

Consultation

Implementation of NESO's enduring regulatory framework: proposed modifications to the ESO Licence

This is a subsidiary document to our consultation on the implementation of National Energy System Operator (NESO)'s enduring regulatory framework.

This shows our proposed modifications to NESO's Electricity System Operator Licence. Any deletions are shown in strikethrough (~~example~~), and any additions are shown in double underlined text (example).

Please note that:

- We only included conditions we are proposing to amend.
- New or amended paragraph numbers, Part letters, and sub-paragraph letters are not shown in double underlined text (due to word formatting limitations). All paragraph numbers, Part letters, and sub-paragraph letters shown and not struck through are those we propose to reflect in the modified licence.
- For modifications to the definitions in condition A1, we have only shown those definitions that we are amending, adding or deleting.
- For the formula changes in conditions F1, F2 and F3, we have provided descriptions of the changes we are making for clarity. These descriptions are shown in italics, single underline, different font, and in square brackets (*[example]*).

Please refer to our main consultation document for the reasons for and effects of these proposed modifications.

Section A: Definitions and interpretation

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Condition A1 Definitions

Introduction

- A1.1. The purpose of this condition is to set out the defined terms that are used in the conditions of this licence (all of which are capitalised throughout these conditions).

Part A: Definitions

- A1.2. In these conditions the following defined terms have the meanings given in the table below.

- A1.3. Where it is stated in these conditions that the outputs, delivery dates and allowances are located in another document, the following defined terms also have the meanings given in the table below in that document.

- A1.4. Where the table below states that a defined term has the meaning given to it by:

- (a) another condition of this licence;
- (b) a condition of another licence;
- ~~(c) the RIGs;~~
- (c) the STC;
- (d) the Grid Code;
- (e) the CUSC;
- (f) the BSC;
- (g) the Uniform Network Code;
- (h) the Fuel Security Code;
- (i) a document issued and amended by the Authority by direction in accordance with this licence (any reference to such a document is to that document as amended from time to time unless otherwise specified); or
- (j) an Act of Parliament,

the defined term is to have the meaning given in that provision or document as amended from time to time.

[We propose that the following definitions are added to / amended within / deleted from Condition A1, in the order in which they appear]

A

<u>Annual Performance Assessment</u>	<u>means the annual assessment of the licensee's performance carried out by the Authority pursuant to the arrangements established in Condition G2 (Performance</u>
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	<u>Reports and Assessment) and the NESO Performance Arrangements Governance Document.</u>
<u>Applicable Executive Committee Members</u>	<u>means the licensee's chief executive officer, chief operating officer, and chief financial officer (or any equivalent positions).</u>
<u>Applicable Senior Staff</u>	<p><u>means employees of the licensee which:</u></p> <ul style="list-style-type: none"> <u>(a) hold senior leadership positions and are members of executive committees (or equivalent decision-making groups) which oversee the operation of the ISOP Business; and</u> <u>(b) have relevant leadership responsibilities or accountabilities with respect to the delivery of value for money in the licensee's expenditure or the achievement of the performance outcomes assessed as part of the Annual Performance Assessment.</u> <p><u>This includes but is not limited to the licensee's chief executive officer; chief operating officer; chief financial officer; members of any executive committees established to oversee the delivery of the licensee's Business Plan commitments; and any persons that the Authority considers meets criteria (a) and (b) above.</u></p>
<u>Assessment Period</u>	<u>means the period over which the licensee's performance is assessed by the Authority, as set out in the NESO Performance Arrangements Governance Document.</u>

B

<u>Balancing Costs</u>	<u>means the costs incurred by the licensee to balance the National Electricity Transmission System.</u>
<u>Balancing Principles Statement</u>	<u>means a statement prepared and published by the licensee in accordance with Part E of Condition C9 (Design, procurement and use of Balancing Services).</u>

C

<u>Carbon Intensity</u>	<u>means how much CO₂ emissions are produced per kilowatt hour (kWh) of electricity consumed.</u>
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<u>Carry-over Network Innovation Allowance (CNIA)</u>	<u>means the allowance provided by Part A of Condition F2 (Innovation Funding) to extend the RII0-2 NIA for an additional Regulatory Year, and the first half of the following Regulatory Year.</u>
<u>Code Arrangements</u>	<u>means the networks codes the licensee is party to.</u>
<u>CSNP Coordination Governance Document</u>	<u>means a document developed and published by the Authority in accordance with Part G of Condition C17 (Centralised Strategic Network Plan).</u>

D

<u>DAG Data</u>	<u>means the relevant submissions to the Authority under this licence in respect of which the licensee must carry out a Risk Assessment, as specified in the Data Assurance Guidance.</u>
<u>Data Assurance Activity</u>	<u>means, in respect of DAG Data, the activity undertaken by the licensee (or a person nominated by the Authority, as the case may be) to address the risks identified in the Risk Assessment.</u>
<u>Data Assurance Guidance (DAG)</u>	<u>means the document issued by the Authority from time to time pursuant to a direction under condition D5 (Data assurance requirements).</u>
<u>Directly Attributable Costs</u>	<u>means costs relating to the maintenance and management of intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any Transmission Licensee or Licensed Distributor), that have not been otherwise funded through Transmission Network Charges or services under special condition 8B (Services treated as Excluded Services) of the Transmission Licence previously held by the licensee as in force on 31 March 2021 or the NIC Funding Mechanism.</u>
<u>Disallowed Expenditure</u>	<u>means revenue received (whether by the licensee or any Transmission Licensee or Licensed Distributor) under the NIC Funding Mechanism, that the Authority determines has not been spent in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.</u>

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E

Electricity Demand	means taking, or being able to take, megawatts (MW) of electricity (Active Power) from the Total Electricity System.
<u>Eligible CNIA Projects</u>	<u>means RIIO-2 NIA Projects on which work commenced prior to 31 March 2026, pursuant to the requirements of the RIIO-2 NIA Governance Document.</u>
Eligible NIC Project	means a project undertaken by the licensee or a Transmission Licensee or by a Licensed Distributor that appears to the Authority to satisfy such requirements of the NIC Governance Document as are necessary to enable the project to be funded under the NIC Funding Mechanism.
Examiner	means, in relation to the RIGs, a person whose degree of knowledge and experience of the matters that are the subject of the RIGs will enable them to properly carry out and complete the tasks required of them under the terms of their nomination by the Authority pursuant to the provisions of the RIGs.

F

Final Intragroup Contract Payment	means the final payment to be made for any outstanding costs incurred by National Grid Holdings One plc. under the FSO Transition Intragroup Contract insofar as both the outstanding costs and final payment are in accordance with the requirements of Part A of condition F10 (ISOP implementation funding).
Financial Handbook	means the document of that name that is published by the Authority and amended from time to time by direction in accordance with the provisions of condition F5 (Financial Model and Handbook) of the Electricity System Operator Licence and condition F4 (Financial Model and Handbook) of the Gas System Planner Licence.
Financial Model	means the model of that name that is published by the licensee under condition F5 (Financial Model and Handbook) and is represented by a workbook in Microsoft Excel® format, or other computer programming language and data as appropriate; and that is used to determine

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	the value of the term ESOArt in accordance with the guidance contained in the Financial Handbook.
FSO Day 1	means the date on which the first designation of the Independent System Operator and Planner (ISOP) has <u>had</u> effect under the Energy Act 2023 <u>which is 1 October 2024</u> .
FSO Day 1 Deliverables	means the key interim and final delivered outputs from FSO Transition Activities that the licensee and National Grid Holdings One plc needed to achieve to enable the timely and successful establishment of the ISOP, which are time-bound, measurable, and in line with the requirements in the FSO Transition Funding Governance Document.
FSO Day 1 Delivery Schedule	means a document containing the FSO Day 1 Deliverables.
FSO Day 1 Report	means a report produced in accordance with Part C of condition F10 (ISOP implementation funding).
FSO NG Cost Recovery Principles	means principles and conditions, set by the Authority, to prescribe which costs associated with FSO Transition Activities carried out by National Grid Holdings One plc prior to FSO Day 1 are allowed to be recovered by the licensee following approval by the Authority, as established in the FSO Transition Funding Governance Document.
FSO Transition Funding Governance Document	means the document of that name maintained in accordance with Part D of condition F10 (ISOP implementation funding).
FSO Transition Intragroup Contract	means a contract entered into in accordance with Part B of condition F10 (ISOP implementation funding).
Funding Return	means the total amount (in respect of the licensee, Transmission Licensees and Licensed Distributors) of any amounts arising under paragraph F2.26 of condition F2 (Innovation Funding).

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Funding Return Mechanism	means the mechanism that provides for the recovery from the licensee and from Transmission Licensees and Licensed Distributors, in each case to such extent (if any) as may be relevant, of: (a) Halted Project Revenues; (b) Disallowed Expenditure; (c) Returned Royalty Income; and (d) Returned Project Revenues.
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Halted Project Revenues	means revenues received (whether by the licensee or by any Transmission Licensee and Licensed Distributor) under the NIC Funding Mechanism in respect of an Eligible NIC Project which have not yet been spent, or otherwise committed, at the time that the Authority requires that project to be halted, in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction.
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<u>Independent Challenge Panel</u>	<u>means a panel of energy sector stakeholders, established under Condition G2 (Performance reports and assessment), to promote engagement between the licensee and stakeholders on the licensee's performance and make recommendations to the Authority.</u>
Indicated Margin	has the same meaning as that given to that term in the Grid Code.
Innovation Project	means a project funded by the: <ul style="list-style-type: none"> (a) RIIO-1 Network Innovation Allowance <u>RIIO-2 NIA</u>; (b) RIIO-2 Network Innovation Allowance <u>RIIO-3 NIA</u>; or (c) RIIO-1 Network Innovation Competition; or <u>SIF</u>. (d) SIF.
ISOP Regulatory Asset Value	means the final amount of the regulatory asset value calculated for the licensee under the Transmission Licence it held immediately prior to the designation of the ISOP and this licence coming into effect, as calculated in line with the guidance and closeout methodologies in the <u>NESO Financial Handbook</u> .

