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ESO response to: Statutory consultation on a proposal to modify the Special Conditions of the Electricity Transmission licence held by National Grid Electricity System Operator Limited

Dear David,

We are pleased to submit our response to the Ofgem 'Statutory consultation on a proposal to modify the Special Conditions of the Electricity Transmission licence held by National Grid Electricity System Operator Limited.' This letter provides a summary of our response and should be read alongside the detailed feedback in the Appendices.

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.

As the UK moves towards its 2050 net zero target, our mission is to drive the transformation to a fully decarbonised electricity system by 2035, one which is reliable, affordable, and fair for all. Our transformation to the Future System Operator (**FSO**) is set to build on the ESO's unique position, 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.

Our overall views

Given the significant benefits associated with the creation of the FSO, both for consumers and Great Britain's journey to net zero, we remain committed to ensuring the new organisation can be established as soon as possible. Progressing at pace also minimises uncertainty for our people, who remain key to the success of the FSO. We are fully aligned with the intent behind the changes proposed in the consultation; the importance of timely and efficient delivery.

This consultation provides a vital step towards the creation to the FSO, by providing additional certainty over the route to recover the costs associated with the transition and setting further clarity on delivery expectations. To make sure we can successfully meet these expectations, we would welcome further conversation on what this means in practice and what, if anything, Ofgem expects ESO to change in its collaboration with other parties. We would also like to understand how our performance against these obligations will be assessed as part of the ESO's reputational incentive.

Delivering the FSO involves a complex programme of work between ESO, National Grid plc, National Gas Transmission, DESNZ and Ofgem. While the proposals outlined in this consultation place licence obligations only on the ESO, the delivery of the FSO is not fully within our control. Successful delivery can only be achieved through collaboration between all these parties. The proposed arrangements should support collaborative ways of working to enable timely and efficient delivery, and not undermine the shared objective we are working towards.

Key messages of our response

- Together with DESNZ, Ofgem and National Grid plc, we have made substantial progress in recent months in planning the implementation of FSO and commencing its delivery. We see this progress as aligning to the spirit of the proposed licence obligations and we expect to continue working in this way.
- The proposal is for some very specific licence conditions to cover FSO delivery, while some other ESO project deliverables do not have similar obligations. We do not believe the intention is for ESO to prioritise the FSO transition over other existing RII0-2 project deliverables that are of substantial benefit to consumers, even where those projects may not have similar specific licence obligations attached to them.
- We have proposed some drafting changes in specific areas where it appears that the current drafting is unclear or may have unintended consequences, such as not allowing ESO and National Grid plc to recover all efficient programme costs.
- We agree that it is appropriate for the arrangements to fund National Grid plc transition costs to provide for DESNZ/Ofgem approval before being paid by ESO. The ESO should not have a role in deciding which National Grid plc transition costs should be approved. We will continue to work collaboratively with National Grid plc to establish an appropriate contract that enables transition costs to be funded.
- We understand that, although ESO will be responsible for sending a draft Delivery Schedule for Ofgem/DESNZ approval, the Delivery Schedule will be a jointly owned document, incorporating deliverables which National Grid plc will be responsible for setting and delivering.
- We recognise the importance of regular reporting to allow Ofgem and DESNZ to review progress against deliverables and cost. It is important that the volume of reporting is proportionate, and that both ESO and National Grid plc have sufficient time to produce high-quality and accurate reports. With this in mind, we propose quarterly (rather than monthly) regular reporting would provide appropriate oversight without creating overly burdensome requirements on any party. This would bring reporting more in line with other Ofgem reporting timescales, such as the Cost Monitoring Framework for Data, Digital & Technology investments. We also suggest there should be four months (not the proposed two months) from completion of the FSO Day 1 Delivery Schedule to FSO Day 1 Report submission.
- We understand that both the regular reporting and FSO Day 1 Report should be produced collaboratively by ESO and National Grid plc. Our understanding is that the intention is for each party to have responsibility for their relevant sections; ESO should not be expected to review National Grid plc transition costs as part of this process, or to provide the justification for National Grid plc transition costs where there are differences to forecasts or actual costs.

