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ESO Response to the Proposal to modify the ESO RIIO-2 RIGs, RRP and PCFM Guidance

Dear Grendon,

Thank you for the opportunity to respond to your consultation on the Proposal to modify the ESO RIIO-2 RIGs, RRP and PCFM Guidance.

Who we are

As the Electricity System Operator (ESO) for Great Britain, we are at the heart of the energy system, balancing electricity supply and demand second by second.

Our mission, as the UK moves towards its 2050 net zero target, is to drive the transformation to a fully decarbonised electricity system by 2035, one which is reliable, affordable, and fair for all. We play a central role in driving Great Britain's path to net zero and use our unique perspective and independent position to facilitate market-based solutions to the challenges posed by the trilemma.

Our transformation to a Future System Operator (FSO) is set to build on the ESO's position at the heart of the energy industry, acting as an enabler for greater industry collaboration and alignment. This will unlock value for current and future consumers through more effective strategic planning, management, and coordination across the whole energy system.

ESO RIGs

In addition to the changes required to deal with the changes to the Excel template outlined further below, there are two areas where the RIGs document should be updated to reflect the impact of Final Determinations and other changes.

The first is in the definition of totex (Appendix 2). Paragraph 1.10 gives a list of things that are excluded from totex. Since transition costs for the FSO are being added as a pass-through term, this paragraph should explicitly state that FSO transition costs are excluded from totex (which can be done by adding another bullet point). Table 4 of Appendix 2 also needs to be updated in this regard. It should be noted that unless this done there is a risk that following the RIGs would result in FSO costs being included twice (once as totex and once as pass-through).

Secondly, under 'Other RAV Requirements' of Appendix 2, paragraph 1.16 gives the DIWE cap as 2.5% of RAV per year for BP1 with the comment that "We will consider adjusting the value of the cap at the start of the second business plan cycle (BP2)". As Final Determinations stated that the cap would be maintained for BP2 then this sentence can be deleted and the preceding one changed to say "For the first two business plan cycles (BP1 and BP2) ..."

There are some typographical and reference errors in the remainder of the document that we wish to point out:

- In table 3 (paragraph 4.5), at the bottom of page 28 and the top of page 29 of the consulted document (which includes tracked changes), the row for '1.5 Transmission Network Rev' describes numerous terms, all of which include a regulatory year suffix t. In each case, this year suffix should be subscript so the term should be PT_t , LF_t , ITC_t , $Term_t$, TSP_t , TSH_t , $TNGET_t$, $TOFTO_t$, $TICF_t$ and $TICP_t$. The table describes many of these as being defined in Part A of Special Condition 3.2.3. 3.2.3 is a paragraph number so this should refer simply to Part A of Special Condition 3.2.
- In the same cell of the table, under the Bad Debt heading, the text refers to a term RBD_t . As before, the t here acts as a regulatory year identifier and should be subscript (i.e., RBD_t).
- A similar point applies to the terms in the headings and text throughout the remainder of that cell, where the terms should be $NICF_t$, $SIFF_t$, LAR_t , LPT_t , ADJ_t , TO^*_t , K_t , TO_t and TNR_t .
- In the row for 7.3 Network Innovation Allowance (NIA) Expenditure (page 35 of the consulted document), the third paragraph has a word missing. It currently says "The ESO should input details of any expenditure has been declared Unrecoverable NIA Expenditure by Ofgem ...". whereas it should say "The ESO should input details of any expenditure **that** has been declared Unrecoverable NIA Expenditure by Ofgem".

RRP Excel File

A copy of the Excel file with various changes made is included with this submission for review. The specific changes are set out below and are highlighted in yellow in the Excel file. Some of these changes require alteration to the RIGs which are also outlined below.

The changes fall into three main categories:

- Housekeeping changes where headings and references are updated.
- Introduction of new licence terms and changes that have been directed during the year but not reflected in RRP.
- Changing the price base used for previous years from the restated values that the RIGs require to nominal prices meaning previous years will not need to be restated. This implements the clarification that was given earlier this year by email to Laura Thomson from Emily Bottoni.

