nationalgrid

Stage 01: Workgroup Report

System Operator Transmission Owner Code (STC)

PM083:Update and clarification of process for issuing an FSKN to prospective OFTOs

What stage is this document at?

01	Workgroup Report
02	Initial Amendment Report
03	Proposed Amendment Report
04	Amendment Report

This proposal seeks to modify the System Operator Transmission Owner Code (STC) to clarify when an FSKN can be issued to a prospective OFTO.

This document contains the findings of the Workgroup which formed on 1 December 2014 and concluded on 15 January 2015.

Published on: **22 April 2015**

The Workgroup recommends:
STCP19-5 is modified such that the prevailing ISKN or FSKN document is issued to the prospective OFTO at the time the TOCA is accepted by NGET.

High Impact:
Name of parties impacted

Medium Impact:
Name of parties impacted

Low Impact:
OFTOs and NGET

Contents

1 Executive Summary 3

2 Purpose & Scope of Workgroup 4

3 Workgroup Discussions 5

4 Impact & Assessment 6

5 Workgroup Recommendations 8

Annex 1 - Terms of Reference 9

Annex 2 - Proposed Legal Text 10

About this document

This document is a Workgroup Report which contains the discussions and recommendations of the *Workgroup Issuing FSKN to OFTOs*.

Document Control

Version	Date	Author	Change Reference
0.1	23/03/15	Mike Lee	Draft Workgroup Report
1.0	22/04/15	National Grid	Final Workgroup Report

Any Questions?

Contact:

Mike Lee

mike.lee@transmissioncapital.com

020 3668 6688

Proposer: Mike Lee

Transmission Capital

1 Executive Summary

In November 2014, Transmission Capital requested, on behalf of the OFTOs, a workgroup to be formed to clarify the process for issuance of the ISKN /FSKN to an OFTO as part of process to taking over offshore transmission assets.

The ISKN (Interim Section K Notification) and FSKN (Final Section K Notification) are analogous to the ION (Interim Operational Notification) and FON (Final Operational Notification) documents issued to Generators by NGET under the Grid Code. ION Part A covers the OFTO assets, whereas ION Part B covers the Generator assets.

Difficulties were experienced in the closing of the Lincs project, as the commercial arrangements with lenders required that all documentation (of which the FSKN was one such document) was in place at commercial close. This requirement would be typical of most OFTO transactions, the difference in the case of Lincs is that the generator had an acknowledgement from NGET that there were no outstanding issues on the OFTO assets, which could be "translated" to a FSKN. The FSKN is important to lenders as it signifies that NGET has accepted the performance of the assets is satisfactory.

As currently written, NGET's interpretation of STCP19-5, is that the ISKN / FSKN can only be issued at asset transfer. Commercial close occurs some 6-8 weeks prior to asset transfer.

When there are performance issues outstanding and an ISKN is in place (or likely to be in place) at asset transfer, it is typical that commercial remedies are put in place, such that the vendor takes commercial risk on the assets achieving full compliance. These commercial arrangements are required to be backed by some form of financial guarantee.

In practice all commercial arrangements are finalised at commercial close. From a commercial perspective issuing a FSKN at asset transfer, does not meet the commercial requirements of lenders and guarantees may be required to be put in place for the period between commercial close and asset transfer. Such arrangements are at best inefficient and at worst introduce unnecessary costs and complexity.

The STC Workgroup concluded that it was advantageous for the ISKN / FSKN to be issued prior to commercial close and there were a number of potential solutions.

The proposed changes to the STCP19-5 process and legal text are contained in Appendix 2.

2 Purpose & Scope of Workgroup

At the November 2014 STC Modification Panel meeting, Transmission Capital requested on behalf of the OFTOs a workgroup to be formed to clarify the process for issuance of the ISKN /FSKN to an OFTO as part of process to taking over offshore transmission assets.

The STC Modification Panel agreed that this issue required further investigation and approved the Terms of Reference.

Terms of Reference

In addition to the overriding requirement of determining whether the proposal better facilitates the applicable STC Objectives, the Workgroup shall consider and report on the following specific issues:

Consider how the STC compliance process can be modified such that the FSKN / ISKN document can be issued to a prospective OFTO at commercial close and not asset transfer

Highlight which STCP processes may require change

The scope of the Workgroup shall not include:

Addressing any wider offshore compliance issues that are not related to the timing of the issue of the FSKN / ISKN.