As well as the above points, we note that although the licence conditions relate to costs incurred before FSO Day 1, the relevant processes will need to continue after Day 1 to ensure that all costs are appropriately captured. We would therefore welcome confirmation from Ofgem that the FSO's initial electricity system operator licence conditions will include provision to allow for the close out of these processes.

It is important that there is a timely decision on the proposals set out in this consultation to allow relevant changes to be incorporated into Ofgem's Price Control Financial Model (**PCFM**), due to be published by 30 November 2023. The PCFM will be used to set Balancing Service Use of System (**BSUoS**) charges in December 2023 for the 2024-2025 charging year. If the proposed changes cannot be incorporated in to BSUoS charges, this would delay the recovery of costs and present a significant cash flow risk for the ESO.

We look forward to engaging with you further throughout the transition to the FSO. Should you require further information on any of the points raised in our response please contact Andy Ford, Transition Programme lead, in the first instance at andrew.j.ford@nationalgrideso.com. Our response is not confidential.

Yours sincerely,



Kayte O'Neill, Director of Transformation

Appendix 1 – Detailed comments on FSO Transition Funding Governance Document

Front page and Introduction

| Reference | ESO comments |
|------------------------------------|---|
| Front page | We suggest that the document should refer to National Grid Electricity System Operator Ltd (ESO). The front page currently refers to both NGESO and ESO, which could cause confusion. |
| Front page, Footnote 1 | Footnote 1 refers to costs being incurred by NGH 1 plc once ownership of ESO is transferred to Government. However, the arrangements being put in place relate to costs incurred before the transfer of ownership. We suggest that the footnote should be corrected. This also applies to Footnote 2 on page 7. |
| Introduction, paragraph 1.2 | <p>If a definition of 'FSO' is added to the licence, as suggested in Appendix 2, the reference here should be made consistent.</p> <p>The drafting refers to the licensee and NGH 1 plc undertaking activities to separate the licensee's business from National Grid plc. As noted above, we suggest that this should refer to '<i>the licensee, National Grid Holdings One plc (NG) (together with other companies in National Grid plc's group) need to undertake activities to separate the licensee's business from the National Grid plc group and transform it...</i>'.</p> <p>To avoid confusion, we suggest changing the final sentence to '<i>...the licensee's transmission licence...</i>'.</p> |

FSO Day 1 Delivery Schedule

We appreciate the clarity provided in the consultation on what the FSO Day 1 Delivery Schedule should contain. We understand that, although ESO will be responsible for sending a draft Delivery Schedule for Ofgem/DESNZ approval, the Delivery Schedule will be a jointly owned document, incorporating deliverables which National Grid plc will be responsible for setting and delivering.

We remain committed to working with National Grid plc, DESNZ and Ofgem to establish a final version of the Delivery Schedule.

| Reference | ESO comments |
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| Required contents of the FSO Day 1 Delivery Schedule, paragraph 2.2 | We would welcome further discussion on the thresholds for ' <i>high cost</i> ' activities under the listed categories in paragraph 2.5. |
| Required contents of the FSO Day 1 Delivery Schedule, paragraph 2.3 | As the FSO Day 1 Delivery Schedule will include both National Grid plc and ESO deliverables, we suggest adding ' <i>in turn allow Ofgem to approve costs for recovery for the NG costs</i> ' to avoid confusion. |

