

To: National Grid Electricity Transmission Plc

**Energy Act 2023
Section 170(4)**

Modification of the (i) Special Conditions ('SpCs') of the Electricity Transmission Licence ('the Licence') held by National Grid Electricity Transmission Plc ('the Licensee') and; (ii) the ET2 Price Control Financial Instruments.

1. The Licensee is the holder of the Licence granted or treated as granted under section 6(1)(b) of the Electricity Act 1989.
2. Under section 170(1)(a) of the Energy Act 2023 ('the Act') the Gas and Electricity Markets Authority ('the Authority')¹ gave notice on 15 January 2025 ('the Notice') that we proposed to modify the Licence. We stated that any representations to the modification proposal must be made on or before 12 February 2025.
3. We received 1 response to the Notice, which we carefully considered. We have placed all non-confidential responses on our website.
4. The Authority has decided to make the modifications as proposed in the Notice, subject to a minor alteration highlighted in the response to the Notice. The numbering for the SpC 9.21 (Termination of the Operational Services Agreement) was modified to SpC 9.22 (Termination of the Operational Services Agreement). The reason for the difference is to correct minor typographical errors.
5. We are making these licence change(s) to:
 - a. Implement our policy decision on funding National Grid plc's consequential costs from the separation of the Electricity System Operator²; and
 - b. Set out the requirements on the Licensee in respect of changes to and termination of the Operational Services Agreement ('OSA')³ and to promote alignment with OSA requirements applicable to National Energy System Operator Limited (NESO)⁴.
6. The effect of the modification(s) will be to:
 - a. Enable the Licensee to recover appropriate consequential costs over the RIIO-2 period; and
 - b. Ensure the Authority is notified of any changes to, and consulted on the termination of, the OSA.

Under the powers set out in section 169(1)(a) of the Act, we hereby modify the Licence and the ET2 Price Control Financial Instruments of the Licensee in the manner specified in attached Annexes 1, 2 & 3. This decision will take effect from the date of this Notice.

¹ The terms "the Authority", "we" and "us" are used interchangeably in this document.

² [Funding National Grid's consequential costs from the separation of the Electricity System Operator | Ofgem](#)

³ For more information on the OSA, please see NESO's BP3 Enabling functions annex:
<https://www.neso.energy/document/349081/download>

⁴ Please see Condition B1 Part C of NESO's Electricity System Operator licence and its Gas System Planner licence.

This document is notice of the reasons for the decision to modify the Licence and the ET2 Price Control Financial Instruments held by the Licensee as required by section 49A(2) of the Electricity Act 1989.

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David Beaumont
Head of NESO Framework Development
Duly authorised on behalf of the
Gas and Electricity Markets Authority

19 May 2025

Annex 1

National Grid Electricity Transmission Plc

Electricity transmission licence

Special Conditions

We are adding new Special Condition 3.42 (Consequential Costs recovery from the separation of the ESO term (CC_t)) to Chapter 3: Totex Allowance adjustments. This is shown below in double underlined text.

Special Condition 3.42 Consequential Costs recovery from the separation of the ESO term (CC_t)

Introduction

3.42.1. The purpose of this condition is to specify the value of the term CC_t (the Consequential Costs recovery from the separation of the ESO term). This contributes to the calculation of the Totex Allowance.

Part A: Formula for calculating the Consequential Costs

3.42.2. The value CC_t is derived in accordance with the following formula:

$$CC_t = (SSA_t - FTSAOSA_t - MT_t) + CSC_t + ETSAESC_t$$

where:

SSA_t has the value in Appendix 1 and represents price control income for shared services that National Grid plc ceases to receive from National Grid Electricity System Operator Limited as a consequence of its separation;

$FTSAOSA_t$ has the value in Appendix 1 and represents revenue for shared services that National Grid plc will receive from the ISOP through the Transitional Services Agreement and the Operational Services Agreement;

MT_t means shared services costs that are either directly transferred to the ISOP or that can be reasonably mitigated or avoided and has the value derived in accordance with paragraph 3.42.3;

CSC_t means capital expenditure that is stranded as a result of the separation of National Grid Electricity System Operator Limited from National Grid plc and has a value derived in accordance with paragraph 3.42.4; and

$ETSAESC_t$ means consequential costs resulting from the ISOP's early exit from a service provided under the Transitional Services Agreement which are not already recovered or mitigated through other funding mechanisms. This term has the value zero, unless otherwise directed by the Authority in accordance with Part B.

