



Making a positive difference
for energy consumers

To: National Grid Electricity
System Operator Limited
(NGESO); interested
stakeholders

Email: ESOPerformance@ofgem.gov.uk

Date: 27 August 2021

Dear Stakeholders,

Consultation on the Electricity System Operator's Regulatory Instructions and Guidance for RIIO-2

We propose to modify the Electricity System Operator's (ESO) Regulatory Instructions and Guidance (RIGs) for RIIO-2. Paragraph 8 of Standard Licence Condition B15 (Regulatory Instructions and Guidance) of the Electricity Transmission Licence states that before issuing new RIGs or amending the RIGs, we¹ will publish on the Authority's website:

- a) the proposed text of the new or amended RIGs;
- b) the date on which the Authority intends the new or amended RIGs to come into effect;
- c) the reasons for the new or amended RIGs; and
- d) a period during which representations may be made on the new or amended RIGs which will not be less than 28 days.

This letter summarises the changes we have proposed. Alongside this letter, we have published our proposed changes to the ESO RIGs and associated templates for

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

consultation.² We have updated the ESO RIGs and associated templates to streamline reporting requirements and align the RIGs with the ESO's RIIO-2 price control framework. We propose that if we implement these changes, they will take effect on 1 April 2022.³ For the avoidance of doubt, this means that the data submitted on or before 31 July 2022 (in respect of the 2021-22 reporting year) should comply with the RIGs as modified.

We welcome all stakeholder views on our proposed changes to the ESO RIGs and associated templates. **We would appreciate your views by 27 September 2021.** Further details of how to respond are provided at the end of this letter.

Background

In April 2021, we introduced the RIIO-2 price control for the ESO.⁴ This includes a pass through funding approach, supported by incentives to deliver value for money. We will evaluate the ESO's combined performance on costs and outputs, across the full spectrum of its roles and determine an incentive reward or penalty for each business plan cycle.

The RIGs provide a framework which enables Ofgem to collect data from the ESO. The RIGs document is supported by two main associated templates:

- RIIO-2 Electricity System Operator – Costs and Outputs Regulatory Reporting Pack Template (“the C+O RRP”)
- RIIO-2 Electricity System Operator – Supporting Commentary Template (“the Supporting Commentary”)

The RIGs inform the ESO about the information we plan to collect, obliges and guides the ESO on how to provide this information and enables it to put systems in place to collect the data according to the level of detail we require. The C+O RRP provides a database of information relating to ESO performance which we will draw on to assess costs. The Supporting Commentary provides additional information and context.

² Alongside this letter, we are publishing the RIIO-2 Electricity System Operator – Regulatory Instructions and Guidance; the RIIO-2 Electricity System Operator – Costs and Outputs Regulatory Reporting Pack Template; the RIIO-2 Electricity System Operator – Costs and Outputs Regulatory Reporting Pack Change Log; and the RIIO-2 Electricity System Operator – Supporting Commentary Template.

³ We propose to modify the RIGs in a direction on or after 29 October 2021.

⁴ Final Determinations – ESO Annex: <https://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

For RIIO-2, there is no longer a Revenue Regulatory Reporting Pack. The ESO Revenue Workbook for 2021-22 is an interim replacement for the ESO's RIIO-ET1 Revenue Regulatory Reporting Pack. The ESO Revenue Workbook has already been streamlined and published alongside our decision on the Price Control Financial Model (PCFM) Guidance.⁵ The intention is for the remaining elements of the ESO Revenue Workbook to be incorporated into the C+O RRP and the PCFM from 2022-23 so that the ESO Revenue Workbook can be removed. The Regulatory Financial Performance Reporting (RFPR) and triennial Pension Pack are not within the scope of this consultation.

In our RIIO-2 Final Determinations, we set out our intention to streamline the ESO's reporting requirements where appropriate. We have reviewed the RIGs and the associated templates to ensure they are appropriate and align with the ESO's RIIO-2 price control framework. We have summarised the key changes proposed below.

Summary of changes proposed

The modifications set out within this letter are limited to changes to the ESO's RIGs, C+O RRP, and Supporting Commentary.

RIIO-2 Electricity System Operator - Regulatory Instructions and Guidance

We propose to consolidate the ESO RIGs into a new streamlined document, which provides further detail on how to fill in the updated C+O RRP and Supporting Commentary templates. Our proposed changes to the ESO RIGs include a new structure and the removal of redundant requirements that were relevant only to Transmission Operators or the RIIO-ET1 price control framework.

Our proposed changes to the ESO RIGs also implement new requirements from our Final Determinations on the reporting of shared cost allocations and the ESO board notice on shared cost allocations.⁶ Our proposals also implement our updated disallowance policy through the changes to the ESO RIGs.⁷

⁵ RIIO-2 ESO PCFM Guidance: <https://www.ofgem.gov.uk/publications/decision-riio-2-pcfm-guidance>

⁶ For more guidance on these policies, please see paragraphs 4.57-4.62, Final Determinations – ESO Annex: <https://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

⁷ For more guidance on this policy, please see paragraphs 4.44-4.56, Final Determinations – ESO Annex: <https://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

RIIO-2 Electricity System Operator – Costs and Outputs Regulatory Reporting Pack Template

We propose to update the C+O RRP to remove redundant tables from the RIIO-ET1 price control framework and to better reflect the data collected through the ESO's Business Plan Data Template (BPDT). This should ensure that the RIGs collect the information we require to carry out the Annual Iteration Process of the RIIO-2 PCFM and provide a database of performance which we can draw on to set cost benchmarks at subsequent review periods.