Timescales

The Workgroup plan to submit a Workgroup Report to the March 2015 STC Modification Panel.

3 Workgroup Discussions

Workgroup Meeting Timeline

M1 - 14 January 2015

The first and only Workgroup meeting was held on 14 January 2015. As Proposer, Transmission Capital presented PM083 and explained the key changes that PM083 was seeking to introduce.

The Workgroup discussions focused on identifying the rationale for the change and the possible methods of achieving the required change; whilst at the same time minimising the administrative burden on NGET.

Background

The ISKN (Interim Section K Notification) and FSKN (Final Section K Notification) under the STC are analogous to the ION (Interim Operational Notification) and FON (Final Operational Notification) documents issued to Generators by NGET under the Grid Code. ION Part A covers the OFTO assets, whereas ION Part B covers the Generator assets.

Difficulties were experienced in the closing of the Lincs project, as the commercial arrangements with lenders required that all documentation (of which the FSKN was one such document) was in place at commercial close. This requirement would be typical of most OFTO transactions, the difference in the case of Lincs is that the generator had an acknowledgement from NGET that there were no outstanding issues on the OFTO assets, which could be “translated” to a FSKN. The FSKN is important to lenders as it signifies that NGET has accepted the performance of the assets is satisfactory.

As currently written, NGET’s interpretation of STCP19-5, is that the ISKN / FSKN can only be issued at asset transfer. Commercial close occurs some 6-8 weeks prior to asset transfer.

When there are performance issues outstanding and an ISKN is in place (or likely to be in place) at asset transfer, it is typical that commercial remedies are put in place, such that the vendor takes commercial risk on the assets achieving full compliance. These commercial arrangements are required to be backed by some form of financial guarantee.

In practice all commercial arrangements are finalised at commercial close. From a commercial perspective issuing a FSKN at asset transfer, does not meet the commercial requirements of lenders and guarantees may be required to be put in place for the period between commercial close and asset transfer. Such arrangements are at best inefficient and at worst introduce unnecessary costs and complexity.

Summary of Options for Issue of ISKN / FSKN Prior to Commercial Close.

Section 3.1.9 of the current STCP 19-5 states:-

> *Where an OFTO is assuming ownership of Plant and Apparatus designed, constructed and commissioned by a Generator, Compliance may have been completed by the Generator prior to the OFTO assuming ownership such that upon ownership being transferred a FSKN is issued in accordance with section 3.1.4.*
>
> NGET’s view of this statement is that the FSKN cannot be issued prior to the legal transfer taking place. Therefore, if the FSKN is required earlier in the process STCP 19-5 needs to be changed.

A number of options were considered to enable the earlier issue of the FSKN.

a) Codify the duality of the ION / FSKN process throughout. Make an ION Part A equivalent to an ISKN and a clean ION Part A equivalent to a FSKN.

b) Issue the equivalent ISKN / FSKN document when a preferred bidder is appointed and track through the ION/ FON issuing the preferred bidder the equivalent ISKN /FSKN document at the same time.

c) Issue the appropriate ISKN / FSKN to the preferred bidder at some point prior to commercial close.

d) Do nothing.

Of these options (a) was discounted as it increases the interaction between the codes and potentially may require changes to the Grid Code as well. (b) was considered to be administratively burdensome as it would require continual updating as the ION status changed. Option (d) would not achieve the objectives of the working group. Option (c) is the preferred option.

The exact timing of the issue of the ISKN/FSKN under (c) needs to be defined as commercial close is not recognised in the STC or STCP. The option that most clearly aligns with best trigger would appear to be around of the acceptance of the OFTO's TOCO by NGET.

The Working Group considered the case where an FSKN had been issued to the prospective OFTO but in the time before asset transfer, the prospective OFTO's equipment had become defective. Whilst the Grid Code LON process could be invoked with the generator, the mismatch of timescales between the 84 days of the LON process and the likely 40-50 days to asset transfer would mean that the asset transfer would always occur first. The Working Group contemplated the need to specifically cover this eventuality in the STCP, but considered it to be a low probability and that it could be discounted.

