December 2023
4	Code Administrator Consultation 08 January 2024 – 08 February 2024
5	Draft Final Modification Report 20 February 2024
6	Final Modification Report 26 March 2024
7	Implementation 10 WD after Authority decision

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

Have 20 minutes? Read the full [Draft Final Modification Report](#)

Have 30 minutes? Read the full Draft Final Modification Report and Annexes.

Status summary: The Draft Final Modification Report has been prepared for the recommendation vote at Panel.

Panel recommendation: The Panel will meet on 28 February 2024 to carry out their recommendation vote.

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

Governance route Standard Governance with a Workgroup

Who can I talk to about the change?

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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 two proposed modifications to the STC as part of the work being done to implement Onshore Network Competition.

Implementation date: 10 working days after an Authority decision.

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

Panel recommendation Panel will meet on 28 February 2024 to carry out their recommendation vote.

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. Modifications [CM087](#), [GC0159](#), [CMP403](#), [CMP404](#) and [GSR031](#) have also been raised alongside this one.

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, which was introduced to Parliament on 6 July 2022. This received Royal Assent on 26 October 2023 and makes provision to enable competitive tenders for delivery of onshore electricity network assets. The Bill introduces 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 also extends 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 other codes. The ESO have proposed this modification in association with modifications [CM087](#), [GC0159](#), [CMP403](#), [CMP404](#) and [GSR031](#).

Why change?

Introducing the concept of CATOs to the relevant industry codes ensures the safe, secure and coordinated operation of the National Electricity Transmission System (NETS) 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 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 introduce the concept of CATO throughout the STC, in addition to other consequential changes. This modification is the first of two proposed modifications to the STC as part of the work being done to implement Onshore Network Competition.

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 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.

So far as CATOs are concerned, the principle is for them to follow the requirements of the STC, allowing for the fact that the STC as currently written does not include a CATO Connections process. To address this issue, the main areas where the STC requires updating is with regard to Section D and the introduction of two new STCPs, namely CATO

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

² [Energy Security Bill - GOV.UK \(www.gov.uk\)](#)

Connections Process (STCP 18-5) and a Compliance Process (STCP 19-7), plus amendments to other Procedures (STCP12-1 and STCP16-1). The details of the STC changed (Section D) and STCPs are captured in the CM087 modification.

Workgroup considerations

The Workgroup convened 7 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 Terms of Reference were later updated again to reflect changes in the Terms of Reference for modification [GC0159](#).

The Proposer delivered a presentation on the Competitively Appointed Transmission Owners (CATOs). Issues highlighted by Workgroup members were 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. The Proposer advised that Connections Interface will be dealt with in CM087.
- Questions raised regarding the revenue recovery mechanism for CATOs and if it has been established that revenue will be recovered in a same way the Onshore TOs currently recover it. The Proposer advised that the basis is that the CATOs will have a tender revenue stream and will not have a RIIO business plan price control approach. The Proposer also advised that it 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 that CUSC modifications had been raised ([CMP403 and CMP404](#)), explaining that TNUoS would be used to recover TRS (Tender Revenue Stream) funding mechanisms for CATOs. The Proposer deliberated whether TRS recovery would be best placed within the license (establishing all the rights and obligations) and considered withdrawing the CUSC mods, however decided not to.

Legal Text Review

The Workgroup discussed the legal text with suggestions and updates taken on board by the Proposer displayed within the final 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 members 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.

- Asks for the obligations be to defined for CATOs instead of using the obligations for Transmission Owners.
- Suggestions that legally more specification is needed regarding the location of CATOs (E&W or Scotland), advised that maybe the license location or the boundaries of influence could help with the matter.
- Questions around 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.
- Questions about 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 it was appropriate for ESO 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 ESO to take control. Other Workgroup members 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, would feel like a double jeopardy for CATOs and a level of penalisation that is not there for other TOs. On that basis, the Proposer will include the suggestion that Part 7 is not duplicated for CATOs.

Workgroup consultation summary

The Workgroup held their Workgroup Consultation between 05 June 2023 – 05 July 2023 and received one non-confidential response and no confidential responses. The full response can be found in Annex 4.

The Workgroup Consultation responses:

- Supported the proposed implementation approach, provided that the modification is submitted for decision after the enabling legislation has been enacted.
- Stated that the Original Proposal better facilitated Applicable Objective (a), however did not believe that the Original Proposal better facilitated the other Applicable Objectives, due to increased risk and complexity in operation of the system from introducing a new party into the NETS.
- Does not support introduction of CATOs due to insufficient evidence of benefits of the CATO concept.

The Workgroup discussed the Workgroup Consultation response and had no further comments.

It was suggested that the primary Legislation should be passed before the modification is approved. The Proposer and the 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 21 November 2023 to progress the work on this modification, as the [Energy Bill 2023](#) received the Royal Assent on the 26 October 2023.

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

Legal text

Full legal text for this modification can be found in Annex 3.