In addition, we would also like to highlight the proposal to introduce a new table 2.2b (and rename the original 2.2 to 2.2a). This allows costs (which will still be reported in the value for money framework) to be reported in BP2 in the same format as BP1, even though we do not have a formal 'benchmark' for BP2.

RRP Table	Type of Change	Detail	RIGs changes required as a result of RRP change
Universal Data	Formula	Cell C8 linked to worksheet "Cover" cell E18	Table 3 (Page 28) – instructions for Universal data worksheet no longer required
1.1 Disposals	Text	Unit in column D changed from "£m" to "£m nominal"	Page 16 – reference to "Unless otherwise stated, all financial values should be input in the price of the year to which the RIGs relate" needs updating to "Unless otherwise stated, all financial values should be input in nominal values"
1.2 PCFM Inputs	Formula	Formulae in Rows 11,12, and 54 updated to convert to 18/19 prices from nominal values	N/A – change already referenced

RRP Table	Type of Change	Detail	RIGs changes required as a result of RRP change
	Formula	Row 20 FSO _t linked to 1.3 Pass Through	Appendix 2 Table 4 – System Operation review costs to be removed from definition of Totex Table 3 (page 31) – Remove reference to 6.3 SO Review Costs
1.3 Pass Through	Table Change - Licence Term	Extra row for Future System Operator costs inserted as row 18 (linked to Table 6.3 please see comment against Table 6.3 below)	N/A – change already referenced
1.5 Transmission Network Rev	Table Change - Licence Term	Table updated to reflect licence term DISC _t as previously shared with Ofgem on 25/01/23 and originally directed on 19 October 2022 ¹ . New rows have been added from 116 to 141, the ADJ _t formula updated in B145 and a new row added in 150.	Table 3 – update required for instructions on how to complete DISC _t
1.6 External Revenue	Formula	Formulae in cells N21, Q21, T21 updated to not pick up error message resulting from SO-TO Cost Allowance RPI True Up calculation	N/A – housekeeping change
	Table Change - Licence Term	Table updated in rows 24 and 37 to reflect the new licence term BSUoSFXC _t and the updated TotAdj calculation that were both directed on 3 February 2023 ² . The formula in row 38 has been amended to include the new rows.	N/A – not required
	Text	Updated licence references in cells A35, A36	N/A – housekeeping change
	Text	Updated year references in cells N11, O11 and T11 to the correct period	N/A – housekeeping change
2.1 Totex Summary	Formula	Formulae in rows 20 and 29 updated to remove link to 6.3 SO Review costs	N/A – change referenced above
2.2 Cost Benchmark Summary	Table Change - Name	Table name change to 2.2a to allow for new BP2 cost summary table to be created (please see below for further detail)	Updates required to RIGs where 2.2 is referenced
	Formula	Formulae in columns G and H updated to convert to 18/19 prices from nominal values	N/A – change referenced above

¹ [Decision on modifications to the Electricity System Operator licence conditions | Ofgem](#)

² [Decision to modify the special conditions of the electricity transmission licence held by National Grid Electricity System Operator Limited - February 2023 | Ofgem](#)