4 Impact & Assessment

Impact on the STC

4.1 PM083 requires amendments to the following parts of the STCP19-5:

Paragraph 3.1.4 and paragraph 3.1.9

The text required to give effect to the proposal is contained in Annex 2 of this document.

4.2 It should be noted that the example ISKN and FSKN letters in Appendices B3 & B4 may need to be varied by NGET to reflect this changed process, but given their status as examples, it was not thought necessary to make changes to the templates in the document.

Impact on National Electricity Transmission System (NETS)

4.3 The proposed changes will not have an adverse impact on the National Electricity Transmission System.

Impact on STC Users

4.4 The proposed modification will have a minor (but positive) impact on OFTOs and NGET.

Impact on Greenhouse Gas emissions

4.5 The proposed modification will no impact on Greenhouse Gas emissions.

Assessment against STC Objectives

4.6 The Workgroup considers that PM083 would better facilitate the STC objective(s):

4.6.1 efficient discharge of the obligations imposed upon transmission licensees by transmission licences and the Act;

4.6.2 development, maintenance and operation of an efficient, economical coordinated system of electricity transmission;

4.6.3 facilitating effective competition in the generation and supply of electricity, and (so far as consistent therewith) facilitating such competition in the distribution of electricity;

4.6.4 promotion of good industry practice and efficiency in the implementation and administration of the arrangements described in the STC; and

4.6.5 facilitation of access to the national electricity transmission system for generation not yet connected to the national electricity transmission system or distribution system.

Impact on core industry documents

4.7 The proposed modification does not impact on any core industry documents.

Impact on other industry documents

4.8 The proposed modification does not impact on any other industry documents.

Implementation

4.9 The Workgroup proposes PM083 should be implemented XX business days following approval by the STC Modification Panel.

5 Workgroup Recommendations

5.1.1 The Workgroup recommends:

The STC Modification Panel progress the proposed changes in Annex 2.

Annex 1 - Terms of Reference

In addition to the overriding requirement of determining whether the proposal better facilitates the applicable STC Objectives, the Workgroup shall consider and report on the following specific issues:

Consider how the STC compliance process can be modified such that the FSKN / ISKN document can be issued to a prospective OFTO at commercial close and not asset transfer

Highlight which STCP processes may require change

The scope of the Workgroup shall not include:

Addressing any wider offshore compliance issues that are not related to the timing of the issue of the FSKN / ISKN.

3.1.4 Where an OFTO is assuming ownership of Plant and Apparatus fully or partially designed, constructed and commissioned by a Generator and initial energisation has occurred; NGET shall issue an Interim Section K Notification or Final Section K Notification to the OFTO at the point at which the OFTO's TO Construction Offer is accepted by NGET. This will be based on the Interim Operational Notification Part A / Final ~~o~~Operational N~~n~~otification status~~current~~ current -with the Generator at that time. If following this (and prior to asset transfer), there is a change in the status of G~~g~~enerator's operational notification, then the OFTO's Interim Section K Notification or Final Section K Notification shall be changed accordingly.

3.1.9 NGET shall notify the OFTO that Compliance has been demonstrated in respect of the Offshore Transmission System by the issue of a Final Section K Notification following,

the OFTO having:

(i) completed the testing of reactive capability as detailed in section 4.3 and dynamic voltage control as detailed in section 4.4 at the Interface Point to the satisfaction of NGET; and

(ii) completed the testing of dynamic voltage control detailed in section 4.4 at the Interface Point to the satisfaction of NGET; and

(iii) completed any DC Transmission damping facility and frequency signal testing detailed in sections 4.5 and 4.6 to the satisfaction of NGET; and

(iv) completed any specified power quality measurement at the Transmission Interface Point to the satisfaction of the Onshore Host TO; and

(v) updated any data required by STCP16-1 including the mathematical model representing the control of any dynamic voltage control plant and apparatus within the Offshore Transmission System that has been modified as a consequence of the commissioning.

Where an OFTO is assuming ownership of Plant and Apparatus designed, constructed and commissioned by a Generator, Compliance may have been completed by the Generator prior to the OFTO assuming ownership; in which case a FSKN shall be issued following the process in 3.1.4. ~~such that upon ownership being transferred a FSKN is issued in accordance with section 3.1.4.~~