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	<p>Positive</p> <p>The Energy Bill was approved on 26th October 2023 provides for the adoption of CATOs. This modification is to facilitate this Legislation.</p> <p>The proposed modification ensures that commercial and technical obligations of CATOs, as transmission licensees, are clearly established.</p>
(b) development, maintenance and operation of an efficient, economical and coordinated system of electricity transmission	Neutral
(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
(d) protection of the security and quality of supply and safe operation of the national electricity transmission system	Neutral

insofar as it relates to interactions between transmission licensees	
(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
Reduced environmental damage	Neutral
Improved quality of service	Neutral

Workgroup vote

The workgroup met on 21 November 2023 to carry out their workgroup vote. The full Workgroup vote can be found in Annex 5. The table below provides a summary of the Workgroup members view on the best option to implement this change.

The Applicable STC Objectives are:

STC

- efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act
- development, maintenance and operation of an efficient, economical and coordinated system of electricity transmission

- 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
- 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.
- e) promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC.
- f) facilitation of access to the national electricity transmission system for generation not yet connected to the national electricity transmission system or distribution system.
- g) compliance with the Electricity Regulation and any relevant legally binding decision of the European Commission and/or the Agency.

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	4

Code Administrator Consultation Summary

The Code Administrator Consultation was issued on the 08 January 2024, closed on 08 February 2024, and received 2 non-confidential responses and 0 confidential responses including 0 late responses. A summary of the responses can be found in the table below, and the full responses can be found in Annex 8.

Code Administrator Consultation summary	
Question	
Do you believe that the CM086 Original Proposal better facilitates the Applicable STC Objectives?	Both respondents stated that the change would better facilitate objective (a), with both preferring the Original solution over the Baseline. One respondent believes that CATOs introduce more risk and complexity into the operation of the NETS, noting that they do not agree that the establishment of CATOs will further the STC objectives. However, they noted that introducing the concept of CATOs is required to facilitate the Energy Bill. The other respondent highlighted that this modification clearly establishes the obligations of CATOs.
Do you support the proposed implementation approach?	Both respondents indicated that they support the implementation approach.
Do you have any other comments?	One respondent noted that the modification is part of a suite of modifications to enable implementation of Early Competition through the CATO regime.
Legal text issues raised in the consultation	
No legal text issues were raised as part of this consultation.	

Panel Recommendation Vote

The Panel will meet on the 28 February 2024 to carry out their recommendation vote. They will assess whether a change should be made to the STC by assessing the proposed change and any alternatives against the Applicable Objectives.

Vote 1: Does the Original, facilitate the objectives better than the Baseline?

Panel Member: **Anthony Johnson, ESO**

	Better facilitate s AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Better facilitates AO (f)?	Better facilitates AO (g)?	Overall (Y/N)
Original								
Voting Statement								

Panel Member: **Neil Sandison/Neil Bennett, SHET**

	Better facilitate s AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Better facilitates AO (f)?	Better facilitates AO (g)?	Overall (Y/N)
Original								
Voting Statement								

Panel Member: **Gareth Williams/Martin Cammidge, SPT**

	Better facilitate s AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Better facilitates AO (f)?	Better facilitates AO (g)?	Overall (Y/N)
Original								
Voting Statement								

Panel Member: **Mike Lee/Joel Matthews, OFTO**

	Better facilitate s AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Better facilitates AO (f)?	Better facilitates AO (g)?	Overall (Y/N)
Original								
Voting Statement								

Panel Member: **Richard Woodward, NGET**

	Better facilitate s AO (a)?	Better facilitates AO (b)?	Better facilitates AO (c)?	Better facilitates AO (d)?	Better facilitates AO (e)?	Better facilitates AO (f)?	Better facilitates AO (g)?	Overall (Y/N)

Original								
Voting Statement								

Vote 2 – Which option is the best?

Panel Member	BEST Option?	Which objectives does this option better facilitate? (If baseline not applicable).
Anthony Johnson		
Neil Sandison/Neil Bennett		
Gareth Williams/Martin Cammidge		
Mike Lee/Joel Matthews		
Richard Woodward		

Panel conclusion

Panel will meet on 28 February 2024 to carry out their recommendation vote.

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

10 working days after an Authority decision.

Date decision required by

Q2 2024.

Implementation approach

No system or process change required.

Interactions

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

In addition to this modification, STC, Grid Code, CUSC and SQSS modifications have been raised, as follows:

- [CM087: Introducing Connections Process to facilitate Competitively Appointed Transmission Owners](#)

ESO

- [GC0159: Introducing Competitively Appointed Transmission Owners](#)
- [CMP403 and CMP404: Introducing Competitively Appointed Transmission Owners & Transmission Service Providers \(Section 14 and 11\)](#)
- [GSR031: Introducing Competitively Appointed Transmission Owners](#)

Initial engagement with Elexon indicated no consequential changes to the BSC but engagement is ongoing to ensure any potential changes are identified, so that any required modifications can be raised consequential to the existing ones.

DRAFT

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
ESO	Electricity System Operator
NETS	National Electricity Transmission System
STC	System Operator Transmission Owner Code
SQSS	Security and Quality of Supply Standard
TO	Transmission Owner
Q1	Quarter 1 (January to March)
Q2	Quarter 2 (May to June)
Q3	Quarter 3 (July to September)
Q4	Quarter 4 (October to December)

Reference material

- [Energy Security Bill](#)
- [BEIS Guidance Note: Energy Security Bill factsheet: Competition in onshore electricity networks](#)
- [ESO 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	Workgroup consultation responses
Annex 5	Workgroup vote
Annex 6	What is a CATO?
Annex 7	CM086 Distribution List
Annex 8	Code Administrator consultation responses