

To:
National Grid Electricity System Operator Limited

Date: 25 July 2024

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

Please find attached 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 3.1; and,
2. RIIO-2 ESO - Regulatory Reporting Template: Version 3.1.

Decision

We have decided to make 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. We have considered all the responses received in the consultation and provided our response. These include:

- Adding items to the RIGs and RRP relating to FSO Transition costs and FSO National Grid payments in the Pass Through;
- Adding items to the RRP relating to FSO Roles pre and post Day 1 and New Roles in the Opex Summary;
- Excluding FSO Roles Opex and FSO Incremental RtB from the Totex Summary in the RRP;
- Adding items to the RIGs and RRP relating to collecting revenue from fixed BSUoS tariffs and K correction term;
- Adding items to the RRP relating to Business Support Costs to separate FSO costs and feed it into Pass Through; and,
- Updating the cost benchmark for BP2 in the Value for Money Summary.

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.

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

Table 1.3 (Pass Through)

Rows 56 and 57 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 required 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.

We renamed Row 38 and 46 from 'FSO transition pre/post Day 1 costs' to 'FSO transition pre/post Day 1 costs - Cost to Achieve' for ESO to input any one-off costs from NG separation. Additionally, we added Row 39 and 47 as 'FSO Incremental RtB pre/post Day 1 costs - BSC' to capture BSC FSO costs in the pass through. Further, we introduced 'FSO Roles pre/post Day 1 - Opex' in Row 40 and 48, which are linked to the 'FSO Roles - Pre/Post Day 1' in Table 3.1 Opex Summary. These amendments were made to clarify the distinction between FSO costs derived from Opex, BSC and Cost to Achieve for transparency in the pass through.

Table 1.6 (External Revenue)

Table 1.6 (External Revenue) required 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 (Reconciliation Final) 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)

Row 27 was modified 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.

Row 28 Business Support Costs was updated to include BSC-Totex (Row 48) and Insurance and Other Income (Row 52 and 53) for FY 2024/25 and 2025/26. These amendments were made to separate FSO costs.

Table 2.2 (Value for Money Summary)

Row 10 was added to reflect the BP2 cost benchmark. We have also updated the "Reasons for changes" in cell D12 to reflect more clear phrasing.

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 76 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.

Table 4.1 (BSC)

A new section is added named, BSC Incremental RtB Memo Table (Row 46 to 56). This includes BSC-Totex (Row 48), BSC - FSO Incremental RtB Pre and Post Day 1 (Row 49 and 50), Total Gross Costs (Row 51), Insurance and Other Income (Row 52 and 53), Total Net Costs (Row 54) and Check (Row 56) for FY 2024/25 and 2025/26. Additions were made to separate the FSO costs from business support cost totex and feed it into the pass through.

Summary of Consultation Responses

We have received one response which agrees with the proposed modifications and further suggests additional changes to the RIGs and RRP: Version 3.1. We have provided our response in the following section.

1. In the overview section (Chapter 3, page 24), the heading was changed from "1.6a External Revenue 1.6b Balancing Revenue (Fixed)" to "1.6a External Revenue and 1.6b Balancing Revenue (Fixed)".
2. In the instructions section (Chapter 4, page 30), the text was amended to include costs forecast to be incurred after Day 1.
3. In Appendix 2 (Definition of totex, page 64), Business Support Costs was amended to reflect that some of these costs are incurred directly by the ESO with others provided by National Grid Group.
4. In Table 1.6(b), cells E36 to H44, L36 to O44 and S36 to V44 were removed to reflect the population of costs only being available on an annual basis.
5. Due to rows being deleted in Table 1.6(b) the formulae in cells have been amended as appropriate. These include cells J37, J39, Q37, Q39, X37, X39.
6. In table 1.6(b), Row 16 (2021/22 Under-Recovery of BSUoS) was no longer required and has been deleted.
7. The number format of row 66 in Table 1.6(b) was amended to be identical to that of row 67.
8. The cost of FSO roles (Pre and Post Day 1) should be mapped from Table 3.1 to Table 2.2 (Value for Money Summary) to be included in the performance assessment against the BP2 Cost Forecast.
9. In Row 31 of Table 2.2, Total cell (Green) in column I needs to be updated to sum all the adjacent cells from Row I27:I30 instead of column G31:H31.

10. Row 13 in Table 2.2 should be populated to reflect a change in forecast cost for inclusion of FSO Blueprint costs.
11. In Table 3.1 (Opex Summary), activity "Advisory-Early Competition" should be deleted in Row 58 and 69 as it is now considered as part of activity "Procurement Body Early Competition" in Row 55 and 66.

Our response:

We agree with the changes listed in the summary section, except for points 8, 9 and 10. We have presented our rationale below:

1. In response to point 8, FSO activities will be assessed separately from the ESO activities as per the ISOPRI Governance Document. Therefore, it will not be included within the Value for Money Summary in Table 2.2 and Row 10 would reflect the original cost benchmark for BP2 (2023-25).
2. Consequently, for point 10, since FSO activities are excluded from the Value for Money Summary, we decided not to include a new row with updated forecast values in row 13.
3. In addition, upon further review of the ISOPRI Governance document, we have decided to remove any changes made to accommodate New Roles in Table 2.2. For clarity, Row 30 (New Roles) and Row 76 to 80 (ESO Opex) has been removed. As a result, we are amending the changes proposed in point 9. Therefore, Row 30, Total Price Control Costs (Green) is updated to sum all the adjacent cells from Row 27 to 29 in column G, H and I.

Ofgem's expectation is that the ESO will agree the methodology for calculating FSO Incremental Pre and Post Day 1 (Row 49 and 50) in Table 4.1 BSC before adding actual cost figures and seek approval for the methodology prior to final submission.

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 25 July 2024.

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

25 July 2024

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 granted or treated as granted to the Licensee under section 6(1)(b) of the Electricity Act 1989.

Whereas -

The Gas and Electricity Markets Authority (the "Authority")² 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 Determinations³ 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 22 May 2024⁴ 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, 20 June 2024.
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 20 June 2024 in relation to:
 - o RIIO-2 ESO - Regulatory Instructions and Guidance: Version 3.1; and,
 - o RIIO-2 ESO - Regulatory Reporting Template: Version 3.1.

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](#)

⁴ [Notice of proposed modifications to the ESO Regulatory Instructions and Guidance and Regulatory Reporting Pack for RIIO-2 - May 2024 | 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 25 July 2024.
10. This Direction and the letter constitute the reasons for the Authority's decision pursuant to section 49A of the Act.

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

25 July 2024