

Guidance

RIIO-2 Price Control National Energy System Operator (NESO) Regulatory Instructions and Guidance

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This document provides instructions and guidance to National Energy System Operator Limited to enable it to complete the reporting requirements associated with the RIIO-2 price control from 1 April 2021 to 31 March 2026.

Guidance – RIIIO-2 Price Control National Energy System Operator (NESO) Regulatory Instructions and Guidance

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Version History

Version	Changes	Purpose	Publication date	Release date
0.1	n/a	Consultation on the 'RIIO-2 Electricity System Operator – Regulatory Instructions and Guidance'	27 August 2021	n/a
1.0	Updates to reflect consultation responses	Decision on the 'RIIO-2 Electricity System Operator – Regulatory Instructions and Guidance'	26 November 2021	1 April 2022
1.1	Updates to reflect consultation responses	Decision on the 'RIIO-2 Electricity System Operator – Regulatory Instructions and Guidance'	14 April 2022	1 June 2022
1.2	Updates to reflect recent PCFM Working Groups, and sector-specific consultations	Consultation on the 'RIIO-2 Electricity System Operator – Regulatory Instructions and Guidance'	30 June 2023	
2.0	Updates to reflect consultation responses	Decision on the 'RIIO-2 Electricity System Operator – Regulatory Instructions and Guidance'	11 August 2023	11 August 2023

Guidance – RIIO-2 Price Control National Energy System Operator (NESO) Regulatory Instructions and Guidance

2.1	Updates to reflect Funding the transition to a Future System Operator consultation	Consultation on the 'RIIO-2 Electricity System Operator – Regulatory Instructions and Guidance'	06 September 2023	
3.0	Updates to reflect consultation responses	Decision on 'RIIO-2 Electricity System Operatory – Regulatory Instructions and Guidance'	18 October 2023	18 October 2023
3.1	Updates to reflect the changing costs relating to New Roles, FSO Roles and the introduction of fixed BSUoS tariffs consultation.	Decision on the 'RIIO-2 Electricity System Operator – Regulatory Instructions and Guidance'	2 August 2024	2 August 2024
3.2	Widespread updates to reflect the transition from NGESO to NESO, the new ESO and GSP licences and new RRP tables.	Consultation on the 'RIIO-2 Electricity System Operator – Regulatory Instructions and Guidance'	30 April 2025	30 April 2025

Context

This document contains the National Energy System Operator Regulatory Instructions and Guidance (RIGs).

The purpose of this document is to provide a framework to allow Ofgem to collect accurate information from National Energy System Operator Limited (NESO).

A number of licence conditions require NESO to provide us with this information. The main licence condition for the purposes of this document is Condition G3 (Regulatory Instructions and Guidance), which appears in both the Electricity System Operator licence and the Gas System Planner licence.

The RIGs will come into effect on 1 April 2022 and will apply until 31 March 2026 (or until stated otherwise).

Associated documents

RIIO-2 Final Determinations – ESO Annex:

<https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

Licence conditions:

<https://www.ofgem.gov.uk/licences-industry-codes-and-standards/licences/licence-conditions>

Financial Handbook and Financial Model:

<https://www.ofgem.gov.uk/publications/financial-handbook-national-energy-system-operator-neso>

Pension Regulatory Instruction and Guidance Version 3.0:

<https://www.ofgem.gov.uk/publications/decision-modify-regulatory-financial-performance-reporting-rfpr-and-pension-regulatory-instructions-and-guidance-rigs-riio1>

Contents

RIIO-2 Price Control National Energy System Operator (NESO) Regulatory Instructions and Guidance	1
Version History	3
Context	5
Associated documents	5
1. Introduction	8
Background.....	8
Legal framework	9
Components of the RIGs	9
Overall structure.....	9
RIIO-2 Price Control – NESO Regulatory Instructions and Guidance	10
RIIO-2 Price Control - NESO Regulatory Reporting Pack Template.....	11
RIIO-2 Price Control – NESO Supporting Commentary Template	11
Reporting under the RIGs.....	12
Timescales for reporting	12
Form of submission	12
Resubmissions	12
Review	13
Appointing an examiner	13
Audit requirements in relation to revenue reporting	13
Publication and sharing of templates.....	14
2. General instructions for completing NESO RRP worksheets	15
Overview	15
Table 1: NESO RRP Cell format key	16
Accounting policies.....	17
Structure of the NESO RRP.....	17
Data entry	18
Definitions	18
Use of Estimates and Allocations	18
Provision of forecast data.....	19
Additional information	19
Template errors.....	19
3. Purpose of NESO RRP worksheets.....	20
Introduction	20
Overview of worksheets	20
Table 2: Purpose of each worksheet in the NESO RRP	20
4. Instructions for completing the NESO RRP worksheets.....	24
Introduction	24
Overview of worksheets	24
Table 3: Instructions for completing each NESO RRP worksheet.....	24

5. Supporting commentary.....	33
Overview	33
Appendix 1 – Glossary and Definitions.....	36
Appendix 2 – Definition of licence expenditure	47
Table 4: ESO Totex categories	47
Appendix 3 – Demonstrably inefficient and wasteful expenditure (DIWE)	
51	

1. Introduction

Section summary

This section sets out the purpose and structure of the Regulatory Instructions and Guidance (RIGs) which will apply to NESO for RIIO-2. It also sets out guidance on the process for reporting under the RIGs and our audit requirements.

Background

- 1.1. The Regulatory Instructions and Guidance (RIGs) provide a framework which enables Ofgem to collect data from NESO during the RIIO-2 period. We collect data to enable us to administer the Conditions¹ of NESO's licences (the conditions which relate to the price control) and our price control Final Determinations. The RIGs templates provide a database of information relating to NESO which we will draw on to assess costs. The RIGs document informs NESO about the information we plan to collect, guides NESO on how to provide this information and enables NESO to put systems in place to collect the data to the detail we require.
- 1.2. Previously, when constituted as National Grid Electricity System Operator (NGESO), NGESO submitted this information using templates designed for Transmission Operators (TOs). Subsequently, NGESO has become a separate entity from National Grid Electricity Transmission and had its own bespoke RIIO-2 price control. In line with the provisions of the Energy Act, the entity has further evolved to become NESO which is wholly owned by the Department for Energy and Net Zero (DESNZ), and we have reviewed the RIGs and reporting templates to ensure they are appropriate for NESO and its RIIO-2 price control framework.

¹ National Energy System Operator –Conditions: <https://www.ofgem.gov.uk/energy-policy-and-regulation/industry-licensing/licences-and-licence-conditions>

Legal framework

- 1.3. For RIIO-2, the reporting requirements have been consolidated in Condition G3 (Regulatory Instructions and Guidance) of the ESO Licence ("the RIGs Licence Condition") and Condition G3 of the GSP licence.
- 1.4. The RIGs Licence Condition sets out the scope and governance arrangements for the RIGs.
- 1.5. In the event of any inconsistency between the licence conditions and this document, the licence conditions will take precedence.