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Legacy Revenues	means an adjustment to Balancing Services Charge to reflect outstanding revenues allowed under the version of special conditions of the Transmission Licence held by the licensee, immediately prior to the designation of the ISOP and this licence coming into effect, and which has the value specified in the <u>NESO Financial Model</u> .
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M

Market Facilitator	means the role created by the Authority with a mandate to standardise local flexibility markets and align with national flexibility market. <i>[*note: this definition is currently being proposed through a different NESO licence modification process*]</i>
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N

NESO Business Plan Guidance	means the document developed and published by the Authority in accordance with Part <u>ED</u> of condition G1(Business Plan).
<u>NESO Financial Handbook</u>	<u>means the document of that name that is published by the Authority and amended from time to time by direction in accordance with the provisions of condition F5 (Financial model and handbook) of the Electricity System Operator Licence and condition F4 (Financial model and handbook) of the Gas System Planner Licence.</u>
<u>NESO Financial Model</u>	<u>means the model of that name that is published by the licensee under condition F5 (Financial model and handbook) and is represented by a workbook in Microsoft Excel® format, or other computer programming language and data as appropriate; and that is used to determine the value of the term ESOAR_t in accordance with the guidance contained in the NESO Financial Handbook.</u>
<u>NESO Licence Expectations Document</u>	<u>means the document of that name that is published by the Authority and amended from time to time by direction in accordance with the provisions of condition</u>

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	<u>C1 (General principles and minimum standards) of the Electricity System Operator Licence and condition C1 (General principles and minimum standards) of the Gas System Planner Licence.</u>
NIA	means the network innovation allowance provided by <u>Parts A to D of condition F2 (Innovation funding).</u>
NIC	means the network innovation competition provided by condition F2 (Innovation funding).
NIC Funding	means the total amount of funding authorised by the Authority for the licensee, Transmission Licensees and Licensed Distributors, in accordance with the provisions of the NIC Governance Document, for the purpose of funding Eligible NIC Projects.
NIC Funding Mechanism	is the mechanism by which the licensee recovers the amount of authorised NIC Funding and apportions that amount between the licensee, Transmission Licensees and Licensed Distributors as appropriate in accordance with the NIC Governance Document.
NIC Governance Document	means the document of that name maintained by the Authority in accordance with Part G of condition F2 (Innovation funding).
<u>Notice of Remediation</u>	<u>means a direction issued by the Authority pursuant to Part H of Condition C1 (General principles and minimum standards).</u>

O

P

<u>Performance-Related Pay</u>	<u>means any pay awarded to employees of the licensee which is additional to an employee's fixed base salary, and which is variable depending on the performance of the employee.</u>
<u>Performance-Related Pay Objection</u>	<u>means a Written confirmation from the Authority to the licensee that it objects to the provisional Performance-Related Pay awards that the licensee has notified to the</u>

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	<p><u>Authority under Part B of Condition F7 (Requirements on staff remuneration and expenses), on the basis that:</u></p> <p>(a) the requirements of Part A of Condition F7 have not been adequately considered by the licensee; or</p> <p>(b) the licensee has not provided sufficient information for the Authority to determine whether the requirements of Part A of Condition F7 have been met.</p>
Plan Determination	means the document published by the Authority, in accordance with Part <u>D</u> C of condition G1, setting out the Authority's determination in relation to the Business Plan for the period covered by the Business Plan submission.
<u>Procurement Guidelines Statement</u>	<u>means a statement prepared and published by the licensee in accordance with Part D of Condition C9 (Design, procurement and use of Balancing Services).</u>
Project Direction	means a direction issued by the Authority pursuant to the NIC Governance Document setting out the terms to be followed in relation to an Eligible NIC Project as a condition of its funding under the NIC Funding Mechanism.
Q	
R	
Reference Variable Rate	the variable rate of interest, as set out in the <u>NESO</u> Financial Handbook, that is set as the benchmark rate or reference rate for the ISOP Working Capital Facility.
Regulatory Instructions and Guidance (RIGs)	means the Regulatory Instructions and Guidance published by the Authority in accordance with condition G3 (Regulatory Instructions and Guidance (RIGs)).
<u>Remediation Plan</u>	<u>means a plan developed by the licensee pursuant that meets the requirements of a Notice of Remediation issued by the Authority pursuant to Part H of Condition C1 (General principles and minimum standards).</u>

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Returned Project Revenues	<p>means:</p> <p>(a) revenues received (whether by the licensee or any Transmission Licensee or Licensed Distributor) under the NIC Funding Mechanism in respect of an Eligible NIC Project, that the Authority determines have not been spent, and where that Eligible NIC Project has been carried out in accordance with the applicable provisions of the NIC Governance Document or the terms of the relevant Project Direction; or</p> <p>(b) revenues earned from Eligible NIC Projects (whether undertaken by the licensee or any Transmission Licensee or Licensed Distributors) other than Returned Royalty Income, that the Authority determines are payable to customers.</p>
Returned Royalty Income	<p>means revenue earned from intellectual property generated through Eligible NIC Projects (whether undertaken by the licensee or any Transmission Licensee or Licensed Distributors), less Directly Attributable Costs, that is payable to customers under the NIC Funding Mechanism, as calculated in accordance with the provisions of the NIC Governance Document.</p>
RIGs	<p>means the document published by the Authority in accordance with condition G3 (Regulatory Instructions and Guidance).</p>
RHO-1 Network Innovation Allowance	<p>means the arrangements established by special condition 3H (The Network Innovation Allowance) of the Transmission</p>

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	Licence held by the licensee as in force on 31 March 2021.
RIIO-1 Network Innovation Competition	means the network innovation competition established by special condition 3I (The Network Innovation Competition) of the Transmission Licences held by the RIIO Electricity Transmission Licensees as in force on 31 March 2021 and now governed by special condition 7.11 (RIIO-ET1 network innovation competition) of those licences; condition F2 (Innovation funding) of this licence and Charge Restriction Condition 5A (The Network Innovation Competition) of the Distribution Licences held by the RIIO electricity Licensed Distributors.
RIIO-2 Network Innovation Allowance <u>NIA</u>	means the network innovation allowance established by special condition 5.2 (RIIO-2 network innovation allowance) of Transmission Licences held by the RIIO Electricity Transmission Licensees and special condition 4.6 (The RIIO-2 network innovation allowance) of the Transmission Licence held by the licensee as in force immediately prior to the designation of the ISOP and this licence coming into effect. <u>means the arrangements established by parts A to C of Condition F2 (Innovation Funding) of this licence as in force on 31 March 2026, and the equivalent conditions in the licences of network companies regulated under the RIIO-2 price control.</u>
RIIO-2 NIA Governance Document	means the document issued by the Authority in accordance with Part C of condition F2 (Innovation Funding) <u>as in force on 31 March 2026.</u>
RIIO-2 NIA Projects	means those projects undertaken by the licensee that appear to the Authority to satisfy such requirements of the RIIO-2 NIA Governance Document as are necessary to enable the projects to be funded under the provisions of condition F2 (Innovation funding).
<u>RIIO-3 NIA</u>	<u>means the arrangements established by parts A to D of Condition F2 (Innovation Funding) and the equivalent conditions in</u>

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	<u>the licences of network companies regulated under the RII0-3 price control.</u>
<u>RIIO-3 NIA Governance Document</u>	<u>means the document issued by the Authority in accordance with Part D of condition F2 (Innovation Funding).</u>
<u>RIIO-3 NIA Projects</u>	<u>means those projects undertaken by the licensee that satisfy such requirements of the RII0-3 NIA Governance Document as are necessary to enable the projects to be funded under the provisions of condition F2 (Innovation funding).</u>
<u>Risk Assessment</u>	<u>means an assessment of the likelihood and potential impact of any inaccurate or incomplete reporting, or any misreporting, of data by the licensee to the Authority under this licence.</u>

S

<u>SIF Governance Document</u>	<u>means the document issued by the Authority under Part EF of condition F2 (Innovation funding).</u>
<u>SO-TO Commercial Threshold</u>	<u>means a financial value of £1,900,000 in 2018/19 prices (inflated according to the indexation methodology in the NESO Financial Handbook) or another value directed by the Authority.</u>
<u>Solar Generation Output</u>	<u>means the Active Power output in megawatts (MW) from each solar generator in respect of which operational metering is installed (excluding that relating to wind generators accepted as bids and offers in the Balancing Mechanism).</u>
<u>Specified Information</u>	<u>means information (or a category of information) that is so described or required in the RIGs.</u>
<u>Strategic Aims</u>	<u>means a document which:</u> <ul style="list-style-type: none"> <u>(a) sets out the medium to long term outcomes and impacts the licensee is aiming to achieve;</u> <u>(b) explains the licensee's strategy for delivering those outcomes and impacts; and</u> <u>(c) meets other relevant requirements in the NESO Business Plan Guidance.</u>

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T

<u>Total CNIA Expenditure (ECNIAt)</u>	<u>means the amount of expenditure spent or accrued by the licensee after 1 April 2026 in respect of Eligible CNIA Projects.</u>
Total Legacy NIA Expenditure	means the Total NIA Expenditure that was incurred by the licensee prior to the Regulatory Year starting on 1 April 2024 under the special conditions of the Transmission Licence held by the licensee immediately prior to the designation of the ISOP and this licence coming into effect.
Total NIA Expenditure	means expenditure by the licensee from the start of the Regulatory Year during which this licence came into effect, that is recovered by the licensee under condition F1 (Expenditure and allowed revenue), and on RIIO-3 NIA Projects which satisfies the requirements of the RIIO-23 NIA Governance Document and condition F2 (Innovation Funding).

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Wind Generation Output	means the Active Power output in megawatts (MW) from each wind generator in respect of which operational metering is installed (excluding that relating to wind generators accepted as bids and offers in the Balancing Mechanism).
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Condition A2 Interpretation

Introduction

- A2.1. The purpose of this condition is to set out provisions of general interpretation for the conditions of this licence.
- A2.2. Note that other provisions exist in the terms of this licence.

