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04 October 2023

ESO Response to the Proposed modifications to the ESO Regulatory Instructions and Guidance and Regulatory Reporting Pack for RIIO-2 published 6 September 2023

Dear David,

Thank you for the opportunity to respond to your proposed modifications to the ESO Regulatory Instructions and Guidance and Regulatory Reporting Pack for RIIO-2 published 6 September 2023.

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.

Response

In general, we agree with the changes that these modifications introduce. However, there are errors in the way that some of the changes have been implemented.

Table 1.3 Pass Through

- It is incorrect to compare any value for $FSOESO_t$ as a whole against any form of cap as the cap only applies to costs incurred prior to Day 1 while the term covers costs to be incurred at any stage, so it will always be in excess of the stated cap. It should be noted that in our response to the other consultation¹ (which sets out the definition of the term) we have proposed splitting $FSOESO_t$ into a further two constituent terms – one of which can be compared to the cap and the other being unrestricted. However, the principle will apply regardless of whether two algebraic terms are adopted in the licence and the RRP table will still need to split the term even if the constituent parts are not named.
- Rows 40 to 44 of the sheet allow $FSOESO_t$ to be input. We note that this term is being monitored against a cap which is recorded in row 40. However, the value on row 40 is incorrect compared to that being used in the other current consultation (being added as paragraph 4.2.19 of the NGESO licence

¹ 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

but see above). The cap amount is also referenced in the formula in row 42 so we suggest just showing a simple “Error” in the cell with an explanation to the right (so that the whole message is readable on the screen). The error would be displayed if the sum to date (of the capped element of the term only) exceeds the cap and would not remove the costs incurred in previous years. To allow better understanding of the way the check works it should display either “OK” if the check is successful or “Error” if not. The total costs would only revert to zero when the threshold is breached, not before and costs incurred in previous years would remain (costs incurred for the uncapped part of the term would remain in all circumstances).

- Functionally, it appears that any entry in row 41 that results in the cap being exceeded means that all years return an error in row 42 meaning that row 44 shows “#VALUE” and no costs are recorded. We have corrected this as explained above so that costs in previous years continue to be shown even if the check in the current year is unsuccessful.
- The same errors affect the NG costs under term FSONG_t in rows 36 to 38 and are corrected in a similar way. However, it is further compounded by the fact that row 38 contains a circular reference – the formula in each cell of the row should be “=IF(SUM(\$G\$37:G37)>=\$G\$36, “Error”, “OK”)” (with the end point of the sum reflecting the column that the check is in). Again, the total costs would only revert to zero when the threshold is breached, not before and costs incurred in previous years would remain.
- The value of the cap in row 36 is also stated in the wrong price base and should use 2018/19 prices in line with the licence consultation.
- The formulae in rows 32 and 33 should display a cost value (if that is the intention) rather than repeating the error message that may be displayed in rows 38 and 44. This has been corrected on the attached sheet.
- Since the caps in the licence are stated in 2018/19 prices it is appropriate to deflate the cost in the same way as NIA Table 7.3 where rows 51 and 52 deal with this issue. In our suggestion, we have deflated the costs (using the inflation rates in the Universal Data sheet – that sheet is included in our response so that this works, there are no changes on that sheet) for cap comparison purposes only.

We have attached a spreadsheet including a copy of Table 1.3 that reflects these comments and works correctly for your information (cells that have been changed from the consulted version are bordered in red).

Table 2.2 Value for Money Summary

The values that have been included for each role are incorrect and do not agree to the updated BP2 plan that was sent to Adam Gilham on 8 March 2023. We have updated the values shown as per that submission in the attached spreadsheet (again, cells with altered contents are bordered in red).

Regulatory Instructions and Guidance

In the RIGs document, paragraph 1.33 in Appendix 3 contains a typographical error – the word “dissallowance” should instead appear as “disallowance”.

The attached Excel spreadsheet named “RRP Tables ESO Suggestions.xlsx” forms part of this response and is referenced above.

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