Components of the RIGs

Overall structure

- 1.6. The RIGs comprise three main elements:
 - RIIO-2 Price Control – NESO Regulatory Instructions and Guidance ("the RIGs"). This document contains the instructions and guidance on how to report the data.
 - RIIO-2 Price Control – NESO Regulatory Reporting Pack Template ("NESO RRP"). This is the template for reporting cost and revenue data.
- 1.7. RIIO-2 Price Control – NESO Supporting Commentary Template ("the Supporting Commentary"). This is the template for providing commentaries against the data submitted in the NESO RRP. For instructions and guidance on the completion of the triennial Pension Pack, please see the Pension Regulatory Instructions and Guidance supplement.²

² Pension Regulatory Instruction and Guidance Version 3.0:
<https://www.ofgem.gov.uk/publications/decision-modify-regulatory-financial-performance-reporting-rfpr-and-pension-regulatory-instructions-and-guidance-rigs-riio1>

RIIO-2 Price Control – NESO Regulatory Instructions and Guidance

1.8. The purpose of this document is to provide instructions and guidance to enable NESO to complete the NESO RRP and Supporting Commentary. This document provides information on:

- the systems, processes, procedures, recording and provision of the required data
- reporting units
- levels of accuracy (including rounding)
- the methodology for calculating or deriving required numbers
- the provision of the data to Ofgem (format, frequency etc)
- any audit or examiner requirements
- reasons for the data requirement
- explanations of how Ofgem will monitor, assess, and enforce compliance
- a glossary of terms used in the workbooks

1.9. For the avoidance of doubt, this document should be read in conjunction with the RIGs Licence Condition. Where definitions are provided within the NESO licences, they are not duplicated in this document.

1.10. This document is divided into sections reflecting the different component parts of the RIGs. These are as follows:

- Section 2 provides general instructions and guidance for completing the NESO RRP worksheets.
- Section 3 sets out the contents and purpose of each of the worksheets included in the NESO RRP.
- Section 4 provides instructions and guidance for the completion of the worksheets included in the NESO RRP.
- Section 5 provides instructions and guidance for the submission of the Supporting Commentary.

RIIO-2 Price Control - NESO Regulatory Reporting Pack Template

- 1.11. The NESO RRP has been designed to be consistent with our RIIO-2 Final Determinations and will enable us to collect the information we need to assess NESO's performance. Where possible we have consolidated the NESO RRP with other reporting requirements.
- 1.12. It also collects data required to populate the NESO Financial Model which calculates the elements of the ESOAR term and the ARGSP term described in the NESO Financial Handbook.

RIIO-2 Price Control – NESO Supporting Commentary Template

- 1.13. Alongside the submission of the NESO RRP, NESO must complete the Supporting Commentary. The instructions and guidance for the Supporting Commentary are set out in Section 5. A strategic commentary is required to:
- Provide a useful executive summary, focusing attention on distilling key messages of the drivers of performance and presenting clear strategic insights at this point in the price control period.
 - Give Ofgem an understanding of the key drivers of business performance in terms of expenditure, deliverables and the materiality of each driver.
 - Provide a summary explanation of the forecast, including deliverables and costs.
 - Provide an understanding of material variances against previous year's actuals and forecasts.
 - To inform Ofgem of any organisational changes or performance improvements. This could include modifications or enhancements to allocation methodologies and/or modifications or enhancements to data capture (e.g. systems capturing data).
- 1.14. Please note that the strategic overview should be provided within the primary narrative rather than as a separate addendum.

Reporting under the RIGs

Timescales for reporting

- 1.15. The reporting year for the provision of information under the RIGs is from 1 April to 31 March in the following calendar year. The reporting set out in this document will be submitted on an annual basis.
- 1.16. Except where otherwise stated, NESO must provide the information required under the RIGs as soon as reasonably practicable and in any event not later than 31 August following the end of the reporting year to which such information relates. This is the latest date that NESO can submit information unless Ofgem has previously agreed to an extension in writing.

Form of submission

- 1.17. Instructions for the electronic submission of the workbooks will be circulated to NESO's regulation manager in advance of each submission deadline. However, if there is any doubt about the method of submission, NESO must contact Ofgem.
- 1.18. The submission must be accompanied by a letter signed by a director on behalf of NESO confirming that the data is accurate and has been provided in accordance with the RIGs.

Resubmissions

- 1.19. NESO is required to seek the agreement of Ofgem or a person nominated by Ofgem before resubmitting any information provided in accordance with these RIGs.
- 1.20. In any such instance the report concerned must be resubmitted in full (unless agreed otherwise). The resubmission must only be accompanied by a letter signed by a director where significant changes have been made and where Ofgem and/or NESO decide such a letter is required. The volume of supporting information NESO will be required to submit to support any resubmission will be dependent on the nature of any required resubmission.

1.21. For each resubmission a detailed explanation must be provided in the Changes Log in the NESO RRP listing every cell that has been amended. The explanation must include sufficient commentary to explain the reasons for the resubmission.

Review

1.22. Once NESO has submitted the information to Ofgem, Ofgem or a person nominated by it ('a reviewer') will undertake a detailed review of the information. A review may include a visit to NESO for discussion of the information submitted. Such visits will be agreed with NESO in advance.

1.23. Where a reviewer has been nominated, the reviewer will enter into an agreement with NESO to maintain confidentiality on reasonable terms.

Appointing an examiner

1.24. In accordance with the RIGs Licence Condition, NESO must permit a person nominated by Ofgem to examine:

- the systems, processes and procedures for measuring the specified information
- the specified information collected by NESO
- the extent to which the systems, process and procedures and the specified information complies with the RIGs
- any further information relevant to the RRP submissions

Audit requirements in relation to revenue reporting

1.25. In accordance with the RIGs Licence Condition, Ofgem will identify the specified information which is to be subject to audit, the terms on which an auditor is to be appointed by NESO for that purpose and the nature of the audit to be carried out by that person. We will issue an Agreed Upon Audit Procedure (AUP) for use by an appropriate auditor by 31 May of the year of submission.

Publication and sharing of templates

1.26. Ofgem may publish any further information contained in the templates but will notify NESO in advance of any intention to do so and will make any necessary redactions.

2. General instructions for completing NESO RRP worksheets

Section summary

The purpose of this section is to provide general instructions for completing the NESO RRP worksheets. This is to enable Ofgem to effectively monitor the performance of NESO and compare with our Final Determinations and previous year's performance in relation to the costs.

Overview

- 2.1. The NESO RRP consists of a series of tables in MS Excel. The purpose of the NESO RRP is to facilitate the submission of uniform and comparable information from NESO over the RIIO-2 period. This enables comparison with our Final Determinations and previous years' performance and comparative regulation on a consistent basis throughout the RIIO-2 period.
- 2.2. NESO should submit accurate, and where instructed, audited figures of its costs and revenues for the relevant period.
- 2.3. The NESO RRP has been designed to have single data entry where possible in order to avoid duplication and to facilitate reconciliations and balance checks.
- 2.4. The key points to note in completing the NESO RRP tables are:
 - NESO must take all reasonable steps to validate and check that the specified information provided under the RIGs is complete, reliable and meets the standards prescribed by the RIGs. NESO must notify Ofgem of the possibility of any significant revisions to improve data quality. This notification must be issued to Ofgem as soon as it becomes evident to NESO that a reasonable likelihood exists of significant inaccuracies in any of its previously submitted data.