Part A: General rules of interpretation

- A2.3. The provisions of this licence are to be read and understood as if they were in an Act of Parliament and the Interpretation Act 1978 applied to them.
- A2.4. Unless the context otherwise requires, any word or expression defined in the Utilities Act 2000, the Gas Act 1986, the Electricity Act 1989, or any of the Energy Acts 2004, 2008, 2010, 2013 and 2023 has the same meaning when used in the conditions of this licence.
- A2.5. Unless the context otherwise requires, any reference in the conditions of this licence to an Industry Code, an agreement, or a statement is a reference to that code, agreement, or statement as modified, supplemented, transferred, novated, revised, or replaced from time to time.
- A2.6. The heading or title of any section, condition, schedule, paragraph, or subparagraph in the conditions of this licence is for convenience only and does not affect the interpretation of the text to which it relates.
- A2.7. The "Introduction" of a condition, before Part A, is for convenience only.
- A2.8. Unless the context otherwise requires:
- (a) any reference in the conditions of this licence to a section, part, condition, schedule, or paragraph is a reference to it in the conditions of this licence;
 - (b) any reference in a condition of this licence to a part or paragraph is a reference to it in that condition; and
 - (c) any reference in the conditions of this licence to any natural or legal person includes that person's successors.
- A2.9. Any reference in the conditions of this licence to any of the following:
- (a) a provision of the conditions of the Gas System Planner Licence;
 - (b) a provision of the standard conditions or special conditions of electricity Transmission Licences;
 - (c) a provision of the standard conditions of Electricity Supply Licences;
 - (d) a provision of the standard conditions of electricity Distribution Licences;
 - (e) a provision of the standard conditions of electricity Generation Licences; or
 - (f) a provision of the standard conditions of electricity Interconnector Licences;

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is to be read, if the conditions of this or of any of the other licences are subsequently modified, as a reference (so far as the context permits) to the corresponding provision of the other relevant conditions.

- A2.10. References to "the licensee" in this licence are references to the ISOP to whom this licence has been granted, or is to be treated as granted, under section 6(1)(da) of the Electricity Act 1989.
- A2.11. Wherever the subscript 't' is used, without further numerical notation, the value to be used is the one for the Regulatory Year in question.
- A2.12. A positive or negative numerical notation accompanying the letter t in subscript indicates that the value to be used is for a year after or before the Regulatory Year in question and the number indicates how many years after or before. For example 't-1' means the year before the Regulatory Year in question.
- A2.13. In some cases, other subscripts may also be used to denote the value for a specific Regulatory Year and are noted in those conditions.
- A2.14. Any values derived by reference to the value of revenues accrued, received or paid by or to the licensee shall be the actual sum accrued, received or paid by or to the licensee on the date of such accrual, receipt or payment without any adjustment for inflation or interest after deduction of value added tax (if any) and any other taxes charged directly by reference to the amounts so accrued, received or paid.
- A2.15. Any monetary values in these conditions are in sterling in nominal terms unless otherwise indicated.
- A2.16. Unless otherwise indicated, the NESO Financial Handbook will make provision for any revenue terms or monetary values which require price indexation and the methodology that should be used for indexation.

Part B: Licensee's performance of obligations

- A2.17. Where any obligation in this licence is required to be performed by a specified date or time or within a specified period and the licensee has failed to do so, the obligation will continue to be binding and enforceable after the specified date or time or after the end of the specified period, but without prejudice to all rights and remedies available against the licensee in relation to its failure.
- A2.18. The licensee must comply with a direction (and with any conditions to which the direction may be subject) given to it by the Authority or the Secretary of State under any provision of this licence that provides for such direction to be given.
- A2.19. Where obligations in the Gas System Planner Licence provide for documents and reports of the same name to be produced as those obligated under this licence, the licensee must prepare the ~~following~~ documents in the same form, manner and submission as the equivalent document obligated to be produced under the Gas System Planner Licence.

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- ~~(a) the Independence Statement under condition B1 (Independence Requirements and compliance obligations) of this licence and condition B1 (Independence Requirements and compliance obligations) of the Gas System Planner Licence;~~
- ~~(b) the report of the Compliance Officer under B1.38(h) of condition B1 of this licence and paragraph B1.38(h) of condition B1 of the Gas System Planner Licence;~~
- ~~(c) the Compliance Report under condition B1 of this licence and condition B1 of the Gas System Planner Licence;~~
- ~~(d) the code of conduct under condition B7 (Information ringfencing obligations) of this licence and condition B6 (Information ringfencing obligations) of the Gas System Planner Licence;~~
- ~~(e) the Digitalisation Strategy under condition C3 (Digitalisation) of this licence and condition C3 (Digitalisation) of the Gas System Planner Licence;~~
- ~~(f) the Digitalisation Action Plan under condition C3 of this licence and condition C3 of the Gas System Planner Licence;~~
- ~~(g) the Future Energy Pathway Methodology under condition C15 (Future Energy Pathways) of this licence and condition C10 (Future Energy Pathways) of the Gas System Planner Licence;~~
- ~~(h) the Future Energy Pathways under condition C15 of this licence and condition C10 of the Gas System Planner Licence;~~
- ~~(i) the SSEP Methodology under condition C16 (Strategic Spatial Energy Plan) of this licence and condition C11 (Strategic Spatial Energy Plan) of the Gas System Planner Licence;~~
- ~~(j) the SSEP under condition C16 of this licence and of condition C11 of the Gas System Planner Licence;~~
- ~~(k) the CSNP Methodology under condition C17 (Centralised Strategic Network Plan) of this licence and condition C12 (Centralised Strategic Network Plan) of the Gas System Planner Licence;~~
- ~~(l) the CSNP under condition C17 of this licence and condition C12 of the Gas System Planner Licence;~~
- ~~(m) the ISOP Information Request Statement under condition D2 (Information requests by the licensee) of this licence and condition D2 (Information requests by the licensee) of the Gas System Planner Licence;~~
- ~~(n) the Total Cost Allocation Methodology under condition F1 (Expenditure and allowed revenue) of this licence and condition F1 (Gas revenue calculations and notification process) of the Gas System Planner Licence;~~
- ~~(o) the Financial Model under condition F5 (Financial Model and Handbook) of this licence and condition F4 (Financial Model and Handbook) of the Gas System Planner Licence;~~

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- ~~(p) the Remuneration Policy under condition F7 (Remuneration Policy and Expenses Policy) of this licence and condition F5 (Remuneration Policy and Expenses Policy) of the Gas System Planner Licence;~~
- ~~(q) the Expenses Policy under condition F7 of this licence and condition F5 of the Gas System Planner Licence;~~
- ~~(r) the Business Plan under condition G1 (Business Plan) of this licence and condition G1 (Business Plan) of the Gas System Planner Licence.~~

A2.20. No provision of this licence shall be construed as requiring, or take effect so to require, the licensee to act other than in accordance with its duties under the Energy Act 2023.

Part C: Specific application of powers

A2.21. Unless a contrary intention appears, any power of the Authority under any provision of this licence to give a direction, consent, derogation, approval or designation, is a power:

- (a) to give it to such extent, for such period of time, and subject to such conditions as the Authority thinks reasonable in all the circumstances of the case; and
- (b) to revoke or amend it (after consulting the licensee) or give it again under that power.

A2.22. Unless a contrary intention appears, any power of the Authority under any provision of this licence to make a determination or a decision is a power:

- (a) to make it subject to such terms and conditions as the Authority thinks reasonable in all the circumstances of the case; and
- (b) to make it again under that power.

A2.23. Any direction, consent, derogation, approval, designation or determination, decision or other instrument given or made by the Authority under this licence will be given or made in Writing.

A2.24. Where these conditions provide for the Authority to issue or amend a document by direction, the steps required to achieve this may be satisfied by action taken before, on, or after the date the relevant condition comes into effect.

A2.25. Any reference in a condition to the purposes of that condition generally is a reference to the purposes of that condition as incorporated in this licence.

Section B: Business conduct and independence

Condition B1 Independence Requirements and compliance obligations

Introduction

- B1.1. The purpose of this condition is to establish the Independence Requirements and compliance obligations for the licensee, as follows:
- (b) Part A sets out the Independence Requirements;
 - (c) Part B sets out the requirements in relation to Sufficiently Independent Directors;
 - (d) Part C sets out the obligations related to Operational Services;
 - (e) Part D sets out the obligations related to Transitional Services;
 - (f) Part E sets out the requirement for an Independence Statement;
 - (g) Part F sets out the obligations for the appointment of a Compliance Officer and compliance reporting; and
 - (h) Part G provides for the licensee to apply for a derogation for relief from its obligations under this condition.
- B1.2. The Secretary of State's policy is that the licensee is anticipated to have a high level of operational independence from government.

Part A: Independence Requirements

- B1.3. The licensee must put in place and maintain such systems, processes and other governance arrangements that are necessary to maintain its independence from Potential Conflict Parties and must ensure that it does not become a party to any arrangements that compromise, or could reasonably be seen as compromising, that independence. This should include, but not be limited to, arrangements that support the impartiality and integrity of the actions of individual employees.
- B1.4. The licensee must use best endeavours to avoid any perceived or real conflicts of interest relating to any Potential Conflict Parties.
- B1.5. Paragraphs B1.3 and B1.4 do not exclude the licensee from engaging in partnership projects with Potential Conflict Parties or cooperating with Potential Conflict Parties as required to act consistently with its duties under the Energy Act 2023 and the conditions of this licence.
- B1.6. Nothing in this condition will prevent the licensee from being party to, or meeting its obligations or exercising its rights under the FSO Day 1 Agreements.

Part B: Requirements for non-executive directors to be Sufficiently Independent Directors

- B1.7. Subject to paragraph B1.16, except and to the extent that the Authority consents otherwise, the licensee must ensure that at all times at least half of its non-executive directors are Sufficiently Independent Directors.