3.42.3. The value of MT_t is derived in accordance with the following formula:

$$MT_t = TRNS_t + FXMT_t$$

where:

$TRNS_t$ means the total value of any operational costs that are directly transferred from National Grid plc to the ISOP following 1 October 2024, including but not limited to any staff or contracts moved to the ISOP.

$FXMT_t$ has the value in Appendix 1 and represents the stranded shared services operational costs that can be reasonably mitigated.

3.42.4. The Capex Stranded Costs, CSC_t can be derived in accordance with the following formula:

$$CSC_t = RESOA_t - IFTSA_t$$

where:

$RESOA_t$ means the representative value of total Indirect Investment expenditure incurred by National Grid plc following 1 October 2024 that would have been allocated to National Grid Electricity System Operator Limited and which should be calculated in accordance with the methodology in Appendix 2.

$IFTSA_t$ means the revenues received from the ISOP through the Transitional Services Agreement and Operational Services Agreement to support Indirect Investments by National Grid plc.

Part B: Revising the value of ETSAESC_t

3.42.5. On receipt of a request by the licensee, the Authority may direct changes to the value of ETSAESC_t in Part A of Special Condition 3.42 where sufficient information is provided by the licensee to justify such a change.

3.42.6. The licensee must submit the following information to allow the Authority to review a request to direct changes to the value of ETSAESC_t:

- (a) the proposed new value;
- (b) an explanation of how the requested costs have been calculated; and
- (c) justification and evidence for why these costs are unavoidable additional costs and how they have not been remunerated through other funding routes, including but not limited to the Transitional Services Agreement, Operational Services Agreement, the Day 2 CTA Contract, and any allowances the licensee receives through this licence.

- 3.42.7. A request under this Part B must be confined to costs incurred or expected to be incurred by National Grid plc no later than 31 March 2026 and which are a consequence of the ISOP exiting a service which is provided under the Transitional Services Agreement at a date which is earlier than the date at which the Transitional Services Agreement is due to expire.
- 3.42.8. The licensee must notify the Authority that it intends to make a request under this Part B as soon as practically possible once it becomes aware that a change in the value is likely to be required.
- 3.42.9. The Authority may only make modifications to the licence under this Part B by direction where:
- (a) the requirements in paragraphs 3.42.6 to 3.42.7 have been met; and
 - (b) the Authority is satisfied that the request under Part B is sufficiently well evidenced and justified and that the licensee and National Grid plc are unable to recover economic and efficient costs as a result of the ISOP exiting a service early provided under the Transitional Services Agreement without a change in the value for ETS_{AESC}_t.
- 3.42.10. For the purposes of this condition "National Grid Electricity System Operator Limited" means the company of that name which held a Transmission Licence immediately prior to the designation of the ISOP and the Electricity System Operator Licence coming into effect.