- Where a table contains multiple years of data (historical and/or forecast) that was reported in a previous RIGs template, NESO should report, unless otherwise stated in the specific table guidance, data for all years that is to the best of its knowledge up to date and accurate. NESO is required to explain any material data revisions in its accompanying narrative.
- The NESO RRP tables are colour coded to reflect the action required, as shown in Table 1 below and on the Cover worksheet of the NESO RRP.

Table 1: NESO RRP Cell format key

Cell format	Cell type
	Cell intentionally blank
Value	Input cell
Value	Imported value
Value	Calculation cell
Value	Output cell
Value	Ex-ante value
Value	Error checking cell
<i>Value</i>	Annotation cell

- Unless otherwise stated, all financial values should be input in nominal values. Values that feed alternative sources using different price bases are either required to be stated in those prices or are converted into those prices within the RRP.
- Unless otherwise indicated in the RIGs or templates, actual financial values should be provided in £ million to a minimum of three decimal places, and displayed at one decimal place, with financial values reconciling with the audited statutory accounts. However, NESO is required to provide all actual financial data to the highest reasonable level of accuracy available from its source systems, and commensurate with the purpose for which such data is intended taking into consideration the appropriate allocations that are necessary to complete the tables.
- Workload units and outputs should be reported at the highest level of accuracy from the source systems and commensurate with the purpose for which such data is intended, taking into consideration the appropriate allocations that are necessary to complete the tables, unless stated otherwise in any relevant

licence or elsewhere in this document. Workload and outputs should be entered in the unit of measurement set out in the RIGs or templates.

- Where a reportable value is zero or not applicable to NESO then a zero must be input rather than the cell being left blank.

Accounting policies

- 2.5. All costs are to be entered on a cash basis. A cash basis means exclusive of provisions and accruals and prepayments that are not incurred as part of the ordinary level of business. NESO should use the same accounting policies as in the preparation of the statutory financial statements, in accordance with UK GAAP or IFRS unless otherwise stated.
- 2.6. In the event that the accounting policies applied to prepare the template differ from those used in the statutory financial statements (for some or all years) NESO must include appropriate details including quantification of the difference.
- 2.7. A new international accounting standard, IFRS16, was issued during RIIO-ET1. Where NESO reports under IFRS in its statutory accounts, this means that all leases are now reported on the balance sheet as liabilities, along with an asset reflecting the right to use the asset over the lease term. The income statement now only reports the associated depreciation and interest expenses. Previously some leases would have been reported as operating leases with “in year” lease costs (e.g. rent and service charges) recognised in the income statement, with no impact on the balance sheet. To avoid issues with restatement, asset recognition and different statutory accounting policies, all costs should continue to be reported in the RIGs as they were prior to the adoption of IFRS16. This means that lease charges incurred during the year (those previously reported as operating leases) should continue to be reported as operating costs in the NESO RRP, and any element of interest cost in lease payments reported on a statutory basis under IFRS16 is excluded from interest reported.

Structure of the NESO RRP

- 2.8. The NESO RRP has been separated into the following sections:

1. Finance

2. Revenue
3. Licence Expenditure Summaries
4. Operating and Capital Expenditure
5. Innovation
6. Value for Money

Data entry

2.9. As the NESO RRP is a series of tables in MS Excel, links and formulae have been included to limit, where possible, the amount of manual data entry required. The tables have not been “locked”, **but NESO is not to change any formulae or formats (including insertion or deletion of rows or columns, moving any cells, or altering any text, figures, or formulae in any cells not shaded yellow) without instruction from Ofgem first.** If a change is necessary (to correct an error, for example), Ofgem will notify NESO of the correction to be made.

Definitions

2.10. Detailed definitions are included in the specific instructions for the tables unless they affect more than one table. NESO must ensure that the definitions are clearly understood and are complied with when entering any data into the template. Where there is doubt or uncertainty, please refer to Ofgem for clarification. This is to ensure consistency.

2.11. NESO no longer maintains a Regulatory Asset Value (RAV). The RAV was a key building block of the RIIO-2 price control until the establishment of NESO, at which point the RAV that existed at the date of transition (1 October 2024) became representative of a balance that would be repaid to DESNZ. For ease, that balance is still referred to as a RAV.

Use of Estimates and Allocations

2.12. Apportionments should be avoided wherever possible. However, where NESO (and any affiliate or related undertaking of NESO) has to do this to complete the tables,

the basis of apportionment must be provided. Changes in apportionments should also be highlighted.

Provision of forecast data

2.13. There will be a requirement to forecast costs for the remaining years of the RIIIO-2 price control period in the reporting templates.

2.14. Where NESO is required to provide forecasts then the forecasts shall represent NESO's best view following its best endeavours to take account of all relevant internal and external factors.

Additional information

2.15. If NESO considers additional information beyond that requested is necessary to develop a complete understanding of the information presented in the tables, then such information should be included in an appendix to the submission.

Template errors

2.16. Where errors in a worksheet are identified then Ofgem should be notified as soon as possible. Ofgem will make the necessary corrections, log them in the Changes Log and notify NESO.

3. Purpose of NESO RRP worksheets

Section summary

The purpose of this section is to illustrate the contents of the NESO RRP and to set out the purpose of each worksheet within the NESO RRP.

Introduction

3.1. The purpose of these worksheets is to facilitate the submission of uniform and comparable financial, costs, workload and outputs information from NESO over the RIIO-2 period. This enables comparison with business plans, comparison with prior years and comparative regulation on a consistent basis throughout the RIIO-2 period.

Overview of worksheets

3.2. The purpose of each worksheet in the NESO RRP is outlined in Table 2.

Table 2: Purpose of each worksheet in the NESO RRP

Worksheet	Purpose and use by Ofgem
Cover	The purpose of this worksheet is to capture the submission date and version number. It also provides a key to the colour coding convention used throughout the workbook.
Contents	The purpose of this worksheet is to provide a summary of the data table names contained within the template and quick reference links.
Changes Log	The purpose of this table is to track the status of change proposals (and the action taken) and the correction of errors within the template.
Universal Data	The purpose of this worksheet is to capture data used throughout the workbook, such as reporting year and indexation data.