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B1.8. A Sufficiently Independent Director must:

- (a) be a natural person;
- (b) in the reasonable opinion of the licensee, have the skills, knowledge, experience, and qualities necessary to perform effectively as a non-executive director of the licensee; and
- (c) not have any executive duties within the licensee.

B1.9. Except and to the extent that the Authority consents otherwise, a Sufficiently Independent Director must not be, and must not have been during the 12 months before their appointment as a director of the licensee or the coming into force of this condition (whichever is the later):

- (a) an employee of the licensee; or
- (b) a director or employee of any Potential Conflict Party.

B1.10. Except and to the extent that the Authority consents otherwise, a Sufficiently Independent Director must not:

- (a) have held during the 12 months before their appointment as a director or the coming into force of this condition (whichever is the later), currently hold, or enter into any contractual arrangements with the licensee, ISOP Associate or Potential Conflict Party;
- (b) hold a position to represent the interests of any ISOP Associate or the interests of any Potential Conflict Party;
- (c) receive remuneration from the licensee (apart from a director's fee and reasonable expenses), or from any ISOP Associate or Potential Conflict Party; or
- (d) hold any direct shareholdings in any ISOP Associate or Potential Conflict Party,

where a reasonable expectation of conflict of interest might arise.

B1.11. For the purposes of paragraph B1.10(c), the receipt or retention of any benefit accrued from prior employment or service with the licensee, any ISOP Associate or Potential Conflict Party will not be considered to be remuneration.

B1.12. The licensee must notify the Authority of the names of its Sufficiently Independent Directors within 14 days from the date this licence comes into effect and must notify the Authority within 14 days from the date of appointment where any new directors are appointed to fulfil the obligation in paragraph B1.16.

B1.13. The terms of appointment of each Sufficiently Independent Director must include a condition stipulating that both the licensee and the appointee must use their best endeavours to ensure that the appointee remains a Sufficiently Independent Director during their term of office, having particular regard to the requirements set out in paragraphs B1.8, B1.9 and B1.10.

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- B1.14. A term of appointment for a Sufficiently Independent Director must not be for longer than 8 years, but an individual may be reappointed thereafter provided that they continue to meet the requirements set out in paragraphs B1.8, B1.9 and B1.10.
- B1.15. The licensee must notify the Authority in Writing within 14 days if any Sufficiently Independent Director is removed from office or resigns, giving reasons for the removal or (to the extent that they are known to the licensee) the resignation. For the purposes of this obligation, the reasons for a resignation may, if appropriate, be stated to be personal reasons.
- B1.16. If at any time fewer than half of the licensee's non-executive directors are Sufficiently Independent Directors because of a removal or resignation or other reasons (including death or incapacity), the licensee must use its best endeavours to ensure that such new non-executive directors are appointed to fulfil the obligation in paragraph B1.7 as soon as is reasonably practicable to bring the number of Sufficiently Independent Directors up to at least half of the licensee's non-executive directors.

Part C: Operational Services

- B1.17. The licensee must ensure that at all times it has in place, exercises its rights and performs its obligations under the Operational Services Agreement to have such Operational Services as are needed to enable it to carry out its functions, before the Authority issues to it an OSA Notice.
- B1.18. The licensee must as soon as reasonably practicable notify the Authority if it proposes to make any material change to, extend the duration of, or terminate the Operational Services Agreement (in whole or in part).
- B1.19. Prior to the licensee exercising any termination right in respect of the Operational Services Agreement, the licensee must first consult with the Authority.

Part D: Transitional Services

- B1.20. The licensee must ensure that at all times it has in place, exercises its rights and performs its obligations under the Transitional Services Agreement to have such Transitional Services as are needed to enable it to carry out its functions, before the Authority issues to it a TSA Notice.
- B1.21. The licensee must use reasonable endeavours to ensure that it is able to operate without the Transitional Services Agreement by the time that the Transitional Services Agreement is due to expire (with the expiry date for that Transitional Services Agreement being the expiry date applicable at the time of this licence coming into effect) or as soon as practicable thereafter.
- B1.22. The licensee must as soon as reasonably practicable notify the Authority if it proposes to make any material change to, extend the duration of, or terminate the Transitional Services Agreement (in whole or in part).

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Part E: Independence Statement

- B1.23. By the end of a period of 30 days, beginning with the date on which this condition comes into effect, the licensee must submit to the Authority the Independence Statement, which must set out the systems, processes and other governance arrangements that the licensee has in place to maintain the impartiality and integrity of the actions of its employees and the independence of the licensee.
- B1.24. The licensee must, subject to paragraphs B1.26 and B1.27, ensure that the Independence Statement also sets out:
- (a) a list of services which fall under the definitions of Transitional Services and Operational Services;
 - (b) details of the Transitional Services Agreement and Operational Services Agreement under which the Transitional Services and Operational Services are (and will be) provided and an explanation of how they ensure that the licensee is able to meet its Independence Requirements;
 - (c) how the licensee will meet its Independence Requirements and obligations under this condition in the treatment of Transitional Services and Operational Services, including proposals as to how it intends to operate without the Transitional Services Agreement by the time that agreement expires;
 - (d) a strategy to transfer to the licensee, or otherwise provide for the long-term outsourcing, of any Transitional Services to services that are not provided by members of National Grid Plc or its Affiliates or Related Undertakings, including:
 - (i) an approach to transferring Transitional Services to the licensee that ensures economy and efficiency in terms of the combination of cost and quality;
 - (ii) a clear timeline and milestones to complete transfer to the licensee or outsourcing (without the Transitional Services Agreement) of services comprising Transitional Services, with due regard to the licensee's Independence Requirements; and
 - (iii) protection of business continuity for the licensee at all times to fully exercise its ISOP Business and comply with its licence obligations and all relevant requirements (having the meaning given to that term in the Electricity Act 1989);
 - (e) how the licensee will meet its Independence Requirements in relation to any work with a Potential Conflict Party to deliver FSO Transition Activities, including with respect to any contractual agreements established in accordance with paragraph F10.2 of condition F10 (ISOP implementation funding); and

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- (f) such other information as reasonably requested by the Authority in relation to the licensee's Independence Requirements and obligations under this condition.

B1.25. A TSA Notice and/or OSA Notice issued by the Authority may also specify that the obligations under paragraph B1.24 will no longer apply.

B1.26. In respect of Transitional Services and the Transitional Services Agreement only, the obligations under paragraph B1.24 will come into effect at the end of a period of 100 days beginning with the date on which this condition comes into effect, at which point the licensee must submit an updated Independence Statement to the Authority.

B1.27. In respect of Operational Services and the Operational Services Agreement only, the obligations under paragraph B1.24 will come into effect at the end of a period of 6 months beginning with the date on which this condition comes into effect or at the end of such other period as directed by the Authority, at which point the licensee must submit an updated Independence Statement to the Authority.

B1.28. Within 28 days of receipt of the Independence Statement, or any revisions to the Independence Statement as provided for in paragraph B1.29(b), the Authority will:

- (a) approve the Independence Statement and notify the licensee of such approval; or
- (b) give a direction to the licensee that the Independence Statement requires further development and direct the date by which the licensee is required to submit any further revisions to the Authority for approval.

B1.29. Following the Authority's approval of the Independence Statement, the licensee must:

- (a) unless the Authority otherwise consents or directs, comply with the terms of the approved Independence Statement; and
- (b) review the Independence Statement and revise it as necessary:
 - (i) at such intervals as the Authority may direct, or at a minimum every 12 months;
 - (ii) when circumstances change such that the Independence Statement no longer secures compliance with the Independence Requirements and obligations as set out in this condition; and/or
 - (iii) to ensure that the Independence Statement continues to be complete and accurate in all material respects; and
- (c) submit any revisions to this document to the Authority, which will only become effective once the Authority has approved them in accordance with paragraph B1.28(a).

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B1.30. The licensee must publish a copy of the Independence Statement, and each revised version on its website within a period of 15 Working Days beginning with the date of its approval by the Authority.

B1.31. The licensee must ensure that it has removed any commercially confidential and/or security related material from the version published on its website under paragraph B1.30.

Part F: Appointment of a Compliance Officer and compliance reporting

B1.32. The licensee must, following consultation with the Authority, appoint a Compliance Officer for the purpose of monitoring and facilitating the licensee's compliance with the Independence Requirements and other obligations under this condition.

B1.33. The licensee must ensure that the Compliance Officer appointed under paragraph B1.32 is the same person appointed under condition B1 (Independence Requirements and compliance obligations) of the Gas System Planner Licence.

B1.34. The licensee must ensure that the Compliance Officer:

- (a) is provided with such staff, premises, equipment, facilities and other resources; and
- (b) has such access to the licensee's premises, systems, information and documentation,

as, in each case, the Compliance Officer might reasonably require for the fulfilment of the duties and tasks assigned under this condition.

B1.35. The licensee must ensure that the Compliance Officer is not engaged in the management or operation of any ISOP Affiliate or ISOP Related Undertaking, or of any Potential Conflict Parties.

B1.36. The licensee must ensure that the Compliance Officer is sufficiently independent to carry out the duties and tasks under paragraph B1.38.

B1.37. The licensee must make available to the Compliance Officer the details of any complaint or representation received by it from any person in respect of the conduct of the licensee in undertaking the Independence Requirements and other obligations under this condition.

B1.38. The licensee must ensure that the duties and tasks of the Compliance Officer shall include:

- (a) providing advice and information to the licensee for the purpose of ensuring the licensee's compliance with the Independence Requirements;
- (b) monitoring the effectiveness of the practices, procedures and systems adopted by the licensee to ensure its compliance with the Independence Requirements and obligations under this condition and in the Independence Statement;

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- (c) advising whether, to the extent that the implementation of such practices, procedures and systems requires the cooperation of any other person, they are designed so as reasonably to secure the required cooperation;
- (d) investigating any complaint or representation made available to the Compliance Officer in accordance with paragraph B1.37;
- (e) recommending and advising upon the remedial action which any such investigation has demonstrated to be necessary or desirable;
- (f) providing relevant advice and information to the licensee for the purpose of ensuring its implementation of:
 - (i) the practices, procedures and systems adopted in accordance with the Independence Statement; and
 - (ii) any remedial action recommended in accordance with paragraph B1.38(e);
- (g) any other duties or tasks that the licensee or the Authority may reasonably require to fulfil compliance with the Independence Requirements and other obligations under this condition; and
- (h) reporting annually to the Board once in each Regulatory Year after this condition comes into force as to their activities during the period covered by the report, including the fulfilment of the duties and tasks of the Compliance Officer in paragraphs B1.38(a) to (g).