RRP Table	Type of Change	Detail	RIGs changes required as a result of RRP change
	Text	Name change in cells G23, H23, I23 to remove reference to forecast	N/A – housekeeping change
2.2b BP2 VFM Summary	New Table	Table 2.2 Cost Benchmark Summary allows for costs to be assessed against the BP1 benchmark. Although there is no cost benchmark for BP2 we will still be reporting costs in this format in our value for money incentive reporting. The creation of this table allows for record of the final audited annual figures for the ESO's value for money assessment.	References to new table to be included within relevant sections
2.3 Related Party Transactions	Text	Unit in column J changed from “£m” to “£m nominal”	N/A – change referenced above
3.1 Opex Summary	Text	Unit in column R changed from “£m” to “£m nominal”	N/A – change referenced above
3.2 Salary and FTE Numbers	Text	Unit in column S changed from “£m” to “£m nominal”	N/A – change referenced above
3.3 Provisions	Text	Unit in column R changed from “£m” to “£m nominal”	N/A – change referenced above
4.1 BSC	Text	Unit in column R changed from “£m” to “£m nominal”	N/A – change referenced above
5.1 Capex Summary	Text	Unit in column V changed from “£m” to “£m nominal”	N/A – change referenced above
6.1 Cyber Resilience Costs	Text	Unit in column R changed from “£m” to “£m nominal”	N/A – change referenced above
6.2 Pension Admin Costs	Text	Unit in column R changed from “£m” to “£m nominal”	N/A – change referenced above
6.3 SO Review Costs	Formula	As FSOt is set to cover both ESO and NG cost elements an extra row has been added to Table 6.3 to include NG FSO costs. The total of both ESO and NG costs (FSO _t) will flow through to Table 1.3 Passthrough and Table 1.2 PCFM Inputs.	The guidance on completing worksheet 6.3 SO Review Costs in Table 3 (page 34) should remove the mention of totex and include a reference to NG costs.
	Text	Unit in column R changed from “£m” to “£m nominal”	N/A – change referenced above

RRP Table	Type of Change	Detail	RIGs changes required as a result of RRP change
6.4 Unfunded Innovation Costs	Text	Unit in column R changed from “£m” to “£m nominal”	N/A – change referenced above
7.1 Non-Activity Based Costs	Text	Unit in column R changed from “£m” to “£m nominal”	N/A – change referenced above
7.2 DRS	Text	Unit in column R changed from “£m” to “£m nominal”	N/A – change referenced above
7.3 NIA	Text	Unit in column U changed from “£m” to “£m nominal”	N/A – change referenced above
	Cell Value	Removal of Price Index cells G31, G32 as cells updated to link directly to universal data worksheet	N/A – not required
	Formula	Formulae in Rows 34, 41, and 46 updated to convert to 18/19 prices from nominal values	N/A – change referenced above
	Cell Value	Cell V51 updated to reflect updated BP2 final determination as stated in licence	N/A – not required
	Text	Updated licence reference in cell F51	N/A – not required
7.4 CNIA	Cell Value/Text	Price Index in cell G53 updated to link to 2021/22 price index. Text in cell F53 updated accordingly. This table was only required to be completed in 2021/22, therefore if converted to nominal will no longer need to be restated throughout the remainder of the RII02 period.	N/A – change referenced above
	Text	Unit in column U changed from “£m” to “£m nominal”	N/A – change referenced above
7.5 NIC	Text	Unit in column U changed from “£m” to “£m nominal”	N/A – change referenced above
7.6 SIF	Text	Unit in column V changed from “£m” to “£m nominal”	N/A – change referenced above

PCFM Guidance

We agree with the Guidance Document as it stands. However, there are a number of typographical or reference errors in the text that we wish to point out:

- Paragraph 2.4 refers to “Special Condition 4.1 (*System Operator Internal Revenue restriction*)”. The licence has been rewritten since last year and this reference should now be “Special Condition 4.2 (*System Operator Internal Allowed Revenue*)”.