Finance	
1.1 Price Control Financial Model (PCFM) and Legacy Closeout Model (LCM) Inputs Summary	The purpose of this table is to capture all inputs required for both the PCFM and LCM. Those models calculate the Legacy term which is included in the NESO Financial Model to deal with the transition to NESO on 1 October 2024 (including any true ups required for Financial Years up to 2023/24 as well as reflecting that the first half of 2024/25 remained under National Grid ownership and so was subject to different rules).
1.2 Financial Model (FM) Inputs Summary	The purpose of this table is to capture all FM inputs calculated within the workbook for use in the calculation and publication of revenue.
1.3 Future System Operator (FSO) Pass Through	Certain elements of FSO cost are historically subject to a licence cap and so are presented here. The costs incurred by National Grid (and invoiced to NESO) are still dealt with as a specific item in the NESO Financial Model.
Revenue	
2.1 Transmission Network Revenue	The purpose of this table is to collect information relating to maximum Transmission Network Revenues.
2.2a External Revenue and 2.2b Balancing Revenue (Fixed)	The purpose of these tables is to collect information on NESO's Balancing Revenues for Variable (2.2a) and Fixed (2.2b) tariffs. Fixed tariffs started on 1 April 2023, so no further input is expected to 2.2a which remains in the pack for historical reasons.
2.3 Other Revenue	The purpose of this table is to collect information relating to all other revenue not recorded in the tables above, which includes historic capture of Directly Remunerated Services and De Minimis revenues, according to the old National Grid ESO Transmission Licence.
Licence Expenditure Summaries	
3.1 Expenditure Summary	The purpose of this table is to collect a summary of NESO Opex, Other Price Control Costs and Capex data for the actual reporting year and high-level forecasts for the whole of the price control period. This enables a comparison with previous years This table uses data in reporting year prices to calculate NESO Licence Expenditure.
3.2 Related Party Transactions	The purpose of this table is to record information on the turnover and margin % for all affiliates and to record the split of related party margin by cost category.

3.3 Provisions	The purpose of this table is to collect details of the provisions that have affected the results so that Ofgem can understand any significant events happening in the year.
Operating and Capital Expenditure	
4.1 NESO Opex	The purpose of this table is to report expenditure on Opex for each of NESO's operational and enabling functions. These figures will be used in the value for money assessment. We will use this information to assess the economic efficiency and appropriateness of any direct and supporting expenditure.
4.2 NESO Full Time Equivalent (FTE) Numbers	The purpose of this table is to collect information on NESO FTEs. This will provide context for the level of cost incurred by each area.
4.3 NESO Investment	The purpose of this table is to report expenditure on investments. These figures will be used in the value for money assessment. We will use this information to assess the economic efficiency and appropriateness of any investment.
4.4 Pension Administration Costs	The purpose of this table is to collect cost information on pension scheme costs, including Pension Scheme Administration Costs, Pension Protection Levy Fund costs, and any other relevant categories of cost related to NESO's expenditure on pensions. These figures will be used in the value for money assessment.
4.5 Cyber Resilience IT Costs	<p>As Cyber Resilience IT activities are strictly confidential, the intention for the RRP reporting is to record aggregated totals only that feed into the PCFM and the value for money assessment. This information is historic, spend after the establishment of NESO on 1 October 2024 is incurred via a Transitional Services Agreement (TSA) and is reported in Table 4.1.</p> <p>These figures will be used in the value for money assessment.</p>

Innovation	
5.1 Network Innovation Allowance (NIA) Expenditure	The purpose of this table is to report NESO's expenditure under the RIIO-2 Network Innovation Allowance (NIA). The NIA is a set allowance that NESO can use to spend on innovation projects which comply with the RIIO-2 NIA Governance Document.
5.2 Strategic Innovation Fund (SIF) Expenditure	The purpose of this table is to report funding for SIF projects that NESO will receive funding for in RIIO-2. Additionally, the table also seeks to capture other categories of SIF funding that will be relevant if NESO has to return any funds on these projects.
5.3 Network Innovation Competition (NIC) Expenditure	The purpose of this table is to report funding for NIC projects that NESO received funding for (as National Grid ESO) in RIIO-1 and remain in-flight during the RIIO-2 price control. Additionally, the table also seeks to capture other categories of NIC funding that will be relevant if NESO has to return any funds on these projects.
Value for Money	
6.1 Value for Money Summary	The purpose of this table is to record the final audited annual figures for the BP2 value for money assessment against the cost forecasts provided in the BP2 submission. This table will also act as a record of the up-to-date costs.

4. Instructions for completing the NESO RRP worksheets

Section summary

The purpose of this section is to inform the completion of the NESO RRP worksheets.

Introduction

- 4.1. NESO should submit accurate and (where instructed) audited figures of its costs and revenues for the relevant period.
- 4.2. All costs are to be entered on a cash basis. This means exclusive of all provisions and all accruals and prepayments that are not incurred as part of the ordinary level of business.
- 4.3. NESO should submit numbers as stated in the guidance in paragraph 2.4 of this document.
- 4.4. NESO must only fill in the yellow input cells, as shown in Table 1 in this document and on the Cover worksheet of the NESO RRP.

Overview of worksheets

- 4.5. The instructions for completing each worksheet in the NESO RRP are outlined in Table 3.

Table 3: Instructions for completing each NESO RRP worksheet

Worksheet	Guidance on completing worksheet
Cover	NESO should complete the reporting year, the version number and the submission date in the yellow cells.
Contents	NESO should input an X in the yellow cells between G16 and G44 for each of the worksheets that has been completed. Where a worksheet has not been completed for a reporting

	<p>year, NESO must provide a clear explanation and justification for this in the Supporting Commentary.</p> <p>If NESO is submitting additional information with the RRP or earlier, this should be input in the yellow cells between G48 and G61.</p>
Changes Log	There is no input required in this worksheet. Any errors identified or changes required should be notified to Ofgem, who will update the template, record the changes and issue a revision.
Finance	
1.1 Price Control Financial Model (PCFM) and Legacy Closeout Model (LCM) Inputs Summary	This table draws information from other parts of the NESO RRP file and requires no direct input.
1.2 Financial Model (FM) Inputs Summary	<p>The Financial Model requires inputs for Fines and Penalties incurred by NESO (which are to ultimately be funded by consumers to protect NESO's not for profit status) which should be input to the yellow cells in row 15. Any other adjustments required are to be entered in the yellow cells in row 18.</p> <p>Otherwise, this table draws information from other parts of the NESO RRP file.</p>
1.3 Future System Operator (FSO) Pass Through	Any FSONG _t costs (transition costs incurred by National Grid and invoiced to NESO) incurred before Day 1 should be input into the yellow cells in row 39. These costs are compared to the cap set out in Special Condition 4.2 Part J of the old National Grid ESO Transmission Licence. Costs incurred after Day 1 and therefore not subject to that cap should be input into the yellow cells in row 42.
Revenue	
2.1 Transmission Network Rev	<p><u>Pass through items (PT_t)</u></p> <p>Rows 33 and 34: LF_t, ITC_t</p>