B1.39. As soon as is reasonably practicable and in any event before the period of 90 days beginning with the date of issue of each annual report of the Compliance Officer under paragraph B1.38(h), the licensee must produce, ~~in a form approved by the Authority,~~ the Compliance Report that sets out the licensee's:

- (a) compliance with the Independence Requirements and obligations under this condition during the period since the last Compliance Report; and
- (b) implementation of the practices, procedures and systems adopted in accordance with the Independence Statement.

B1.40. The Compliance Report must:

- (a) detail the activities of the Compliance Officer during the relevant period covered by the report under paragraph B1.38(h);
- (b) report on the impartiality of the licensee's employees and the independence of the licensee, including any perceived or real conflicts of interest with Potential Conflict Parties and the steps taken to mitigate these conflicts;
- (c) refer to such other matters as are or may be appropriate in relation to the implementation of the practices, procedures and systems described in the Independence Statement; and
- (d) set out the details of any investigations conducted by the Compliance Officer, including:

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- (i) the number, type and source of the complaints or representations on which such investigations were based;
- (ii) the outcome of such investigations; and
- (iii) any remedial action taken by the licensee following such investigations.

B1.41. The licensee must, as soon as reasonably practicable, and in any event before the end of the period of 120 days beginning with the issue of each annual report of the Compliance Officer under paragraph B1.38(h), submit to the Authority a copy of the Compliance Report produced in accordance with paragraph B1.39 and publish a copy of it on its website.

Part G: Derogations

B1.42. The licensee may apply to the Authority for a derogation relieving the licensee of its obligations under this condition to such an extent, for such period of time, and subject to such conditions as may be specified by the Authority by direction after consulting the licensee.

Condition B7 Information ringfencing obligations

Introduction

- B7.1. The purpose of this condition is to ensure that the licensee appropriately manages and secures confidential data and information that relates to the licensee's performance of its functions.

Part A: Licensee's information ringfencing obligations

- B7.2. The licensee must identify any confidential data and information it holds related to the performance of its functions that in its opinion should not be disclosed or otherwise be accessible to persons other than the licensee's employees, agents, contractors and advisors (other than as set out in paragraph B7.7) due to the adverse impact such disclosure or access may give rise to.
- B7.3. Confidential data and information under paragraph B7.2 includes but is not limited to:
- (a) data and information related to national security and to the delivery of the obligations under condition C6 (Licensee's obligations regarding critical national infrastructure) and condition C7 (Energy resilience and resilience reporting); and
 - (b) data and information that is market sensitive.
- B7.4. Unless the Authority otherwise consents, the licensee must ensure that appropriate protections are in place to secure that any data and information identified under paragraph B7.2 is appropriately protected from being directly or indirectly disclosed to, solicited or used by any person who is involved in delivery of Operational Services and/or Transitional Services.
- B7.5. Subject to paragraph B7.7, the licensee must ensure that appropriate protections are in place to secure that any data and information identified under paragraph B7.2 is appropriately protected from being directly or indirectly disclosed to, solicited or used by any person who:
- (a) is not required to have access to that confidential data and confidential information; or
 - (b) is delivering FSO Transition Activities as part of bilateral agreements between the licensee and:
 - (i) National Gas Transmission plc; or
 - (ii) National Grid Plc or its Affiliates or Related Undertakings.
- B7.6. Subject to paragraph B7.7, the licensee must ensure that appropriate protections are in place to secure that any confidential data and information identified under paragraph B7.2 is appropriately protected from being directly or indirectly disclosed to, solicited or used by any Potential Conflict Party or persons engaged in the management or operation of any Potential Conflict Party.

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- B7.7. Paragraphs B7.5 and B7.6 do not apply to the disclosure or access of confidential data and information identified under paragraph B7.2:
- (a) where the licensee is specifically required to do so under a condition of this licence;
 - (b) to National Gas Transmission plc where such disclosure is required by it for purposes connected with the carrying out of NTS System Operation Activity (as authorised by the Transporter Licence granted or treated as granted to National Gas Transmission plc under the Gas Act 1986);
 - (c) where required or permitted under an Industry Code;
 - (d) where required by or under any statute, enactment or provision of subordinate legislation, or the rules of any governmental or regulatory authority having jurisdiction over the licensee, or for the purposes of facilitating the performance of any functions of the Secretary of State or the Authority (for the avoidance of doubt, this includes the functions of the Secretary of State or their advisors in their role as the shareholder of the licensee);
 - (e) where the licensee has obtained prior written consent from the provider of the information for such disclosure, provided that the extent of such disclosure is consistent with the consent obtained; or
 - (f) where authorised in advance in Writing by the Authority.
- B7.8. The licensee must ~~establish and~~ maintain a code of conduct governing the identification, disclosure and use of confidential data and information identified under paragraph B7.2, and how the licensee ensures:
- (a) compliance with its obligations under paragraphs B7.5 and B7.6; and
 - (b) appropriate protections are in place to limit the disclosure of the information related to the delivery of the obligations in Part A and Part B of condition C7 (Energy resilience and resilience reporting) to persons not involved in the delivery of those obligations to where such disclosure is necessary:
 - (i) for the performance of such obligations;
 - (ii) to implement mitigations and remediations identified under Part A of condition C7; or
 - (iii) at the conclusion of any analysis or assessment under Part B of condition C7.

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~~B7.9. The licensee must produce the code of conduct under paragraph B7.8 in a form approved by the Authority.~~

~~B7.10. The requirement of paragraph B7.8 may be satisfied by actions taken by the licensee and the Authority before or after this licence condition comes into effect.~~

Section C: Strategic and operational functions

Condition C1 General obligations on ISOP's activities principles and minimum standards

Introduction

- C1.1. The purpose of this condition is to set out general principles the licensee must follow and general minimum outcomes the licensee must seek to achieve through the delivery of its activities.
- C1.2. These requirements are grouped into the following areas:
 - (a) in Part A, operation of the electricity system;
 - (b) in Part B, energy system resilience and efficiency;
 - (c) in Part C, markets for electricity system services;
 - (d) in Part D, wholesale market arrangements, codes and charging;
 - (e) in Part E, energy system planning and connections; and
 - (f) in Part F, cross-cutting requirements.
- C1.3. These general requirements are intended to support and align with the more specific, detailed requirements contained in other parts of this licence.
- C1.4. This condition also establishes the NESO Licence Expectations Document, which is a document that may provide guidance on the requirements contained within this condition, as set out in Part G.
- C1.5. The condition also sets requirements on the licensee in relation to the provision of a Remediation Plan as set out in Part H.

Part A: Operation of the electricity system

- C1.6. The licensee must ensure that the systems, processes and technical requirements for operating the National Electricity Transmission System enable it to maintain a safe and secure electricity system.
- C1.7. The licensee must have effective systems and processes in place that enable it to accurately understand the National Electricity Transmission System's operational requirements and respond to these requirements in an economic and efficient manner.
- C1.8. The licensee must exchange necessary information with Transmission Owners and Licensed Distributors to promote coordinated and efficient operational decision-making across the Total Electricity System.
- C1.9. The licensee must use best endeavours to establish and maintain the systems, skills and processes it needs to operate and restore the National Electricity Transmission System effectively in a Zero Carbon Energy System.
- C1.10. The licensee must promote the overall transparency and integrity of Balancing Services markets and protect against the exploitation of market power through

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effective market monitoring, investigation, and the communication of issues to the Authority.

- C1.11. The licensee must carry out its operational actions in a way best calculated to ensure it does not unduly distort competition or efficiency across the wholesale electricity market and Balancing Services markets.
- C1.12. The licensee must provide transparency to electricity market participants on its overall approach to operating the National Electricity Transmission System and the framework and process it uses for deciding between different available actions.

Part B: Energy system efficiency and resilience

- C1.13. The licensee must promote the enduring security and resilience of the energy system, including by taking a leading role in coordinating resilience activities across the energy system.
- C1.14. The licensee must maintain effective communication and relationships with the relevant transmission system operators for interconnected electricity and gas systems to understand developments that may impact the energy system in Great Britain.
- C1.15. The licensee must seek to facilitate the digitalisation required in the energy sector to enable a secure and efficient Zero Carbon Energy System.
- C1.16. The licensee must produce and publish accurate and unbiased energy system forecasts that create overall value for the energy system.

Part C: Markets for electricity system services

- C1.17. The licensee must procure all Balancing Services through market-based mechanisms and seek to maximise competition in Balancing Services procurement.
- C1.18. The licensee must not unduly discriminate between any persons or classes of person in its procurement of Balancing Services, including by:
- (a) designing Balancing Services requirements so they do not unduly restrict new or existing service providers or technologies from competing; and
 - (b) using best endeavours to resolve, as soon as reasonably practicable, any technical or capability issues the licensee has which could restrict its ability to procure Balancing Services in a non-discriminatory manner.
- C1.19. The licensee must demonstrate it is not unduly discriminating between any persons or classes of person in its procurement of Balancing Services by clearly and transparently explaining and justifying Balancing Services design.
- C1.20. The licensee must ensure that Balancing Services are accessible and designed in a manner that maximises participation.

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- C1.21. The licensee must provide transparency on its future procurement needs for Balancing Services to provide clear investment signals and foster competition.
- C1.22. The licensee must work with electricity market participants, Licenced Distributors and the Market Facilitator to support the coordinated development of markets across the Total Electricity System and remove unnecessary restrictions to competing in both Balancing Services and distribution-level flexibility services.
- C1.23. The licensee must maintain processes that support the effective trading of electricity with markets connected to Great Britain, including by removing barriers which could unnecessarily restrict flows over interconnectors.