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| Approval and change process, paragraph 2.8 | We agree that we should consult DESNZ and Ofgem in the development of the FSO Day 1 Delivery Schedule. As agreement on the final version will take place as soon as the licence condition and Governance Document is in force, we note that much of this paragraph is not strictly needed. |
| Approval and change process, paragraph 2.9 | In the second sentence, we suggest ' <i>its</i> ' should be replaced with ' <i>their</i> ' when referring to wider developments outside ESO and National Grid plc's control. |
| Approval and change process, paragraph 2.10 | For consistency with paragraph 2.9, we suggest that ' <i>clearly</i> ' should be removed. It seems to us that the requirement to report issues and risks ' <i>at the earliest opportunity</i> ' is likely to be disproportionate and inhibit the smooth running of the programme. At any point, there are a large number of risks that are raised and managed to ensure prudent delivery; flagging all of these at the point they arise will create significant further work and we suggest would not be a helpful addition for Ofgem or DESNZ. Instead, we propose that the final sentence refers simply to ESO and National Grid plc fulfilling their reporting requirements. We note that Chapter 5 of the Governance Document, which sets out reporting requirements, does not contain the same disproportionate requirement. |

FSO Transition Intragroup Contract

We welcome the clarity provided in the consultation on what the FSO Transition Intragroup Contract should contain. We have proposed some changes to the drafting below where we believe expectations could be set out more clearly. We will continue to work collaboratively with National Grid plc to establish an appropriate contract that enables transition costs to be funded, including consulting Ofgem and DESNZ on its development.

| Reference | ESO comments |
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| Licensee's payment obligations, paragraph 3.3 | The second sentence of this paragraph does not seem clear to us. We suggest changing the opening words to ' <i>Any payment to NG must be based on...</i> '. Our understanding is that the payment schedule is a schedule of dates for payment. The payment schedule cannot set out approved amounts, since by the time the contract is approved, the costs will not all have gone through the approval process. |
| Licensee's payment obligations, paragraph 3.5 | The first sentence of this paragraph seems to confuse the payment schedule with the process for payments themselves. To remedy this, we suggest changing the opening words by removing ' <i>The full schedule of...</i> '. As noted above, the final payment is expected to take place after Day 1. Therefore, we presume that the FSO's initial electricity system operator licence conditions will include provision to allow for the close out of these processes. |
| Licensee's payment obligations, paragraph 3.9 | We appreciate that the payment schedule may need to be updated but we are not clear under what circumstances this may be required. To make sure we understand our obligation, it would be helpful for this to be clarified. |
| NG's Reporting requirements, paragraph 3.11 | There is a typo at the end of this paragraph; ' <i>document5</i> '. |

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| FSO NG Cost Recovery Principles, paragraph 3.12 | We believe it would be clearer to state that <i>'The FSO Transition Intragroup Contract must make clear that costs may only be recovered in line with the FSO NG Cost Recovery Principles'</i> . It isn't clear to us what more would need to be included in the contract in terms of rights and obligations. |
| | This paragraph refers to the FSO NG Cost Recovery Principles being set out in <i>'Chapter 44'</i> . We assume this should read Chapter 4. |
| Other contract requirements, paragraph 3.16 | The final wording here around <i>'sufficient performance'</i> seems unclear to us. We propose it is changed to <i>'...sums due, and for a breach of NG's obligations to support the licensee's reporting requirements'</i> . |
| Contract development and approval, paragraph 3.19 | We agree that there should be collaboration with DESNZ and Ofgem in the development of the contract leading up to approval. However, given the intention is for that approval to take place as soon as the licence condition and Governance Document is in force, we note that this paragraph is not strictly needed. |

FSO NG Cost Recovery Principles

| Reference | ESO comments |
|----------------------|---|
| Paragraph 4.1 | We suggest this should be changed to <i>'...amounts proposed to be invoiced by NG...'</i> , since Ofgem would need to make any such determination before the invoice is raised. |

Reporting Framework

We recognise the importance of regular reporting to allow Ofgem and DESNZ to review progress against deliverables and cost. It is important that the volume of reporting is proportionate and both ESO and National Grid plc have sufficient time to produce high-quality and accurate reports. With this in mind, we have proposed some changes to the reporting schedule.