	<p>Actual payments per accounting records and forecast values for the reporting period in question should be input directly into the yellow input cells of this worksheet. The licence terms are defined in Part C of Licence Condition F3 (Recovery of transmission network revenues) of the ESO licence.</p> <p>Row 38 to 45: $Term_t$, TSP_t, TSH_t, $TNGET_t$, $TOFTO_t$, $OFET_t$, $TICF_t$ and $TICP_t$</p> <p>Actual and forecast values for the reporting period in question as notified by the relevant parties should be input directly into the yellow input cells of this worksheet. The licence terms are defined in Part C of Licence Condition F3 (Recovery of transmission network revenues) of the ESO licence.</p> <p><u>Bad Debt</u></p> <p>Row 57 to 58: Bad Debt costs relate to any amounts that are incurred (or forecast) by NESO with respect to Transmission Network Charges owed to it by one or more Defaulting Connection and Use of System Code Party.</p> <p>Values should be input into the yellow input cells of the bad debt section of this worksheet.</p> <p>The 'BDA' figure in row 57 should include the TNUoS Bad Debt costs that NESO expects to incur including any RIIO-1 TNUoS Bad Debt.</p> <p>The RBD_t 'Recovered TNUoS Bad Debt' value should be input in row 58 as a positive value and should include the aggregate value of any bad debt recovered (including RIIO-1 TNUoS Bad Debt), where the costs have previously been recovered via the BDA term.</p> <p><u>Site-Specific Charges</u></p>
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	<p>Rows 68 to 69: Actual and forecast values for the reporting period in question as notified by the relevant parties should be input directly into the yellow input cells of this worksheet. The licence terms are defined in Part B of Licence Condition F3 (Recovery of transmission network revenues) of the ESO licence).</p> <p><u>Transmission Owner Final Sums</u></p> <p>Rows 78 to 79: Actual and forecast values for the reporting period in question as notified by the relevant parties should be input directly into the yellow input cells of this worksheet. The licence terms are defined in Part B of Licence Condition F3 (Recovery of transmission network revenues) of the ESO licence.</p> <p><u>RIIO-1 Network Innovation Competition (NICF_t)</u></p> <p>NESO will input the value as per any applicable NIC Funding direction published by Ofgem to row 88.</p> <p><u>The strategic innovation fund (SIFF_t)</u></p> <p>For the reporting year NESO will input the total of Ofgem’s SIF Funding directions for the regulatory year to row 96. The forecast will be informed by information received from UKRI.</p> <p><u>Legacy adjustments to revenue (LAR_t)/ RIIIO-ET1 pass through items (LPT_t)</u></p>
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	<p>Rows 104 to 119: Legacy values as calculated in the ESO Legacy Revenue RRP should be input directly into the yellow input cells of this worksheet.</p> <p><u>Adjustment term (ADJ_t)</u></p> <p>The Maximum Revenue TO^*_t for the reporting year as published by NESO should be input in the yellow cells in row 128, and the pass through terms for which the licensee has no revenue adjustment responsibility (PTE^*_t) for the reporting year as published by NESO should be input in the yellow cells in row 130.</p>
2.2a External Revenue	<p>This table remains for historical purposes and does not require any further input.</p>
2.2b Balancing Revenue (Fixed)	<p>The yellow cells represent the data that NESO is required to complete for each Regulatory year.</p> <p>Forecasts columns do not need to be completed.</p>
2.3 Other Revenue	<p>Any revenue not captured in the tables above should be entered to the yellow cells in this table with a description of the activity that the revenue relates to in column B.</p>

Licence Expenditure Summaries	
3.1 Expenditure Summary	<p><u>Demonstrably inefficient and wasteful expenditure</u></p> <p>Any demonstrably inefficient and wasteful expenditure (DIWE) disallowed by Ofgem before NESO was established, in line with the disallowance policy as set out in our Final Determinations³ and the definition of costs in Appendix 2, should be input as a positive value in the yellow cells in rows 14 for capex and 23 for opex.</p> <p><u>IAS 19 pension accrual</u></p> <p>NESO should input the adjustment for IAS 19 pension accrual (including post cut off deficit payment) as a positive value in the yellow cells in row 21.</p> <p>The rest of this worksheet is auto-populated with information from other tables in the file.</p>
2.2 Value for Money Summary	<p>There is no input required in this worksheet.</p> <p>The cost forecasts are pre-populated with the latest agreed values. Ofgem will confirm any required changes to the Value for Money tracker and the cost forecast values in column F with the ESO ahead of the RIGs submission date.</p>
3.3 Provisions	<p>Data should be input as required in the yellow shaded cells. A description of each provision should be input in the yellow cells in column C. Costs should be input in the yellow cells in columns S:W as positive or negative values as appropriate.</p>

³ Please see paragraphs 4.44-4.56 of our Final Determinations – ESO Annex for further details on our disallowance policy for demonstrably inefficient or wasteful expenditure:
<https://www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

	Provisions are those defined under standard accounting terminology.
3.2 Related Party Transactions	<p>NESO should input details of each of its related parties in the yellow cells between A17:A31 as required.</p> <p>For each related party, NESO should provide the turnover and margin charged by the related party to NESO, NESO's Affiliates or Related Undertakings that do not trade / transact with NESO, and External Parties.</p> <p>NESO should also input details of the related party margin by cost category in the yellow cells in columns AC:DM.</p> <p>Related party margin is defined in Appendix 1.</p>
3.3 Provisions	<p>Data should be input as required in the yellow shaded cells. A description of each provision should be input in the yellow cells in column C. Costs should be input in the yellow cells in columns F:J as positive or negative values as appropriate.</p> <p>Provisions are those defined under standard accounting terminology.</p>
Operating and Capital Expenditure	
4.1 NESO Opex	<p>NESO should input outturn and forecast data for each NESO activity as required in the yellow cells.</p> <p>These costs should be split between Electricity and Gas costs as set out in the Total Cost Allocation Methodology (TCAM), approved by Ofgem.</p>
4.2 NESO Full Time Equivalents (FTE)	<p>NESO should fill in FTEs as indicated by the boxes shaded in yellow.</p> <p>Where FTEs are allocated, the basis of allocation should be stated in the narrative accompanying the tables.</p>
4.3 NESO Investment	<p>The table captures specific information for each investment, the title of which should be recorded in column C.</p> <p>Actual and forecast costs for each project should then be entered across columns AA to AO. Investment costs include those classed as either operating or capital expenditure with the split recorded at a global level in the yellow cells of rows 126</p>

	and 127. Note that the table requires each project to be split or shown appropriately as either Electricity or Gas related in accordance with the Total Cost Allocation Methodology (TCAM), approved by Ofgem.
4.4 Pensions Administration Costs	<p>Outturn and forecast data should be input as required into the yellow cells between F11:L12 for each year of RIIO-2 for the Pension Scheme Administration Costs and the Pension Protection Levy Fund categories.</p> <p>For all other relevant categories of NESO pension administration costs, NESO should input a clear description of the cost category in column D, as well as outturn and forecast data as required in the yellow cells between F15:L30.</p>
4.5 Cyber Resilience IT Costs	<p>NESO is to report its annual Cyber Resilience IT capex and opex costs in the yellow cells in rows 11 and 12. The total will populate automatically in row 13.</p> <p>Note that this table should only be completed for periods up to 1 October 2024. Any costs after that date will be incurred via Transitional Service Agreements (TSAs) and will be included within table 4.1.</p>
Innovation	
5.1 Network Innovation Allowance (NIA) Expenditure	<p>NESO should input details of each RIIO-2 NIA activity / project in the yellow cells D11:F85 as required and provide the outturn and forecast expenditure in the yellow cells I11:M85.</p> <p>NESO should populate actual data from 1 April 2021 up to and including the current reporting year and forecast data for the remaining RIIO-2 period, i.e. all five years of RIIO-2.</p> <p>Additionally, NESO should also report how much of their Total NIA Expenditure has been spent on internal resources in the yellow cells I102:M102.</p> <p>NESO should input the unfunded NIA expenditure for each RIIO-2 year in the yellow cells in row 115, though that concept does not apply for years 2024/25 and 2025/26.</p>