- In the table in paragraph 2.5, the words “are held” are missing from the description of “Input and Calculation sheets: System Operator SOIAR”. So the text that currently says “The ‘SystemOperator’ sheet is an input sheet where the blue and grey shaded inputs, also known as the PCFM Variable Values, which should be updated as part of an AIP.” should read “The ‘SystemOperator’ sheet is an input sheet where the blue and grey shaded inputs are held, also known as the PCFM Variable Values, which should be updated as part of an AIP.”
- Also within that cell of the table in 2.5, reference is made to SOIAR_t. The ‘t’ should be subscript so that this reads SOIAR_t.
- Paragraph 2.11 also makes reference to SOIAR_t. The ‘t’ should be subscript so that this reads SOIAR_t.
- The table in paragraph 3.2 refers to “Parts G and I of Special Condition 4.2” when describing pass-through costs. Pass-through costs are covered in Part F of Special Condition 4.2 so this sentence should be updated accordingly.
- The entry for SO Bad Debt in the table is potentially not required as bad debt is one of the pass-through costs that is referred to in the immediately preceding row of the table. If it remains as a separate item the reference to “SpC 4.1, Pass-through items” in the description should be altered to “Part H of Special Condition 4.2”. Towards the end of the description, the text also refers to “where the costs have previously been recovered via the BDA term”. Since this section is dealing with SO Bad Debt specifically the relevant term is SOBDA so the text should be amended to read “where the costs have previously been recovered via the SOBDA term”.
- The description of ESORI refers to “Special Condition 4.3”. The licence has been rewritten since last year and this should be Special Condition 4.4.
- The Legacy SOMOD row of the table refers to the “Legacy MOD (LSOMOD_t)” section of chapter 7 of the PCFH”. The ‘t’ here should be subscript so the text becomes the “Legacy MOD (LSOMOD_t)” section of chapter 7 of the PCFH”. It should be noted that there is another reference to part of chapter 7 in the second paragraph of the Closeout adjustment section, and again the ‘t’ should be subscript so the text becomes “in accordance with the processes set out in the “LSOMOD_t values to reflect the closeout of RIIO-ET1” section of chapter 7 of the PCFH”.
- In the row on “Other Legacy Adjustments”, the regulatory year indicator at the end of each term LSOTRU and LSOEMRINC should be subscript.
- Similarly, in the description for Directly remunerated services, the indicator t at the end of DRS Revenue should be subscript so the text becomes “For DRS Revenue (DRSR_t),...”
- The text for Tax liability allowance adjustments says “This value will not be applicable unless the Authority has directed a value following a tax review under Special Condition 4.1”. The licence has been rewritten since last year and this should now read “This value will not be applicable unless the Authority has directed a value following a tax review under Part I of Special Condition 4.2”.
- Paragraph 4.4 ends with SOIAR_t. The ‘t’ here should be subscript so the correct term is SOIAR_t.

Other Items

Although not published in this consultation, there is a Supporting Commentary Template that is covered in Section 5 of the RIGs. That template was last published on 26 November 2021³ and is now significantly out of date (for example, it does not include many of the revenue tables) and should be revised.

The definition of WCF_t is missing from any of the documents. In Chapter 3 of the PCFM Guidance, WCF_t as included in passthrough costs says “*These costs are defined in Parts G and I of Special Condition 4.2*” (subsequently amended to Part F of Special Condition 4.2 in one of the comments above). Part F of Special Condition 4.2 says “*WCF_t means the Working Capital Facility fees as defined in the PCFH*”. The

³ <https://www.ofgem.gov.uk/publications/decision-electricity-system-operators-regulatory-instructions-and-guidance-riio-2>

PCFH (published in the other current consultation⁴) refers WCF_t (in table 3.1) to both Part F of Special Condition 4.2 and the PCFM Guidance. This is therefore entirely circular. The definition of WCF_t, as it appeared in the version of the RIGs published in June 2022⁵ but crossed out is correct as “*ESO Working Capital Facility (WCF) fees relate to costs associated with the set up and management of ESO credit facilities procured to support working capital needs. This includes upfront, extension and agency fees, commitment fees and reasonably incurred costs and expenses incurred by the agent or any finance party in connection with the set up or amendment of the facility agreement*” so this definition should be added back in to one of the relevant documents.

We look forward to engaging with you further. Should you require further information on any of the points raised in our response please contact Craig Bell, Regulatory Finance, at craig.bell@nationalgrideso.com.

Our response is not confidential.

Yours sincerely

Jane West

Senior Finance Business Partner, Regulation

⁴ [Statutory consultation on a proposal to modify the Special Conditions of the Electricity Transmission licence held by National Grid Electricity System Operator Limited – July 2023 | Ofgem](#)

⁵ [Decision on modifications to the Regulatory Instructions and Guidance \(RIGs\), Regulatory Reporting Packs \(RRPs\) and the PCFM Guidance for RIIO-2 | Ofgem](#)