Part D: Wholesale market arrangements, codes and charging

- C1.24. The licensee must engage with industry stakeholders, the Authority, and government to promote the development of energy wholesale market arrangements that facilitate a secure and efficient Zero Carbon Energy System.
- C1.25. The licensee must administer the Industry Codes it manages impartially and in a manner that facilitates broad stakeholder engagement and coordination across Industry Codes.
- C1.26. The licensee must develop, manage and maintain the Charging Methodologies in a transparent and effective manner, including by engaging with relevant parties to identify changes that would better deliver the applicable Connection and Use of System Charging objectives.
- C1.27. The licensee must use reasonable endeavours to provide clear and transparent communications and forecasts around future Use of System Charges, so that market participants can understand, and as far as feasible predict, these charges.
- C1.28. The licensee must maintain transparent, impartial and effective processes in its delivery role for the government's Electricity Market Reform arrangements, including by providing accessible qualification processes and fair and timely guidance and advice.
- C1.29. The licensee must seek to support the effective design and operation of the Capacity Market arrangements.

Part E: Energy system planning and connections

- C1.30. The licensee must effectively engage with industry stakeholders, the Authority, and government to ensure that frameworks and procedures for planning the development of the whole energy system are transparent, coordinated and support the timely, secure, and efficient transition to a Zero Carbon Energy System.
- C1.31. The licensee must use best endeavours, through effective engagement with relevant industry stakeholders, the Authority, and government, to ensure the

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process and procedures for connecting to the electricity system are efficient, and support a timely, secure and efficient transition to a Zero Carbon Energy System.

C1.32. The licensee must take all reasonable steps to ensure that the process for parties seeking to connect to the electricity system is fair, transparent and robust.

C1.33. The licensee must seek to optimise the timing of outages under the Outage Plan on the National Electricity Transmission System to drive whole energy system benefits.

Part F: Cross-cutting requirements

C1.34. The licensee must ensure that through the delivery of its activities it carries out robust stakeholder engagement on issues, recommendations or decisions which are important for stakeholders or for the energy sector.

C1.35. The licensee must take all reasonable steps to clearly explain the reasons underpinning its decisions or recommendations, considering the impact those decisions or recommendations have on stakeholders and the energy sector.

C1.36. The licensee must put in place effective processes and governance for the purpose of ensuring that any information, data or analysis it publishes or provides to the Authority or government is accurate.

C1.37. The licensee must ensure any formal advice or recommendation provided to the Authority or government is clear, impartial and evidence-based.

C1.38. The licensee must use reasonable endeavours to ensure that the any published information or data is clear and easily accessible to the users of that information.

C1.39. The licensee must use reasonable endeavours to ensure that any processes or platforms the license is responsible for which are used by external parties are robust and operationally ready prior to their introduction.

Part G: The NESO Licence Expectations Document

C1.40. The Authority may issue, and from time-to-time revise, the NESO Licence Expectations Document which is a document that applies guidance on the requirements in Parts A to F of this condition.

C1.41. The licensee must have regard to the NESO Licence Expectations Document and must be able to demonstrate such regard when complying with the provisions of Parts A to F of this condition.

C1.42. The Authority will issue and amend the NESO Licence Expectations Document under this condition by direction.

C1.43. The Authority will publish the NESO Licence Expectations Document issued or amended under this condition on the Authority's Website.

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C1.44. Before issuing the new or amended NESO Licence Expectations Document pursuant to paragraph C1.43, the Authority will publish on the Authority's Website:

- (a) the text of the proposed or amended guidance;
- (b) the date on which the Authority intends the guidance to come into effect;
- (c) the reasons for the amendments to the guidance; and
- (d) a period during which representations may be made on the content of the guidance, which will not be less than 28 days.

C1.45. The requirements of Part G of this condition may be satisfied by action taken by the Authority before, as well as by action taken after, this condition comes into effect.

Part H: Notice of Remediation

C1.46. The Authority may issue a direction to the licensee (which for the purpose of this condition will be referred to as a Notice of Remediation) to produce a Remediation Plan.

C1.47. A Notice of Remediation would be issued where the Authority considers the licensee needs to provide greater transparency and confidence on the actions and steps it is taking to ensure continued compliance with the obligations in this licence or to remedy any perceived performance concerns.

C1.48. A Notice of Remediation will specify:

- (a) The issue(s) that the Authority considers the licensee must seek to address;
- (b) The licence condition(s) relevant to the issue(s);
- (c) The information the licensee must provide within a Remediation Plan;
- (d) The timeframes for producing and submitting the Remediation Plan to the Authority;
- (e) Any other requirements related to the Remediation Plan, including but not limited to any publication requirements.

C1.49. On receipt of a Notice of Remediation the licensee must produce a Remediation Plan which complies with the requirements set out in the Notice of Remediation.

Introduction

~~C1.1. The purpose of this condition is to set out the general obligations on the manner by which the licensee should carry out certain activities as follows:~~

- ~~(a) in Part A, obligations related to the operation of the National Electricity Transmission System and operational impacts across the whole system;~~
- ~~(b) in Part B, obligations related to transparency and forecasting;~~

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- ~~(c) in Part C, obligations related to procurement of Balancing Services and development of markets;~~
- ~~(d) in Part D, obligations related to coordinated development of the energy system;~~
- ~~(e) in Part E, further general obligations;~~
- ~~(f) in Part F, obligations related to guidance issued by the Authority on requirements in Parts A to E; and~~
- ~~(g) in Part G, derogations in respect of non-frequency Balancing Services.~~

~~Part A: General obligations related to the operation of the National Electricity Transmission System and operational impacts across the whole system~~

~~C1.2. In carrying out its responsibilities in relation to operating the National Electricity Transmission System (in accordance with applicable conditions of this licence) the licensee must:~~

- ~~(a) have effective systems and processes in place that enable the licensee to accurately understand the National Electricity Transmission System's operational requirements and respond to these requirements in an effective manner, including through the efficient instruction of available Balancing Services (where efficiency is measured based on all relevant information the licensee had available to it at the time);~~
- ~~(b) understand and take into account the impact the licensee's operational actions have on competition in the wholesale electricity market, wholesale electricity market price signals, and the behaviour of electricity market participants;~~
- ~~(c) coordinate with and exchange necessary information with Transmission Owners and Licensed Distributors to understand the impact the licensee's operational decisions have across the Total Electricity System and to promote the optimal use of resources;~~
- ~~(d) consider the impact any action would have on the whole system pursuant to section 164(1)(c) of the Energy Act 2023; and~~
- ~~(e) optimise the timing of transmission outages under the Outage Plan on the National Electricity Transmission System.~~

~~C1.3. Through developing its capability in relation to operating the National Electricity Transmission System, the licensee must use best endeavours to establish the systems, skills and processes it needs to support the transition to a Zero Carbon Energy System, including developing the capability to operate the National Electricity Transmission System securely and efficiently during periods where the electricity market provides a zero carbon energy mix.~~

~~Part B: General obligations related to transparency and forecasting~~

~~C1.4. To promote transparency (in accordance with applicable conditions of this licence) the licensee must:~~

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- ~~(a) publish easily accessible information which the licensee holds to generate value for consumers and stakeholders, including but not limited to, ensuring information services are designed to meet the needs of the service users;~~
- ~~(b) use reasonable endeavours to ensure that the reasons underpinning decisions or recommendations made by the licensee are clearly stated and made available to any stakeholders that the licensee considers may be materially impacted by those decisions or recommendations. This includes but is not limited to the decision-making process the licensee follows to procure and instruct Balancing Services and to make recommendations on energy system investments;~~
- ~~(c) publish reliable pathways for the long term development of the whole energy system and its needs under different pathways; and~~
- ~~(d) produce and publish accurate and unbiased forecasts of:

 - ~~(i) — Indicated Margin;~~
 - ~~(ii) — Electricity Demand;~~
 - ~~(iii) — Wind Generation Output;~~
 - ~~(iv) — Carbon Intensity;~~
 - ~~(v) — Balancing Costs; and~~
 - ~~(vi) — using its reasonable endeavours to produce and publish reliable and unbiased forecasts of;~~
 - ~~(vii) — Solar Generation Output.~~~~

Part C: General obligations related to the procurement of Balancing Services and development of markets

~~C1.5. — In respect to the procurement of Balancing Services, and the development and administration of market processes (in accordance with applicable conditions of this licence) the licensee must:~~

- ~~(a) procure Balancing Services to ensure operational security subject to the following:

 - ~~(i) — ensuring that the procurement of Balancing Services is subject to transparent, non-discriminatory and market-based procedures; and in doing so, the licensee must:

 - ~~(1) publish total costs and volumes of each Balancing Service represented in a consistent form across an appropriate time segmentation;~~
 - ~~(2) publish price, payment structure, volumes, capacity, technology type, length and end dates for all contracts held with Balancing Service providers for each Balancing Service, where appropriate in an anonymised or aggregated format; and~~~~~~

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- ~~(3) signal as far in advance as reasonably possible the forecast volumes of all services the licensee will need to procure to operate the National Electricity Transmission System;~~
- ~~(b) ensure the effective and non-discriminatory participation of all qualified market participants in the provision of Balancing Services, including not unduly restricting new and existing service providers from competing for the provision of such services, and in doing so, the licensee must:~~
 - ~~(i) in close cooperation with all market participants, establish technical requirements for participation in those markets; and~~
 - ~~(ii) subject to approval by the Authority and consultation with Licensed Distributors and relevant users of the Distribution System and National Electricity Transmission System, establish the specifications for the non-frequency balancing services procured and, where appropriate, standardised market products for such services;~~
- ~~(c) monitor Balancing Services markets for potential breaches of the Grid Code, investigating where necessary and raising concerns to the Authority where appropriate;~~
- ~~(d) anticipate future National Electricity Transmission System requirements by using and developing competitive approaches to procuring Balancing Services wherever this is in the best interests of current and future electricity consumers in Great Britain; and~~
- ~~(e) provide accurate and timely guidance to all industry parties on the relevant rules for the Contracts for Difference (CfD) and Capacity Market (CM) prequalification and auction processes.~~