<p>5.2 Strategic Innovation Fund (SIF) Expenditure</p>	<p>NESO should input the unfunded SIF expenditure for each RIIO-2 year in the yellow cells in row 14.</p> <p>NESO should input details of each SIF project it receives funding for in the yellow cells in columns D:G as required, and provide the outturn and forecast expenditure in the yellow cells in columns J:N. The different SIF categories are all defined in the SIF Governance Document.⁴</p> <p>NESO may add additional rows to this worksheet as required to complete the required information for all of its SIF projects.</p>
<p>5.3 Network Innovation Competition (NIC) Expenditure</p>	<p>NESO should input the unfunded NIC expenditure for each RIIO-2 year in the yellow cells in row 14.</p> <p>NESO should input details of each NIC project it received funding for in RIIO-1 in the yellow cells in columns D:F as required and provide the outturn and forecast expenditure in the yellow cells in columns U:AG.</p> <p>NESO may add additional rows to this worksheet as required to complete the required information for all of its NIC projects.</p>
<p>Value for Money</p>	
<p>6.1 Value for Money Summary</p>	<p>This table should replicate the information that is reported in the regular Value for Money (VfM) submissions, made by NESO to Ofgem. As such, it ensures that the costs reported in RRP are the same as those reported through the VfM process.</p>

⁴ SIF Governance Document: <https://www.ofgem.gov.uk/publications/sif-governance-document>

5. Supporting commentary

Section summary

This section sets out the instructions and guidance for the completion of a commentary that supports NESO's RRP.

Overview

- 5.1. Alongside the submission of its RIGs tables, NESO must complete the Supporting Commentary template provided. The Supporting Commentary must provide a strategic context to the overall RIIO-2 performance expected by NESO at this point in the price control period. The commentary must therefore distil key messages of what NESO sees as important indicators of performance, provide clear strategic insights on the expected performance over the RIIO-2 period and any areas for improvement.
- 5.2. In doing so, the narrative will identify the main reasons and drivers of actual/forecast spend for the current reporting year, a view for the entire price control period and the expected outturn position at the end of RIIO-2. Where it helps support the strategic narrative, additional detail can be provided on what has driven performance to date and what is expected to drive performance in future years. The narrative should also explain the material differences between outturn and forecast spend between last year's information and the latest information.
- 5.3. The appropriateness and materiality of the information provided should be set at a level that avoids the need for Ofgem to ask supplementary questions. Where visual representations of information (e.g. waterfall diagrams) may aid understanding, these should be included.
- 5.4. For the Supporting Commentary on elements of expenditure, NESO may refer back to its six-monthly value for money reporting if necessary.
- 5.5. Additional appendices can be used to provide further detail on specific performance areas. Examples include providing an overview and timelines to mitigate any

perceived delivery risks or explaining changes in data methodologies or organisational structure and the effect that this has on reporting.

5.6. Instructions and guidance to complete each chapter in the template are as follows:

- **Executive summary:** Provide a summary of the key messages from the commentary. This should seek to distil key messages of the drivers of performance and present clear strategic insights at this point in the price control period.
- **Chapter 1- Table by table:**
 - *Allocation methodology* – This should be filled out by exception and note any issues regarding how the table was completed which Ofgem should be aware of. For example, was the table filled out differently to how instructed in the RIGs or how previously stated it would be? What was the justification for this change and what impact did it have? Were there any allocations between cost categories required that Ofgem are not already aware of?
 - *Summary views* – This is only included for certain tables and the information required is table specific. Provide summaries of all of the areas noted, quantifying assertions wherever possible and appropriate. Each numbered section will have a guide word limit specific to that table.
 - *Additional commentary* – Provide any further important information related to the relevant table if necessary.
- **Chapter 2 – Forecasting:** Some forecasting information is likely to have already been provided in the 'summary view' and 'additional commentary' within Chapter 1. This chapter should focus on NESO's organisational approach to forecasting on issues that are relevant to multiple tables. It should also note if and how forecasting is being improved.
- **Appendices:** Any information NESO considers important that does not fall under one of the preceding chapters should be included in the appendices.
- Information provided by NESO in Chapter 2 and the appendices should come under sub-headings. At the end of each subsection, NESO should reference which table(s) the information is most relevant to.

Appendix 1 – Glossary and Definitions

A1.1 The purpose of this appendix is to provide definitions for the terms included in these instructions and in the associated worksheets (with the exception of expenditure which is defined in Appendix 2).

A1.2 This appendix provides definitions that cover more than one table and more general definitions. Any word or expressions used in the Utilities Act 2000, Electricity Act 1989, the Energy Act 2004, the Energy Act 2023, or licence conditions of either the Electricity System Operator Licence or the Gas System Planner Licence shall have the same meaning when used in these rules, similarly for standard accounting terms, IFRS/IAS and/or UK GAAP and Companies Act 2006 definitions should be applied.

A1.3 In the circumstance where no definition is given NESO should include in explanatory notes details of the treatment it has applied and inform the Authority of the omission. Where a definition set out in this appendix is not the same as that applied by NESO for other purposes, the definition set out herein must be used in the preparation of the RIGs templates.

A1.4 Except where the context otherwise requires, any reference in this appendix or in the RIGs to a numbered licence condition (with or without a letter) or Schedule is a reference to the licence condition (with or without a letter) or Schedule bearing that number in either the Electricity System Operator Licence or Gas System Planner Licence (as specified), and any reference to a numbered paragraph (with or without a letter) within such a condition is a reference to the paragraph bearing that number in the condition or Schedule of the Electricity System Operator Licence or Gas System Planner Licence (as specified) in which the reference occurs, and reference to a Section is a reference to that Section in the conditions of the Electricity System Operator Licence or Gas System Planner Licence (as specified).

A1.5 Where terms are defined within the licence conditions or other documents approved by the Authority (such as the RIIO-2 NIA Governance Document), they are not replicated here and the user should refer to the licence condition or such other document for these definitions.