Appendix 1

Consequential Cost allowance formula values (£m, 2018,19 prices)

	<u>Regulatory Year</u>					
	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>Total RIIO-2</u>
<u>SSA_t</u>	0	0	0	70.0	70.0	140.0
<u>FTSAOSA_t</u>	0	0	0	36.6	36.6	73.2
<u>FXMT_t</u>	0	0	0	3.5	4.9	8.4

Appendix 2

Methodology for calculation of RESOA_t

<u>Cost term</u>	<u>Methodology</u>
<u>RESOA_t</u>	<u>RESOA_t is calculated by taking the total Indirect Investment expenditure incurred by National Grid plc within the Regulatory Year after 1 October 2024, and multiplying the total values falling within each cost category for Indirect Investment by the relevant % values in the table below.</u>

Percentages to be used for the calculation of RESOA_t (%)

<u>Cost category</u>	<u>Allocation (%)</u>
<u>Technology infrastructure</u>	48%
<u>IT networks</u>	27%
<u>Project Costs</u>	26%
<u>Enterprise resource allocation</u>	15%

Definitions

The new definitions below will be included in Special Condition 1.1 Interpretation and definitions.

<u>Day 2 CTA Contract</u>	<u>means a contractual agreement between the ISOP and National Grid Plc or its Affiliates or Related Undertakings in respect of costs incurred by National Grid Plc or its Affiliates or Related Undertakings for the delivery of FSO Transition Activities carried on or after 1 October 2024, and which has met the requirements set out in any direction issued by the Authority (following consultation with the licensee and National Grid Holdings One plc).</u>
<u>FSO Transition Activities</u>	<u>means activities carried out by the ISOP and/or National Grid Holdings One plc (together with other companies in National Grid plc's group) to:</u> <u>(a) separate the ISOP's business from National Grid Holdings One plc</u>

	<u>and other companies in National Grid plc's group;</u> <u>(b)transform the ISOP so it has the capabilities, systems and processes needed to perform the roles and responsibilities of the ISOP (including with respect to gas); and</u> <u>(c) support the development of the governance and regulatory arrangements for the ISOP</u>
<u>Indirect Investment</u>	<u>means expenditure on information technology systems which is incurred to invest in services to all companies within the National Grid group, and which is not directly attributable to individual companies within the National Grid group. This excludes ongoing shared services costs incurred to provide business as usual services to National Grid group companies and any costs associated with SSA.</u>
<u>Transitional Services Agreement</u>	<u>means the agreement of that name entered into pursuant to the Independent System Operator and Planner Transfer Scheme made pursuant to paragraph 1 of Schedule 9 of the Energy Act 2023.</u>

Annex 2

National Grid Electricity Transmission Plc

Electricity transmission licence

Special Conditions

We are adding new Special Condition 9.22 (Termination of the Operational Services Agreement) to Chapter 9: General obligations. This is shown below in double underlined text.

Special Condition 9.22 Termination of the Operational Services Agreement

Introduction

9.22.1. The purpose of this condition is to set out the requirements on the licensee in respect of termination of the Operational Services Agreement.

Part A: Termination of the Operational Services Agreement

9.22.2. Prior to the licensee exercising any termination right in respect of the Operational Services Agreement, the licensee must first consult with the Authority and comply with any direction given by the Authority as to whether or not to exercise such termination right.

9.22.3. The licensee must as soon as reasonably practicable notify the Authority if it proposes to make any change to the duration, term, termination rights or the Authority's role as set out in the Operational Services Agreement (in whole or in part).

Definitions

The new definition below will be included in Special Condition 1.1 Interpretation and definitions.

<u>Operational Services Agreement</u>	<u>means the agreement of that name entered into pursuant to the Independent System Operator and Planner Transfer Scheme made pursuant to paragraph 1 of Schedule 9 of the Energy Act 2023.</u>
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Annex 3

Modifications to the ET2 Price Control Financial Instruments published alongside this document.

RIIIO-ET2 Price Control Financial Handbook

We have set out tracked changes in the Price Control Financial Handbook.

RIIIO-ET2 Price Control Financial Model (PCFM)

Within the 'NGET' tab of the PCFM we made the following modifications:

- Row 77 is modified in the "Variant allowances (including Real Price Effects)" table to include the addition of the Consequential Costs term (CC_t);
- Rows 583 to 588 are modified in the "Totex variant allowances allocation percentages" table to account for the addition of the CC_t term.