Part D: General obligations related to the coordinated development of the energy system

~~C1.6. In order to promote the coordinated development of the energy system (in accordance with applicable conditions of this licence) the licensee must:~~

- ~~(a) coordinate and cooperate with Transmission Owners and Licensed Distributors to identify actions and processes that advance the efficient and economic operation of the networks;~~
- ~~(b) use best endeavours to implement actions and processes identified and proposed through its activities under paragraph **Error! Reference source not found.**;~~
- ~~(c) exchange all necessary information and coordinate with Licensed Distributors as necessary to facilitate the effective development of markets and development of the Total Electricity System;~~
- ~~(d) propose and support Code Arrangements that promote the relevant code objectives in a timely manner;~~

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- ~~(e) develop, manage and maintain the process for the Use of System Charging Methodology;~~
- ~~(f) manage connection applications for access to the National Electricity Transmission System in a fair, consistent and timely manner; and~~
- ~~(g) ensure coordination with Transmission Owners, Licensed Distributors and interested parties to identify, develop and deliver network planning solutions that are needed to meet the needs of the future whole system and which facilitate a secure and efficient transition to a Zero Carbon Energy System. These solutions should include, but are not limited to, solutions that cost effectively alleviate the need to upgrade or replace network capacity.~~

Part E: Other general obligations

~~C1.7. The licensee must:~~

- ~~(a) take steps to establish a whole energy resilience function, assessing the interactions between electricity and gas to deliver whole system resilience analysis, alongside strategic coordination and coordinating preparation for emergencies; and~~
- ~~(b) provide guidance, information and analysis to persons involved in the energy sector where the licensee believes this would be consistent with the licensee's duties in the Energy Act 2023, and publish this guidance, information and analysis where appropriate.~~

Part F: Guidance

~~C1.8. The licensee must have regard to any guidance the Authority may issue, and from time to time revise, on the requirements in this condition and must be able to demonstrate such regard when complying with the provisions of Parts A to E of this condition.~~

~~C1.9. The Authority will issue and amend any guidance under this condition by direction.~~

~~C1.10. The Authority will publish any guidance issued or amended under this condition on the Authority's Website.~~

~~C1.11. Before issuing any new or amended guidance pursuant to paragraph C1.9, the Authority will publish on the Authority's Website:~~

- ~~(a) the text of the proposed or amended guidance;~~
- ~~(b) the date on which the Authority intends the guidance to come into effect;~~
- ~~(c) the reasons for the amendments to the guidance; and~~
- ~~(d) a period during which representations may be made on the content of the guidance, which will not be less than 28 days.~~

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~~C1.12. The requirements of Part F of this condition may be satisfied by action taken by the Authority before, as well as by action taken after, this condition comes into effect.~~

~~Part G: Derogations in respect of non-frequency Balancing Services~~

~~C1.13. The Authority may, at its own discretion, or on application by the licensee, grant a derogation from the licensee's obligation to procure non-frequency Balancing Services using market-based procedures (as required under paragraph C1.5(a)(i)) where the Authority has determined that compliance with the market-based provision is economically not efficient.~~

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Condition C4 Electricity System Restoration Standard

Introduction

- C4.1. The purpose of this condition is to set out the licensee's obligations relating to the Electricity System Restoration Standard and the Electricity System Restoration Assurance Framework. ~~once the licensee has received a direction from the Secretary of State designating the Electricity System Restoration Standard.~~

Part A: Electricity System Restoration Standard

- C4.2. The licensee must comply at all times with the Electricity System Restoration Standard, ~~once the licensee has received:~~ from 1 January 2027 onwards (including with any changes to the Electricity System Restoration Standard directed by the Secretary of State).
- ~~(a) a direction from the Secretary of State designating the Electricity System Restoration Standard and the date from which it applies; or~~
- ~~(b) any subsequent direction from the Secretary of State that has the effect of amending the Electricity System Restoration Standard.~~
- C4.4. The licensee must procure Restoration Services and propose any modifications to the Grid Code and other Industry Codes (where the licensee has the power to propose modifications) that are required to comply with the Electricity System Restoration Standard ~~designated under paragraph C4.2.~~
- C4.5. The licensee must ensure that its procurement of Restoration Services and proposal of modifications to the Grid Code and other Industry Codes are completed in time to ensure that it has the ability to comply with the Electricity System Restoration Standard ~~by the date the Secretary of State directs that it applies~~ 31 December 2026.
- C4.6. The licensee will not have failed to comply with its obligations under paragraphs C4.2, C4.3 or C4.4 where, upon receiving a written and sufficiently detailed explanation from the licensee, the Authority is satisfied that the licensee has been prevented from complying with these obligations for reasons that are outside of its reasonable control.

Part B: Electricity System Restoration Assurance Framework

- C4.7. ~~Within 90 days following receipt of a direction from the Secretary of State designating the Electricity System Restoration Standard in accordance with paragraph C4.2, and thereafter at 12 monthly intervals (unless otherwise directed by the Authority), the~~ The licensee must, by 31 March of each Regulatory Year, submit an Electricity System Restoration Assurance Framework to the Authority for approval.
- C4.8. Prior to submission of the Electricity System Restoration Assurance Framework to the Authority, the licensee must consult the Authority and other Electricity

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Licensees for not less than 30 days on its proposed Electricity System Restoration Assurance Framework.

C4.9. The Electricity System Restoration Assurance Framework must include, but need not be limited to:

- (a) the strategy for the provision of Electricity System Restoration, which is to be applied for the next Regulatory Year, for the two Regulatory Years after that and for subsequent Regulatory Years. This must include:
 - (i) the licensee's approach to ensuring the necessary Restoration Services, tools, and obligations are in place for the licensee to comply with the Electricity System Restoration Standard;
 - (ii) a Restoration Approach to ensure that the Electricity System Restoration Standard is capable of being complied with at all times during a Regulatory Year and identification of technologies and approaches for the provision of Restoration Services; and
 - (iii) an explanation of how this strategy will impact Restoration Times.
- (b) a description of how the licensee will monitor its ability to comply with the Electricity System Restoration Standard at all times during a Regulatory Year;
- (c) ex-ante modelling of Restoration Times for the subsequent Regulatory Year using credible projections of the required National Electricity Transmission System data, as well as ex-post modelling of Restoration Times using actual National Electricity Transmission System data from the previous Regulatory Year;~~;~~ and
- (d) sufficient details of the methodology, assumptions and data used by the licensee to reflect the capabilities of the National Electricity Transmission System during the subsequent Regulatory Year to allow other Electricity Licensees to assess and provide comment on how well the licensee is representing the capabilities of the National Electricity Transmission System within the Electricity System Restoration Model. This should include information on any improvements the licensee is making to the Electricity System Restoration Model, following the recommendations made by the independent auditor appointed in accordance with paragraph C4.9; and
- (e) information on the risks with regards to Electricity System Restoration, an assessment of the impact and likelihood of risks, and an explanation of any mitigations the licensee has put in place to reduce either the likelihood or impact of risks.

C4.10. The submission of the Electricity System Restoration Assurance Framework must be accompanied by a report from an independent auditor of internationally recognised standing, appointed by the licensee. This report must provide an assessment of the licensee's Electricity System Restoration Model, which must include, but need not be limited to, an ex-ante assessment of how

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well that model's input data, technical assumptions, and calculations will represent the capabilities and characteristics of the National Electricity Transmission System during the subsequent Regulatory Year.

Part C: Authority approval of Electricity System Restoration Assurance Framework

- C4.11. If, following a submission under paragraph C4.6, the Authority rejects the Electricity System Restoration Assurance Framework, the licensee must comply with a direction from the Authority to resubmit a revised Electricity System Restoration Assurance Framework to the Authority for approval, within a period specified in that direction.
- C4.12. If the Authority approves the Electricity System Restoration Assurance Framework, the licensee must publish the Electricity System Restoration Assurance Framework and the report by the independent auditor on its website as soon as is reasonably practicable following approval.
- C4.13. Where the licensee considers that there are legitimate reasons for not publishing certain information or data on its website in accordance with paragraph C4.11, it must seek the Authority's approval to publish a redacted version of the Electricity System Restoration Assurance Framework, or report by the independent auditor.

Part D: Revisions to the Electricity System Restoration Assurance Framework

- C4.14. Before revising the approved Electricity System Restoration Assurance Framework, the licensee must submit the proposed revisions to the Authority for approval.
- C4.15. Except where the Authority directs otherwise, before seeking any revision of the approved Electricity System Restoration Assurance Framework, the licensee must:
- (a) send a copy of the proposed revisions to the Authority;
 - (b) consult other Electricity Licensees on the proposed revisions and allow them a period of not less than 30 days in which to make representations to the licensee;
 - (c) submit to the Authority within 30 days of the close of the consultation period referred to in paragraph C4.14(b) a report setting out:
 - (i) the revisions originally proposed;
 - (ii) the representations (if any) made to the licensee; and
 - (iii) any changes to the revisions.
- C4.16. Where the Authority directs that any part of paragraph C4.14 will not apply, the licensee must comply with such other requirements as are specified in that direction.

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- C4.17. Following receipt of a revision under paragraph C4.14(c), the Authority may direct the licensee to make the revision, where the Authority is satisfied that the revision is consistent with the licensee's obligations in the Electricity Act 1989 and the Energy Act 2023 and will provide value for money for electricity consumers in Great Britain.
- C4.18. Unless the Authority issues a direction under paragraph C4.16 within a period of 60 days, beginning with the date of the submission made by the licensee under paragraph C4.14(c), the proposed revision will be treated as not being approved by the Authority.
- C4.19. If the Authority directs any revision to be made under paragraph C4.16, the licensee must:
- (a) revise the approved Electricity System Restoration Assurance Framework in accordance with the Authority's direction; and
 - (b) publish the revised Electricity System Restoration Assurance Framework on its website within a period of 7 days beginning with the date of receipt of a direction under paragraph C4.16.
- C4.20. Where the licensee considers that there are legitimate reasons for not publishing certain information or data on its website in accordance with paragraph C4.18(b), it must seek the Authority's approval to publish a redacted version of the revised Electricity System Restoration Assurance Framework.