A1.6 In order to maintain comparability, historic presentation is included in the NESO RRP for the whole RIIO-2 period. These costs are calculated and disclosed in accordance with the RIGs that were in force at that time so where necessary they should be read in that context, using the definitions that appeared in those RIGs.

A

Accounting Costs

Costs as per statutory accounts before any adjustments (for example for non-controllable costs, atypical costs and provision movements among others).

Accounting Standards

The term encompasses Financial Reporting Standards ("FRS") 100, 101, 102 and 103 (known as the new UK GAAP) effective from 1 January 2015 and International Financial Reporting Standards and International Accounting Standards (together "IAS") and the International Financial Reporting Interpretations Committee ("IFRIC") interpretations.

Accruals and Prepayments

For the purpose of determining what amounts should be excluded as non-cash items, these are only those items that are not incurred as part of the ordinary level of business activities and would be atypical. Normal business activities include normal trade accruals and prepayments and holiday pay provisions.

C

Cash Basis

All costs incurred and paid in cash or normally paid in cash, subject to short term timing differences, as part of the ordinary level of business.

Includes:

- All provisions, accruals and prepayments that are incurred as part of ordinary level of business activities, including holiday pay provisions, normal trade accruals and prepayments, and which are expected to be paid within the entity's standard terms of business.
- The cost of assets acquired under a finance lease excluding finance interest.

- Cash payments for the utilisation of a provision.

Excludes:

- All provisions relating to atypical events.

Customer / Capital contributions

Financial contribution received from / repaid to a customer in respect of the provision of a new connection to the transmission network.

Cyber Resilience IT costs

Please refer to our RIIIO-2 Cyber Resilience Guidelines⁵ for further clarity on which costs should be included in this category.

F

Fines and Penalties

Any fines or penalties paid by NESO that do not fall within the categories of:

- Notice Penalties
- Inspection Penalties (part of Investigatory Inspections and Penalties)
- Overstay Fines
- Permit Penalties

Includes all tax penalties, fines and interest.

Full Time Equivalent (FTE) Employee

The number of normal hours worked by an employee divided by the normal hours of a full-time member of staff in an equivalent role according to his or her contract of employment.

⁵ RIIIO-2 Cyber Resilience Guidelines: <https://www.ofgem.gov.uk/publications/riio-2-cyber-resilience-guidelines>

I

Insurance

Support and expertise to develop the business risk profile, managing the claims process and provision of information and understanding to the business in relation to insurable and uninsurable risks.

Includes:

- Insurance premiums
- Insurance premium tax
- Insurance contract negotiating and monitoring
- Insurance claim processing
- Insurance risk management
- Payments relating to uninsured claims
- Costs of in-house insurance team
- Brokers fees

DD&T (Digital Data & Technology)

Provision of IT services for day-to-day service delivery.

L

Licence Expenditure

See Appendix 2.

P

Pass Through Costs

Costs for which companies can vary their annual revenue in line with the actual cost.

Pensions

For the purposes of the RRP, this is a Cost Type.

Includes (Pensions includes licensee payments on a cash basis for the following):

- Ongoing normal service contributions to Defined Benefit Pension Schemes.
- Ongoing normal service contributions to Defined Contribution Pension Schemes.
- Ongoing normal service contributions to stakeholder and/or personal pension plans.
- Payments in respect of Pension Scheme Incremental Deficit repair payments.

Excludes:

- Payments in respect of Pension Scheme Established Deficit repair payments.
- Payments in respect of pension related severance costs.
- Payments in respect of augmentation of benefits.
- Payments in respect of the PPF levy (whether paid directly by the distribution business or within ongoing contribution rates) (report in Pension Administration Costs).
- Payments in respect of pension scheme administration costs (whether paid directly by the distribution business or as part of ongoing contribution rates) (report in Pension Administration Costs).

Pension Deficit Repair Payments

The cash costs paid, directly or indirectly, by the licensee to reduce a shortfall in a pension scheme's assets compared with its liabilities as set out in the deficit recovery plan agreed between the licensee and the pension scheme trustees, reported to the Pensions Regulator and certified by the pension scheme actuary, in accordance with the pension scheme rules.

From 1 April 2015 these are split into:

- Payments in respect of Pension Scheme Incremental Deficit repair payments, which are part of Pensions, which are payments relating to funding the incremental deficit.
- Payments in respect of Pension Scheme Established Deficit repair payments, which are payments related to funding the established deficit.

Pension Deficit Payments relating to Established Deficit

Established deficit means the difference between the assets and liabilities, determined at any point in time, attributable to pensionable service up to 31 March 2012 and relating

to regulated business activities under our second Pension Principle. The term applies equally if there is a subsequent surplus.

Pension Scheme Administration Costs

The administrative costs for the operation of a pension scheme by the scheme trustees (excluding interest and taxation) including salaries and on costs of pension scheme administrators and all other associated costs of administering the pension scheme, whether borne by the scheme directly or the employer(s) and not recovered from the scheme.

Includes:

- Actuarial consultancy fees
- Administration and investment management fees where not remunerated by deduction from investment returns
- Third party administration fees
- Electricity Pensions Services Limited costs
- Pensions administration system licence and support costs
- Legal advisers' fees
- Recruitment costs
- Pension secretariat
- Policy and strategy
- Administration consultancy
- Auditors' fees
- Custodian fees
- Communication consultancy fees
- General office costs (e.g. printing, IT support, publications etc)
- Investment consultancy fees
- Tracing agency fees
- Member communication costs
- Trustee remuneration
- Trustee training costs

Excludes:

- Administration and investment management fees where remunerated by deduction from investment returns.
- Costs incurred by the licensee/distribution business in managing its ongoing and contributions and deficit repair payments to pension schemes.
- Costs of actuaries appointed by the scheme sponsors to advice on the scheme valuations and recovery plans.
- Costs incurred by the licensee/distribution business, directly or indirectly, in managing its relationship with the Pension Scheme and scheme trustees or actuaries.

Procurement

Responsible for the procurement of goods & services in the support of the business operations, through the management of procurement contracts with suppliers.

Includes:

- The cost of carrying out market analysis.
- Identifying potential suppliers, undertaking background review, negotiating contracts, purchase order fulfilment & monitoring supplier performance.
- Setting up and maintaining vendor accounts within the accounting system and maintaining e-procurement channels.
- Setting procurement guidelines and monitor adherence to the guidelines.

Excludes:

- Any of the IT systems associated with procurement (include under IT & Telecoms).

Property Management

The activity of managing, providing and maintaining premises. This should include costs such as rent, rates (business), and utilities costs including electricity, gas and water, maintenance/repair costs of premises and also should include the provision of the facilities / property services such as reception, security, access, catering, and mailroom, cleaning and booking conferences. The costs of property surveyors should also be included here.