We understand that both the regular reporting and FSO Day 1 Report should be produced collaboratively by ESO and National Grid plc. Our understanding is that the intention is for each party to have responsibility for their relevant sections; ESO should not be expected to review National Grid plc transition costs as part of this process, or to provide the justification for National Grid plc transition costs where there are differences to forecasts or actual costs. This should be made clearer throughout this section.

| Reference | ESO comments |
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| Regular reporting, paragraph 5.1 | As currently drafted, ESO will be required to produce monthly reports relating to FSO Transition Activities for Ofgem and DESNZ. We suggest quarterly reporting would provide appropriate oversight without creating overly burdensome requirements on any party, both for producing and reviewing the report contents. This would bring reporting more in line with other Ofgem reporting timescales, such as the Cost Monitoring Framework for Data, Digital & Technology investments. |
| Regular reporting, paragraph 5.2, second bullet point | We would welcome a discussion on what is meant by <i>'materially different'</i> when referring to the difference between costs from the most recent cost forecasts. |
| Regular reporting, paragraph | It isn't clear to us what this is intended to add given the potential for ad hoc requests for information. ESO will also need certainty over what will be included in the reports |

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| 5.2, final bullet point | <p>in order to plan and ensure relevant information is collected. We suggest that this should be removed or, if it is to be retained, that ‘... <i>and where reasonable notice has been given to the licensee</i>’ is added at the end of the sentence.</p> |
| FSO Day 1 Report, paragraph 5.7 | <p>The ESO will be expected to produce a FSO Day 1 Report for Ofgem and DESNZ within two months following the completion of the work associated with the FSO Day 1 Delivery Schedule or by a later date as agreed with Ofgem. Two months is a very short timeframe, particularly when considered in conjunction with other changes. We suggest a more appropriate timeframe would be four months from completion of the FSO Day 1 Delivery Schedule to FSO Day 1 Report submission, in line with other Ofgem reporting timescales.</p> |
| FSO Day 1 Report, new paragraph after paragraph 5.7 | <p>We propose adding the following paragraph in line with our comment above; ‘<i>For the reporting outlined in this Chapter, the licensee will be required to compile its own information and information from NG (in relation to NG’s deliverables and costs). The licensee is not required to validate or otherwise provide a view on information provided by NG</i>’.</p> |
| FSO Day 1 Report, paragraph 5.9 | <p>We believe the intention is for only ESO’s performance, as assessed by Ofgem based on the FSO Day 1 Report, to be factored into the ESO’s reputational incentive, not the performance of National Grid plc. This should be clarified here; ‘<i>the outcomes of the assessment for the licensees FSO Day 1 Deliverables will be published...</i>’.</p> |
| FSO Day 1 Report, new paragraph after paragraph 5.9 | <p>We propose adding the following paragraph in line with our comment above: ‘<i>As above, the licensee is not required to validate or otherwise provide a view on information provided by NG to be included in the FSO Day 1 Report</i>’.</p> |
| Industry transparency and engagement, paragraph 5.10 | <p>We note the requirement for reports to be published. While we support the intent of providing transparency on FSO delivery to stakeholders, we would welcome further conversation on what level of detail is appropriate to publish.</p> |
| Industry transparency and engagement, paragraph 5.11 | <p>We are not clear on the intention behind the final words in this paragraph. It appears to us that this could refer to before FSO Day 1 ‘...<i>or by a later date as agreed with Ofgem</i>’.</p> |

Appendix 2 – Detailed comments on proposed licence modifications

Special Condition 1.1: Interpretation and definitions

Our main proposed changes are intended to ensure that all relevant costs are captured within the appropriate definitions so that nothing is unintentionally excluded. We have proposed other changes for clarity.

