

To:
Electricity System Operator

Date: 6 September 2023

Dear Company Secretary,

Proposal to modify the ESO Regulatory Instructions and Guidance ("RIGs") and the Regulatory Reporting Pack ("RRP") for RIIO-2

We¹ propose to make modifications to the RIIO-2 RIGs document and the RIIO-2 RRP data templates for the Electricity System Operator ("ESO").

RIGs

The RIGs and RRP are the principal means by which we collect cost, volume, allowed expenditure and output delivery information from licensees to monitor performance against their RIIO-2 objectives and hold them to account.

As part of the enclosed Notices, we provide the following documents with proposed modifications [marked up]:

- RIIO-2 ESO – Regulatory Instructions and Guidance: Version 2.1; and,
- RIIO-2 ESO Regulatory Reporting Template: Version 2.1.

Proposed modifications

We are proposing a number of updates and modifications to the RIGs and RRP to align them with our decisions on funding the ESO's Future System Operator (FSO) implementation costs in our Business Plan 2 Final Determinations², our consultation on Funding the transition to a Future System Operator³ and the National Grid Electricity System Operator Limited Electricity transmission Statutory Licence Consultation⁴. These include:

- Adding items to the RIGs and RRP relating to proposed amendments to the NGESO special licence conditions; and,
- Adding definitions to the RIGs to align these with the NGESO Statutory Licence Consultation and BP2 Final Determinations.

We also propose to update the RRP to address a number of housekeeping issues that were identified in this year's RRP submission.

We set out the effect of and the reasons for these modifications below.

¹ References to 'the Authority', 'GEMA', 'Ofgem', 'we', 'us' and 'our' are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets. Ofgem is the office of the Authority which supports GEMA.

² [Business Plan 2 Final Determinations - Electricity System Operator | Ofgem](#)

³ [Funding the transition to a Future System Operator | Ofgem](#)

⁴ <https://www.ofgem.gov.uk/publications/statutory-consultation-proposal-modify-special-conditions-electricity-transmission-licence-held-national-grid-electricity-system-operator-limited-september-2023>

General updates

We are proposing to update a number of snagging items that were identified during this year's RRP submission. These changes are detailed in the RRP's Changes Log sheet.

The reason for these changes is to align formatting and calculations within the RRP's so that we are able to gather the relevant data required to administer and monitor the RIIO-2 price controls.

FSO Pass-through term

We are proposing to include a new 'pass-through' term, FSO_t , in the Allowable Pass-through ($SOPT_t$) calculation. This new term includes costs previously allocated as System Operator Review Costs. The reason for amending this is to align $SOPT_t$ with the modifications proposed in the NGESO Statutory Licence Consultation.

The effect of this modification is to ensure all efficient and economic costs for FSO Transition Activities⁵ can be recovered by the ESO according to the policy set out in our BP2 Final Determinations.

Demonstrably inefficient and wasteful expenditure (DIWE)

We are proposing to extend the definition of DIWE to include the new FSO pass-through term for ESO costs incurred to carry out the FSO Transition Activities ($FSOESO_t$).

The reason for amending this is to align to the BP2 Final Determinations and the consultation on Funding the transition to a Future System Operator. The effect of this modification is to allow Ofgem to reserve the option to disallow costs from the $FSOESO_t$ term for any expenditure that does not relate to the FSO Transition Activities or is demonstrably inefficient or wasteful.

⁵ 'FSO Transition Activities' means activities carried out by the licensee and/or National Grid Holdings One PLC to separate the licensee's business from National Grid Holdings One PLC and other companies in National Grid plc's group, transform the licensee so it has the capabilities needed to perform the roles and responsibilities of the FSO (including with respect to gas), and to support the development of the governance and regulatory arrangements for the FSO.

Timeline

If we implement the proposed modifications to the RIGs, they will take effect at the same time as our decision, which we expect will be in October 2023.

We welcome representations on our proposed modifications by 04 October 2023, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

Grendon Thompson
Interim Deputy Director
Institutions for Net Zero, Energy Systems Management and Security
Duly authorised on behalf of the
Gas and Electricity Markets Authority

06/09/2023

National Grid Electricity System Operator Limited

(a "Licensee")

Notice under Part A of Standard Condition B15 (Regulatory Instructions and Guidance) ("SC B15") of the Electricity Transmission Licence (the "Licence") granted to the Licensee under section 6(1)(b) of the Electricity Act 1989 (the "Act").

The Gas and Electricity Markets Authority (the "Authority")⁶ hereby gives notice under Part A of SC B15 as follows:

Proposal to modify the Regulatory Instructions and Guidance

1. The Authority proposes to modify the Regulatory Instructions and Guidance (the "RIGs") in accordance with SC B15 of the Licence. The RIGs are the primary means by which the Authority directs the Licensee to collect and provide information to the Authority, to enable it to administer the Special Conditions of the Licence and, where not referenced in the Licence, the RIIO-ESO Business Plan 2 Final Determinations⁷.
2. Part A of SC B15 sets out the process for issuing and modifying the RIGs. In accordance with SC B15, the Authority hereby gives notice to the Licensee that it proposes to modify the RIGs in the manner indicated in the documents that can be accessed on its website, published alongside this Notice.
3. The proposed modifications refer specifically to information required to be submitted to the Authority on or before 04 October 2023 in relation to:
 - RIIO-2 ESO – Regulatory Instructions and Guidance: Version 2.1
 - RIIO-2 ESO Regulatory Reporting Template: Version 2.1
4. The proposed modifications are summarised below:
 - Adding items to the RIGs and RRP relating to proposed amendments to the NGESO special licence conditions;
 - Adding definitions to the RIGs to align these with the NGESO Statutory Licence Consultation, and consultation on Funding the transition to a Future System Operator⁸; and,
 - Updating a number of housekeeping issues that were identified during this year's RRP submission.
5. The purpose of the proposed modifications is to update and align the RIGs and RRP with our consultation on Funding the transition to a Future System Operator and the

⁶ 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.

⁷ [Business Plan 2 Final Determinations - Electricity System Operator | Ofgem](#)

⁸ [Funding the transition to a Future System Operator | Ofgem](#)

National Grid Electricity System Operator Limited Electricity transmission Statutory Licence Consultation⁹.

6. The Authority proposes that these modifications should take effect by at the same time as our decision, which we expect will be in October 2023.
7. The Licensee must complete and return the reporting pack referred to above as part of the 2023/24 RIGs process.

Further information

8. Copies of this Notice and other documents referred to in it are available on the Ofgem website (www.ofgem.gov.uk).
9. Any representations on the proposed modifications must be made on or before 04 October 2023 to the ESO Team by email to ESOPerformance@ofgem.gov.uk
10. Our normal practice is to publish responses on our website. We prefer to receive responses in an electronic form for publication on our website. However, if you do not wish for your response to be made public then you should clearly mark your response as "not for publication".

Grendon Thompson
Interim Deputy Director
Institutions for Net Zero, Energy Systems Management and Security
Duly authorised on behalf of the
Gas and Electricity Markets Authority

06/09/2023

⁹ <https://www.ofgem.gov.uk/publications/statutory-consultation-proposal-modify-special-conditions-electricity-transmission-licence-held-national-grid-electricity-system-operator-limited-september-2023>