

To:
National Grid Electricity System Operator Limited

Date: 18 October 2023

Dear Company Secretary,

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

We¹ are issuing directions under National Grid Electricity System Operator Limited's ("ESO") electricity's transmission licence (the "Licence") to modify the RIGs and the RRP.

Please find enclosed the Direction setting out the modifications that we made pursuant to the Licence.

RIGs and RRP

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 Direction, we provide the modified versions of the following documents (clean and marked up versions):

1. RIIO-2 ESO – Regulatory Instructions and Guidance: Version 3.0; and
2. RIIO-2 ESO Regulatory Reporting Template: Version 3.0.

Decision

We have decided to make a number of 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 (BP2) Final Determinations², our decision on Funding the transition to a Future System Operator³, and the National Grid Electricity System Operator Limited (NGESO) Electricity transmission Statutory Licence Consultation⁴. These include:

- Adding items to the RIGs and RRP relating to amendments to the NGESO special licence conditions;
- Adding definitions to the RIGs to align these with our decision on the NGESO Statutory Licence Consultation and BP2 Final Determinations;
- Updates to the RRP to address a number of housekeeping issues that were identified in this year's RRP submission; and
- A number of snagging items and corrections to the RRP and a minor change and correction to the RIGs, following the response to the consultation.

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 [Decision on the funding of the transition to a Future System Operator | Ofgem](#)

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

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

General updates

We have updated 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 have included 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 Activities can be recovered by the ESO according to the policy set out in our BP2 Final Determinations.

Additionally, following the response to the consultation, we have split the FSO transition cost term we consulted on, $FSOESO_t$, into FSO transition pre-Day 1 costs and FSO transition post-Day 1 costs, $FSOESOA_t$ and $FSOESOB_t$ respectively, in order to apply the cap to pre-Day 1 costs only. We have also included in the RRP a number of corrections that were identified in the response to the consultation.

Demonstrably inefficient and wasteful expenditure (DIWE)

We have extended the definition of DIWE to include the new FSO pass-through term for ESO costs incurred to carry out the FSO Transition Activities ($FSOESOA_t$ and $FSOESOB_t$).

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 $FSOESOA_t$ and $FSOESOB_t$ terms for any expenditure that does not relate to the FSO Transition Activities or is demonstrably inefficient or wasteful.

For further details on changes to the RIGs and RRP, please refer to the Consultation Issue Log provided. For the RRP, the Consultation Issue Log is referenced in the RRP's Change Log sheet at the front of the pack. For the RIGs, please see the tracked changes within the document.

A Direction modifying the RIGs and RRP is attached as an Annex to this decision letter.

Timeline

The modifications to the RIGs and RRP will take effect from 18 October 2023.

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

18 October 2023

Annex

National Grid Electricity System Operator Limited

(a "Licensee")

Direction under paragraph 3 of Standard Licence Condition B15 (Regulatory Instructions and Guidance) ("SLC B15") of the Electricity Transmission Licence (the "Licence") granted or treated as granted to the Licensee under section 6(1)(b) of the Electricity Act 1989 (the "Act").

Whereas -

The Gas and Electricity Markets Authority (the "Authority")⁵ hereby gives notice as follows:

1. The Licensee holds an Electricity Transmission Licence (the "Licence") granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 (the "Act") and is subject to the conditions contained in the Licence.
2. The Regulatory Instructions and Guidance ("RIGs") and the Regulatory Reporting Pack ("RRP") 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 Determinations⁶ for the Licensee.
3. SLC B15 sets out the process for issuing and modifying the RIGs. In accordance with paragraph 8 of SLC B15, the Authority gave notice to the Licensee on 6 September 2023⁷ that it proposed to modify the RIGs, as set out in that notice.
4. The Notice required any representations on the proposals to be made on, or before, 4 October 2023.
5. The Authority received a response from the Licensee with proposals to amend the RIGs and RRP. The Authority has considered the representations and has made a number of changes to the relevant documents.
6. The modifications refer specifically to information required to be submitted to the Authority on or before 04 October 2023 in relation to:
 - o RIIO-2 ESO – Regulatory Instructions and Guidance: Version 2.1; and,
 - o RIIO-2 ESO Regulatory Reporting Template: Version 2.1.

⁵ 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.

⁶ [Business Plan 2 Final Determinations - Electricity System Operator | Ofgem](#)

⁷ [Notice of proposed modifications to the ESO Regulatory Instructions and Guidance and Regulatory Reporting Pack for RIIO-2 – September 2023 | Ofgem](#)

7. The modifications are summarised in the letter to which this Direction is attached and can be seen in the versions of the documents specified above and published alongside this Direction.

Now Therefore –

8. Pursuant to paragraph 3 of SLC B15 of the Licence, the Authority hereby directs that the RIGs and RRP be amended in the manner specified in the documents published alongside this Direction.
9. The modifications will take effect on 18 October 2023.
10. This Direction and the letter constitutes the reasons for the Authority's decision pursuant to section 49A of the Act.

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

18 October 2023