| Reference | ESO comments |
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| Additional definition - FSO | We suggest it would be helpful to add a definition of FSO; <i>'means the Future System Operator, otherwise known as the independent system operator and planner (or ISOP) as referred to in Part 5 of the Energy Act 2023'</i> . The FSO is not currently defined in the ESO's licence. |
| Additional definition - FSO Transition Intragroup Contract | We propose adding a definition of FSO Transition Intragroup Contract; <i>'means a contract entered into in accordance with Part C of Special Condition 2.15 (Obligations related to the implementation of the Future System Operator)'</i> . |
| Additional definition - FSO Transition Funding Governance Document | We propose that a definition for this is added; <i>'means the document of that name maintained in accordance with Part A of Special Condition 2.15 (Obligations related to the implementation of the Future System Operator)'</i> . |
| FSO Day 1 | We propose to change the definition of FSO Day 1 to read <i>'...on which the first designation of the FSO under section 159 of the Energy Act 2023 takes effect...'</i> |
| FSO Day 1 Transition Activities | To confirm our understanding, this definition covers all activities in advance of Day 1, even if they relate to a milestone that is not due to complete until after Day 1 and is not on the FSO Day 1 Delivery Schedule (for example, if it has a long lead time or is being done in advance). |
| FSO Transition Activities | We propose to change the definition of FSO Transition Activities to read <i>'...activities carried out by the licensee and National Grid Holdings One plc (together with other companies in National Grid plc's group) to:</i> <ul style="list-style-type: none"> <i>(a) separate the licensee's business from National Grid Holdings One plc and other companies in National Grid plc's group,</i> <i>(b) transform the licensee so that it has the capabilities, systems and processes needed to perform the roles and responsibilities of the FSO (including with respect to gas), and</i> <i>(c) support the development of the governance and regulatory arrangements for the FSO.'</i> |

Special Condition 2.15: Obligations related to the implementation of the Future System Operator

We have proposed some changes in specific areas where it appears that the current drafting is unclear or may have unintended consequences. In particular, it is important that the obligations around payments being made to National Grid Holdings One plc and around ESO's delivery of milestones are clear.

| Reference | ESO comments |
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| Paragraph 2.15.2 | <p>We propose to change the start of this paragraph to <i>'This condition also sets out the licensee's obligations...'</i>.</p> <p>We suggest <i>'delivery'</i> should be changed to <i>'implementation'</i> for consistency with 2.15.1.</p> |
| Paragraph 2.15.10 | We suggest deleting <i>'best'</i> so this reads <i>'reasonable endeavours'</i> . |
| Paragraphs 2.15.13 and 2.15.15 | We propose that <i>'..., or any documents associated with the FSO Transition Intragroup Contract,'</i> is deleted in both paragraphs. It isn't clear to us what this wording is intended to cover. In addition, it suggests that <u>all</u> documents associated with the contract (e.g., internal briefing notes) must be approved by Ofgem and DESNZ and we do not consider this to be the intention. |
| Paragraph 2.15.14(a) | We suggest replacing <i>'...schedule for when payments will become due...'</i> with <i>'schedule of dates when amounts meeting the conditions in Part D of this condition will become payable...'</i> . This is to prevent confusion since we understand that the contract will not include a binding schedule of amounts due. |
| Paragraph 2.15.14(b) | We suggest deleting <i>'... on behalf of the licensee...'</i> . It isn't clear to us what this wording adds. |
| Paragraph 2.15.15 | Elsewhere the term <i>'executed'</i> is used, rather than <i>'signed'</i> . |
| Paragraph 2.15.16 | Given the contract will have been approved, it isn't clear to us what the references to <i>'legally binding and unconditional'</i> add here. We propose that this is changed to <i>'The licensee must provide a copy of the legally executed FSO Transition Intragroup Contract...'</i> . We note that it may be helpful for the contract to be executed before the licence condition comes into effect and to do so the contract would need to be conditional on the changes coming into effect. |
| Paragraph 2.15.18 | <p>For clarity, we propose this should be changed to <i>'The licensee <u>may</u> only make payments to National Grid Holdings One plc under the FSO Transition Intragroup Contract in respect of costs incurred by National Grid Holdings One plc if...'</i></p> <p>It is not intended to prevent any valid payments from ESO to its shareholder outside the scope of the contract. Equally, if (hypothetically) an amount is payable under the contract other than for costs incurred, this should not be subject to 2.15.18.</p> |
| Paragraph 2.15.18(a) | As above, we propose deleting <i>'... fully executed and legally binding...'</i> on the basis that this is unnecessary wording. |
| Paragraph 2.15.18(c) | We suggest changing this to <i>'The value <u>invoiced to the licensee</u> by National Grid Holdings One plc has been approved by the Authority as eligible for recovery according to ...'</i> . This way the amount National Grid plc invoices will need to be the approved amount in order to be paid. |
| Paragraph 2.15.18(d) | We propose changing this to <i>'The Authority <u>has confirmed</u> that it is satisfied...'</i> to provide certainty for ESO on what the trigger is for payment. |
| Paragraph 2.15.19 | If 2.15.18(c) is changed as proposed above, ESO will not be permitted to pay an invoiced amount unless it is approved. Therefore 2.15.19 is not needed and can be deleted. We see this as simpler/clearer. |
| Part D | We note that there are two Part D headings (pages 6 and 7). |