Includes:

- Stores, depots, offices (including training centre buildings & grounds)
- Rent paid
- Rates and taxes payable
- Utilities including electricity, gas and water (supply and sewerage)
- Inspection and maintenance costs
- Facilities management costs including security and reception
- Training centre buildings & grounds
- Control rooms and data centres

Excludes:

- Any IT systems associated with property management (include under IT & Telecoms)
- Depreciation and profit/loss on Fixed Assets Relocation costs to or from non-operational premises
- Network rates

R

RAV

Regulatory Asset Value (RAV) represents the value upon which the licensee earns a return in accordance with the regulatory cost of capital and receives a depreciation allowance. NESO does not maintain a RAV and instead the balance of the RAV at the date of NESO establishment (1 October 2024) represents a value to be paid to DESNZ.

Regulatory Instructions and Guidance (RIGs)

The collection of documents issued by Ofgem to NESO to enable it to complete the reporting requirements associated with the RIIO-2 price control arrangements. It includes Excel reporting packs, instructions and guidance and supporting commentaries.

Regulatory Year

Has the meaning given in either the Electricity System Operator licence or the Gas System Planner licence.

Related Party

Is an affiliate, a joint venture of the licensee or of an affiliate or an associate of the licensee or of an affiliate or a relevant associate of the licensee.

Related Party Margins

The profit or loss recorded on a transaction with an affiliate being the excess or deficit on actual direct costs and indirect costs (including financing costs) fairly attributable to the transaction or the charge and the cost of providing that transaction.

Related Party Transaction

A transaction that occurs where one party provides goods, works, supplies or services to a Related Party.

S

Salary / Staff Costs

Includes: salaries and wages, national insurance contributions, overtime standby and other allowances, all ongoing pension costs (excluding Pension Deficit Payments relating to Established Deficit), share based schemes, and sick pay and sickness benefits.

SOIAR_t

The System Operator Internal Allowed Revenue (SOIAR) term is derived from the formula set out in set out in Special Condition 4.2 (System Operator Internal Allowed Revenue) of the Electricity Transmission Licence. The value of SOIAR_t is calculated through the annual iteration of the ESO Price Control Financial Model and is specified in a direction given by the Authority by 30 November in each Relevant Year.

Small Tools, Equipment, Plant and Machinery (Non-operational)

Small tools, equipment, plant and machinery which are used to work on, assist work on or test system assets. They are not system assets and are not permanently attached to one system asset at one location, irrespective of when they were bought or for what purpose.

Typically includes:

- Hand and power tools
- Instruments and testing equipment, eg
 - Partial discharge monitors
 - Voltage recorder
 - Load monitors
- Power quality monitoring equipment
- Ladders (used at substations and transported on vehicles)
- Lifting and handling gear
- Street Works signing and guarding equipment
- Non-wheel-mounted winches and winching equipment
- Cable drum equipment, eg drum stands
- Workshop equipment, eg pedestal drills, grinding wheels and reciprocating saws
- Misc. Equipment, eg cable spiking guns, pumps, gas hoses and fittings
- Inspection costs for recertification and recalibration associated with STEPM

Excludes:

- Harness, climbing belts and fall arrest equipment (include as labour cost under the relevant activity of that employee)

Supporting Operational Costs

Costs of teams that support the ESO's three roles, such as ESO regulation, stakeholder engagement, innovation and business change. ESO Opex consists of Direct Opex plus Supporting Operational Costs.

T

Totex

See Appendix 2.

Appendix 2 – Definition of licence expenditure

1.1. There are three main expenditure categories for NESO being the cost of the functions themselves, the cost of enabling functions that support the whole business and investment in projects. Together, these form the licence expenditure that is referred to in this document and in the NESO licences.

Table 4: ESO Totex categories

Cost category	Sub-categories	Details	Shared service?
ESO Operational Costs (ESO Opex)	Role 1 Role 2 Role 3	Operating costs that the ESO incurs to deliver its outputs under its three roles. Predominantly staff and external contractor costs.	No
	Supporting Operational Costs	Costs of teams that support the three roles, such as ESO regulation, stakeholder engagement, innovation and business change.	No
	FSO Roles	Operating costs that the ESO incurs to deliver the FSO transition. These include pre and post day 1.	No
	New Roles	Operating costs that the ESO incurs Strategic Spatial Energy Planning, Regional Energy Strategic Planner and Other.	No
Capital Expenditure (Capex)	IT and Telecoms (IT&T)	Predominantly the cost of the ESO's control centre architecture and market platforms.	Yes

Guidance – RIIIO-2 Price Control National Energy System Operator (NESO) Regulatory Instructions and Guidance

	Property	Building costs associated with the ESO's Wokingham control centre and share of the National Grid Warwick office.	Yes
Business Support Costs (BSC)	IT&T Property management HR and Non-operational Training Finance, Audit and Regulation Insurance Procurement CEO and Group Management	Costs for services to support the ESO's general business activities. This can include cost for services provided by National Grid Group. Predominantly IT operating costs.	Business Support Costs (BSC)
Other Price Control Costs	n/a	Other costs that do not fall into the above categories, including pension admin fees, cyber resilience IT costs, and unfunded innovation costs.	Yes

The ESO shares certain functions with other National Grid Group companies, including IT, Human Resources (HR), Finance, Legal and Procurement. The costs associated with these functions are allocated to the ESO by National Grid Group. Some of these costs are

allocated on an indirect basis, based on a methodology to reflect the ESO's approximate usage. Others are allocated to the ESO directly (eg costs for ESO-specific property or IT investments).

1.2. The annual net additions to RAV will be calculated as a set percentage based on a capitalised share of totex. TotexLicence expenditure consists of all the expenditure relating to NESO's regulated activities with the exception of:

- Costs associated with the Network Innovation Competition and Network Innovation costs funded by the Innovation allowance. (For the avoidance of doubt, the unfunded costs for NIA Expenditure, the Network Innovation Competition and the Strategic Innovation Fund can be included in licence expenditure).
- All statutory or regulatory depreciation and amortisation.
- Fines and penalties incurred by NESO (including all tax penalties, fines and interest) except if, exceptionally Traffic Management Act costs can be shown to be efficient.
- Any costs relating to NESO for external purposes (i.e. balancing services activity).
- Bad debt costs and receipts (subject to an ex-post adjustment to allowed revenues).
- Any cost reporting which is not on a normal accruals basis as referred to in paragraph 2.5 above (for the avoidance of doubt, accruals to recognise the present value obligation to the defined benefit pension scheme (in accordance with International Accounting Standard 19) are excluded from licence expenditure).
- Interest, other financing and tax costs.
- Any costs relating to the delivery of FSO Transition Activities provided by National Grid and derived in accordance with Condition F10 (ISOP implementation funding) of the ESO Licence.

It should also be noted that pension deficit repair payments relating to any incremental deficit (i.e. not part of the established deficit) are considered to be part of NESO's salary / staff costs and as such are part of licence expenditure.

Appendix 3 – Demonstrably inefficient and wasteful expenditure (DIWE)

Ofgem reserves the option to disallow costs for FSOESOAt and/or FSOESOBt expenditure during the period prior to the NESO licences coming into force that are demonstrably inefficient or wasteful.