

To:
National Grid Electricity System Operator Limited

Date: 22 May 2024

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 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 Notices, we provide the following documents with proposed modifications [marked up]:

- RIIO-2 ESO - Regulatory Instructions and Guidance: Version 3.1; and,
- RIIO-2 ESO - Regulatory Reporting Template: Version 3.1.

Proposed modifications

We are proposing a number of modifications to the RIGs and RRP to reflect the costs relating to the New Roles, FSO Transition costs, National Grid payments and the introduction of the fixed BSUoS tariffs.

These include:

- Adding items to the RIGs and RRP relating to FSO National Grid payments in the Pass Through; and,
- Adding items to the RRP relating to FSO Roles pre and post Day 1 and New Roles in the Opex Summary; and,
- Adding ESO Opex attributed to New Roles in the Value for Money Summary within the RRP; and,
- Excluding FSO Roles Opex from the Totex Summary in the RRP; and,
- Adding items to the RIGs and RRP relating to collecting revenue from fixed BSUoS tariffs and K correction term.

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.

Table 1.3 (Pass Through)

Rows 51 and 52 have been added to include 'FSO National Grid payment post Day 1'.

The effect of this addition will allow ESO to submit forecasts for reporting years 2024/25 and 2025/26 for payments to National Grid Holdings One plc.

Rows 32 and 33 require updating to include the Opex related to the pre Day 1 and post Day 1 FSO Roles, respectively.

The effect of this modification is to feed the FSO Roles in the Opex Summary (Table 3.1 in RRP) as a Pass Through rather than going into Totex, which is aligned with the feedback received last year.

Table 1.6 (External Revenue)

Table 1.6 (External Revenue) requires updating to reflect the move towards fixed BSUoS tariffs and associated licence changes in 2023/4. It will be split into two parts, Table 1.6a (Variable revenue) and Table 1.6b (fixed revenue).

Table 1.6a has had columns M and onwards removed to mark the shift to fixed tariffs from 2024 onwards. Column L will continue to be used for RF run deals within the 2023 scheme which are on a variable revenue.

Table 1.6b is a new worksheet. This contains both the tariff that is in force for a period and any resets that take place, as well as the actual costs that have been incurred. The sheet will therefore show both the 'allowed revenue' and the 'collected revenue' allowing the K (correction factor) to be calculated.

Table 2.1 (Totex Summary)

We propose modifying the formula in row 27 to only pick up costs from non FSO Roles in the Opex Summary row 13 (BP2 & New Roles).

This is to reflect the FSO Roles being included in the Pass Through and removed from the Totex.

Table 2.2 (Value for Money Summary)

The benchmark has been updated to show FSO blueprint costs in Row 12 to include costs of New Roles and business support costs.

We propose the addition of rows 76 to 80 to reflect the ESO Opex attributed to the New Roles and assessed against the appropriate cost forecast as stated in the FSO blueprint cost.

Table 3.1 (Opex Summary)

Total ESO Opex has been split into "BP2 & New Roles", "FSO Roles-Pre Day 1" and "FSO Roles-Post Day 1" with the addition of new rows 13, 14 and 15 respectively. Pre and Post Day 1 FSO Roles will be calculated as part of pass-through rather than Totex Summary.

Addition of new rows 49 to 78 to provide further break down of "FSO Roles" and "New Roles" costs. This is to ensure costs relating to the New Roles can be captured within table 3.1, which currently only allows for costs to be directly attributed to the ESO's existing three Roles.

Timeline

If we implement the proposed modifications to the RIGs and RRP, they will take effect at the same time as our decision, which we expect will be in July 2024.

We welcome representations on our proposed modifications by 20 June 2024, and the details for responding are contained in the enclosed Notice.

Yours faithfully,

Adam Gilham

Head of ESO Regulation

Institutions for Net Zero, Energy Systems Management and Security

Duly authorised on behalf of the

Gas and Electricity Markets Authority

22/05/2024

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")² 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 Determinations³.
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 20 June 2024 in relation to:
 - RIIO-2 ESO – Regulatory Instructions and Guidance: Version 3.0
 - RIIO-2 ESO Regulatory Reporting Template: Version 3.0
4. The proposed modifications are summarised below:
 - Adding items to the RIGs and RRP relating to FSO National Grid payments in the Pass Through; and,
 - Adding items to the RRP relating to FSO Roles pre and post Day 1 and New Roles in the Opex Summary; and,
 - Adding ESO Opex attributed to New Roles in the Value for Money Summary; and,
 - Excluding FSO Roles Opex from the Totex Summary; and,
 - Adding items to the RRP relating to collecting revenue from fixed BSUoS tariffs and K correction term.
5. The purpose of the proposed modifications is to update the RIGs and RRP to reflect the New Roles, FSO Transition costs, National Grid payments and the introduction of

² 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.

³ [Business Plan 2 Final Determinations - Electricity System Operator | Ofgem](#)

the fixed BSUoS tariffs.

6. The Authority proposes that these modifications should take effect by at the same time as our decision, which we expect will be in July 2024.
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 20 June 2024 to 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".

Adam Gilham

Head of ESO Regulation

Institutions for Net Zero, Energy Systems Management and Security

Duly authorised on behalf of the

Gas and Electricity Markets Authority

22/05/2024