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| <p>Paragraph 2.15.20</p> | <p>We suggest that this could be simplified; <i>‘The licensee must take all reasonable steps, as are within its power or control, to deliver its FSO Day 1 Deliverables by the date of the final milestone in the FSO Day 1 Delivery Schedule’</i>.</p> <p>We note that this appears to us to more closely align with Ofgem’s policy decision published on 28 September 2023, which referred to <i>‘...an overall obligation on the ESO to deliver the required Day 1 separation works’</i>.</p> <p>This includes removing <i>‘...or desirable...’</i>. This is very subjective and it is not clear to us what it adds.</p> |
| <p>Paragraph 2.15.21</p> | <p>We understand that the wording here (<i>‘efficient, co-ordinated and economic’</i>) is taken from the ESO’s Electricity Act duties and current licence duties. However, those are in the context of the operation and development of an electricity network. This obligation relates to an organisation change project/transaction, which has many unique aspects, as well as interdependencies with the activities of different organisations. We therefore do not see this as a very clear licence obligation and would welcome this being deleted or discussed further.</p> |
| <p>Paragraph 2.15.21(a)</p> | <p>Given the potential sensitivity of certain information, we believe it should be made clear that it is the request that is needed to be reasonable, rather than only the timescales. With this in mind, we suggest changing the drafting to <i>‘sharing accurate and timely information with the Authority and the Secretary of State when reasonably requested’</i>.</p> |
| <p>Paragraph 2.15.21(b)</p> | <p>We propose <i>‘coordinating and’</i> should be removed at the start of this sub-paragraph. Our understanding is that it is not ESO’s role to coordinate the delivery of the implementation of FSO. Rather this will be an activity also involving DESNZ, Ofgem and other National Grid plc companies, in line with the governance arrangements that have been put in place. The inclusion of this wording seems potentially confusing.</p> |
| <p>Paragraph 2.15.21(c)</p> | <p>Where the drafting states <i>‘...relevant stakeholders that are impacted by the delivery and cost recovery for FSO...’</i>, it isn’t clear to us whether <i>‘delivery’</i> is referring to the transition process (e.g., suppliers that may have contracts novated) or the broader implementation of FSO. It also isn’t clear what organisations are intended to be captured by stakeholders impacted by cost recovery, given the costs are being applied to energy bills generally. We suggest that it may align better with the policy intent to simply refer to transparency and engagement with stakeholders that the licensee considers may be impacted.</p> |
| <p>Paragraph 2.15.25</p> | <p>As noted previously, we suggest a more appropriate timeframe would be four months (not the proposed two months) from completion of the FSO Day 1 Delivery Schedule to FSO Day 1 Report submission, in line with other Ofgem reporting timescales.</p> |