Our proposed changes to the C+O RRP include restructuring the template and new tables to capture RIIO-2 requirements, such as reporting against the ESO's cost benchmarks for each role, cyber resilience IT costs and carry-over Network Innovation Allowance data. Our proposed changes to the C+O RRP also include the addition of worksheets from the ESO Revenue Workbook on pass through costs and tax pools totex allocations for completion from 2022-23 so that the ESO Revenue Workbook can be removed after the 2021-22 submission. Table 1 summarises the key changes we are proposing to the ESO's C+O RRP.

Table 1: Summary of key changes within the ESO C+O RRP

C+O RRP reference	Summary of proposed change
General	Restructured template to better align with RIIO-2 totex assessment and accommodate new worksheets. General housekeeping changes for formatting.
1.2 Price Control Financial Model (PCFM) Inputs Summary	Expanded to capture additional PCFM inputs related to pass through costs, additional funding, tax pools totex allocation and directly remunerated services. This table has been expanded to capture elements of the ESO Revenue Workbook that will move into the C+O RRP after 2021-22 as the ESO Revenue Workbook will be removed.
2.1 Totex Summary	Streamlined to a single table capturing RIIO-2 totex cost categories.
2.2 Cost Benchmark Summary	New worksheet to record final totex costs per role for the ESO's value for money assessment against the cost benchmarks.
3.1 Opex Summary	Updated to align with ESO operational activity categories used in the ESO Business Plan Data Template (BPDT) so as to capture the split of opex costs by ESO role.
4.1 Business Support Costs (BSC)	New worksheet from BPDT to capture BSC split by cost category for value for money assessment. Also includes a memo table to disaggregate IT & Telecoms (IT&T) BSC.

5.1 Capex Summary	Updated to align with BPDT table and to capture split of capex costs by ESO role. This table captures capex split by category and records information on IT&T systems / projects with expenditure greater than £1m.
6.1 Cyber Resilience IT Costs	New worksheet to record the ESO's cyber resilience IT costs for the value for money assessment. These costs are part of the 'Other Price Control Costs' category of totex.
6.2 Pension Administration Costs	New worksheet to record the ESO's pension scheme administration costs for the value for money assessment. These costs are part of the 'Other Price Control Costs' category of totex.
7.1 Non-Activity Based Costs	New worksheet to record all remaining non-activity based costs that the ESO can pass through that are not captured for the PCFM.
7.3 Network Innovation Allowance (NIA) Expenditure	Simplified to capture expenditure by activity/project and innovation information from ESO Revenue Workbook after 2021-22.
7.4 RIIO-1 Carry-over Network Innovation Allowance (CNIA) Expenditure	New worksheet to capture NIA expenditure rolled over from RIIO-1 by cost type and activity/project. The PCFM element is captured in the ESO Revenue Workbook for 2021-22 and is not required after this year.
7.6 Strategic Innovation Fund (SIF) Expenditure	New worksheet to capture each category of SIF funding, revenues, royalties, and costs. The SIF is a new innovation mechanism for RIIO-2.

The RIIO-2 Electricity System Operator – Costs and Outputs Regulatory Reporting Pack Change Log, which details our proposed modifications to the C+O RRP, is published alongside this letter.

RIIO-2 Electricity System Operator – Supporting Commentary Template

Alongside the submission of its C+O RRP, the ESO must provide a Supporting Commentary. The Supporting Commentary should give more details on specific areas of performance to aid our understanding. The aim is to ensure that we are able to robustly monitor historical performance data and the ESO's forward cost and output projects with confidence for the duration of the RIIO-2 price control.

To meet this aim, we propose to retain a similar approach to the performance narrative requirements for RIIO-2 and we are proposing a similar template for completion. However, our intention is not to duplicate reporting requirements with the ESO's six-monthly

incentive scheme value for money reporting. Therefore, for the totex elements of the Supporting Commentary, the ESO may refer to its six-monthly incentive scheme reporting where necessary.

Next steps

We want to ensure that the RIGs reporting captures all the detail we require from the ESO and is streamlined and efficient to produce. We welcome stakeholder feedback on our proposed modifications. **We would appreciate your views by 27 September 2021.**

We will consider all (formal and informal) stakeholder feedback received to this consultation before publishing our decision by the end of the 2021. Representations should be sent by email to ESOPerformance@ofgem.gov.uk.

We would prefer to receive responses in electronic form so that they can be easily published on our website. If you do not wish for your response to be published, please clearly mark it as confidential.

If the proposed modifications are implemented, they will take effect on 1 April 2022.

If you have any questions on the contents of this letter, please contact us at the email address above.

Yours faithfully,

Grendon Thompson

Head of ESO Regulation

Before and on behalf of the Gas and Electricity Markets Authority

27 August 2021