Special Condition 3.6: Adjustment term

| Reference | ESO comments |
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| Paragraph 3.6.3 | <p>The current formula, as included in the consultation, is:</p> $ADJ_t = (TO_{t-1} - TO_{t-1}^* - DISC_{t-1}) \times (1 + I_{t-1} + 1.15\%)$ <p>The '+' at the end of the term I_{t-1} (highlighted above) is not required and should be removed, leaving the formula as:</p> $ADJ_t = (TO_{t-1} - TO_{t-1}^* - DISC_{t-1}) \times (1 + I_{t-1} + 1.15\%)$ |

Special Condition 4.2 System Operator Internal Allowed Revenue

We are not clear how Ofgem would allow ESO recovery of costs incurred by National Grid plc that are not part of the Day 1 cost definition. Our current assumption is that, since Day 2 costs are likely to be recovered through the TSAs, the costs will fall under the definition of totex, which will allow for recovery without any further changes to the ESO licence. We would appreciate clarification on Ofgem's expected method of recovery to ensure ESO can fully manage expected cash timing risks.

| Reference | ESO comments |
|---------------------------------------|--|
| Paragraph 4.2.1(b) | There are currently two full stops at the end of the sentence here. |
| Paragraph 4.2.9 | In line with paragraph 2.15.2, we suggest 'delivery' should be changed to 'implementation' for consistency with paragraph 2.15.1. |
| Paragraph 4.2.18 | The wording in brackets does not seem aligned to the policy intent as it would appear to exclude ESO's costs relating to the setting up and administration of the intragroup payment arrangement. Our understanding is that the intention is simply to avoid double recovery. We propose the wording in brackets is changed to ' <i>...(excluding the cost of any payments falling within FSONG_i) ...</i> '. |
| Paragraphs 4.2.18 & 4.2.19 | We note that $FSOESO_t$ is defined in paragraph 4.2.18 as costs relating to FSO Transition Activities, but paragraph 4.2.19 introduces a cap on the element of $FSOESO_t$ that relates to FSO Day 1 Transition Activities. Since Day 1 Transition Activities are a subset of FSO Transition Activities (which can be incurred at any time) we suggest that it would be clearer to split the term $FSOESO_t$ into two further terms; $FSOESOA_t$ relating to FSO Day 1 Transition Activities, and $FSOESOB_t$ relating to FSO Transition Activities not covered by $FSOESOA_t$. The cap would therefore apply to $FSOESOA_t$ and be more easily monitored. |
| Paragraph 4.2.20 | We suggest that, to make sure this is clear, some link should be made between this paragraph and the substantive paragraphs above it. This could be the terms in paragraph 4.2.18 being made subject to 4.2.20, or the wording from 4.2.20 being added directly into the definitions of the two terms in 4.2.18. |
| Paragraph 4.2.21 | We suggest that reference to approval by the Authority duplicates 2.15 and so may be deleted. |
| Paragraph 4.2.22 | As noted above, the value in 4.2.19 is not the maximum value of $FSOESO_t$. If our change proposed above is made, this may be updated to $FSOESOA_t$. Otherwise, the reference should be to ' <i>...the maximum value of $FSOESO_t$ for FSO Day 1 Transition Activities and/or...</i> '. |

Paragraph 4.2.23 We propose replacing ‘*suggested*’ with ‘*proposed*’ in both places where this appears, in line with wording typically used in the licence.

Special Condition 4.9 System Operator Legacy Adjustments (SOLAR_t)

| Reference | ESO comments |
|-------------------------|---|
| Paragraph 4.9.3 | Where the drafting says ‘... <i>the value of LSOMOD_t is derived in accordance ...</i> ’, the ‘t’ in the algebra term should be subscript so it should say ‘... <i>the value of LSOMOD_t is derived in accordance...</i> ’. |
| Paragraph 4.9.10 | In the formula, there is a full stop after the term LPVF _t . This isn’t required and should be removed. |