Condition C7 Energy resilience and resilience reporting

Introduction

C7.1. The purpose of this condition is to set out the licensee's obligations related to:

- (a) in Part A, energy risk and threat advice;
- (b) in Part B, post-event and post-emergency analysis;
- (c) in Part C, the licensee's Energy Resilience Assessment Report;
- (d) in Part D, the licensee's Emergency Processes Assessment;
- (e) in Part E, the licensee's Industry Readiness and Preparedness Report;
- (f) in Part F, the provision of reports and confidential information; and
- (g) Part G of this condition relates to derogations.

Part A: Energy risk and threat advice

C7.2. The licensee must provide to the Authority and Secretary of State information and analysis on any risk or threat that the licensee has identified, where such a risk or threat may, in the licensee's view, compromise or detrimentally impact the safety, security or resilience of any significant part of the whole energy system.

C7.3. The licensee must advise the Authority and the Secretary of State on any mitigations and remediations the licensee considers could be applied to:

- (a) improve whole energy system resilience; or
- (b) manage risks or threats identified in accordance with paragraph C7.2, including any advice on products, services and regulatory changes.

C7.4. The licensee must engage with the stakeholders which it determines to be relevant to the identification and/or mitigation of risks or threats in paragraphs C7.2 and C7.3 to the extent required.

Part B: Post-event and post-emergency analysis

C7.5. The licensee must, when requested by the Authority or the Secretary of State, provide post-event analysis and assessment in relation to an event or an emergency that has detrimentally impacted, or could have detrimentally impacted, the licensee, gas and electricity consumers, or any licensed party operating across the National Transmission System, the National Electricity Transmission System, Distribution Network, Distribution Systems, Gas Interconnectors, Electricity Interconnectors, Electricity Generators, and embedded generators.

~~C7.6. The licensee must, when requested by the Authority or Secretary of State, provide post-emergency analysis and assessment in relation to an emergency which has occurred on the National Electricity Transmission System and/or the National Transmission System.~~

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- C7.6. The licensee may also carry out and provide to the Authority or Secretary of State the analysis and assessments referred to in paragraph C7.5, in the absence of a request from the Authority or the Secretary of State, where the licensee considers this would be beneficial for the resilience of the energy system.
- C7.7. The licensee must have regard to any views shared by the Authority on the situations in which a review under C7.6 would be appropriate, and it must notify the Authority and Secretary of State of any decision to undertake such a review.
- C7.8. The licensee must engage with the stakeholders which it determines to be relevant to the ~~request~~ analysis and assessment carried out under paragraphs C7.5 and C7.6 to the extent required.

Part C: Energy Resilience Assessment Report

- C7.9. The licensee must provide an Energy Resilience Assessment Report to the Authority and to the Secretary of State by 30 June 2025, ~~and by 30 June~~ of each ~~subsequent~~ Regulatory Year.
- C7.10. The licensee must ensure the Energy Resilience Assessment Report includes:
- (a) the licensee's view on emerging risks and threats:
 - (i) within 5 years;
 - (ii) in 5-10 years' time; and
 - (iii) beyond 10 years,
 in relation to the National Electricity Transmission System, National Transmission System, Distribution Systems, Distribution Networks, Gas Interconnectors, Electricity Interconnectors, Electricity Generators and any other part of the whole energy system relating to electricity and/or gas that the Secretary of State may request;
 - (b) an assessment by the licensee of the likelihood and potential impact of risks and threats identified by the licensee under paragraph C7.109(a); ~~and~~
 - (c) any advice on mitigations that the licensee views would limit and address the impact of risks and threats identified under paragraph C7.109(a); ~~and~~
 - (d) updates on actions, recommendations and/or mitigations it has included within previous Energy Resilience Assessment reports.
- C7.11. The licensee must engage with relevant gas and electricity ~~infrastructure~~ stakeholders, Gas Transporters, Distribution Networks, Transmission Owners, Licensed Distributors, Gas Interconnectors, Electricity Interconnectors, Electricity Generators and the Secretary of State when producing the Energy Resilience Assessment Report.

Part D: Emergency Processes Assessment

- C7.12. The licensee must provide its Emergency Processes Assessment, and any accompanying information and analysis that the licensee considers it

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appropriate to provide, to the Authority, the Secretary of State and such other parties the licensee considers materially affected by the issues contained in the Emergency Processes Assessment by 1 December 2025, ~~and by 1 December of each subsequent Regulatory Year.~~

C7.13. The licensee must ensure its Emergency Processes Assessment outlines:

- (a) the licensee's assessment of scenarios and view on best practice for emergency processes and preparedness; ~~and~~
- (b) any of the licensee's recommended improvements and learnings, including on the prevention of emergencies; ~~and~~
- (c) updates on actions, recommendations and/or mitigations it has included within previous Energy Processes Assessments.

across the gas and electricity networks covering the National Transmission System, the National Electricity Transmission System, Distribution Networks, Distribution Systems, Gas Interconnectors, Electricity Interconnectors, Electricity Generators and any other part of the whole energy system relating to electricity and/or gas that the Secretary of State may request.

C7.14. The licensee must engage with the Authority and the Secretary of State prior to determining the scenarios within the Emergency Processes Assessment to understand and consider the Authority and Secretary of State's views on the appropriate scenarios.

C7.15. The licensee must engage with relevant gas and electricity stakeholders, including Gas Transporters, Distribution Networks, Transmission Owners, Licensed Distributors, Electricity Generators, Gas Interconnectors, Electricity Interconnectors, the Secretary of State and such other parties that the licensee considers materially affected by the issues in paragraphs C7.13~~2~~(a) and C7.13~~2~~(b) when producing the Emergency Processes Assessment.

Part E: Industry Readiness and Preparedness Report

C7.16. The licensee, in respect of the following winter and summer seasons respectively, must provide its Industry Readiness and Preparedness Report to the Authority, Secretary of State and such other parties the licensee considers materially affected by the issues contained in the Industry Readiness and Preparedness Report by 31 October and 30 April of each Regulatory Year.

C7.17. The licensee must ensure its Industry Readiness and Preparedness Report outlines its assessment of the preparedness and seasonal readiness for incidents and emergencies occurring on (and including assessing persons that operate or are connected to):

- (a) the National Electricity Transmission System;
- (b) Distribution Systems;
- (c) the National Transmission System;
- (d) Gas Interconnectors and Electricity Interconnectors;

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(e) Distribution Networks; ~~and~~

(f) Electricity Generators; and

(g) any other part of the whole energy system relating to electricity and/or gas that the Secretary of State may request,

in respect of the winter and summer seasons that follow the dates the licensee provides its Industry Readiness and Preparedness Report under paragraph C7.14.

Part F: Provision of reports and confidential information

C7.18. Where the licensee provides the reports and assessments under Parts A, B, C, D and E to the Authority, the Secretary of State and to materially affected parties, the licensee must have due regard to the confidential data and confidential information contained in the reports and assessments, and must seek to ensure that such data or information is not inappropriately disclosed to materially affected parties.

C7.19. The licensee must seek the Authority's approval, prior to sharing, to provide appropriately redacted versions of the reports and assessments under Parts A, B, C, D and E to materially affected parties.

Part G: Derogations

C7.20. The licensee may apply to the Authority for a derogation relieving the licensee of its obligations under this condition to such extent, and subject to such conditions, as may be specified by the Authority by direction.

Condition C9 Design, Procurement and use of Balancing Services**Introduction**

- C9.1 The purpose of this condition is to set out requirements in relation to the procurement of Balancing Services. This includes specific requirements related to:
- (a) In Part A, the processes for establishing Balancing Services;
 - (b) In Part B, the publication of Balancing Services data;
 - (c) In Part C, the publication of an annual report on Balancing Services costs;
 - (d) In Parts D to E, the publication of specific statements setting out how the license procures Balancing Services;
 - (e) In parts F to H, maintaining, complying with and publishing methodologies associated with the calculation of Imbalance Prices under the BSC;
 - (f) In Part I, the process for amending the documents in Parts D to H;
 - (g) In Part J, maintaining records of Balancing Services.

Part A: Processes for Balancing Services design

- C9.2. The licensee must, through consultation with relevant Licensed Distributors and users of the Distribution System and National Electricity Transmission System, establish specifications for Balancing Services and technical requirements for participation in Balancing Services which are compatible with the licensee's obligations under Part C of condition C1 (general principles and minimum standards).
- C9.3. The consultation requirement in paragraph C9.2 also applies where the licensee seeks to amend the product design, specifications or technical requirements for any existing Balancing Services.
- C9.4. Following consultation undertaken in paragraphs C9.2 or C9.3 with respect to non-frequency Balancing Services, the licensee must provide the Authority with:
- (a) the Balancing Services specifications it intends to establish;
 - (b) evidence of consultation carried out; and
 - (c) the licensee's reasons for not aligning to any representations made by parties.
- C9.5. Following the receipt of the information in paragraph C9.4, where the Authority considers that changes are necessary to better meet the requirements under Part C of condition C1 or to align with the interests of consumers, the Authority may direct the licensee to reconsult with relevant parties on the specifications.
- C9.6. The Authority may, at its own discretion, or on application by the licensee, grant a derogation from the licensee's obligation to procure non-frequency Balancing Services using market-based procedures (as required under Part C of condition

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C1 (general principles and minimum standards)) where the Authority has determined that compliance with the market-based provision is economically not efficient.

C9.7. Nothing in this condition replaces, overrides, or limits any statutory duty or duty under Assimilated Law imposed on the licensee.

Part B: Balancing Services data publication

C9.8. The licence must publish:

- (a) total costs and volumes of each Balancing Service represented in a consistent form across an appropriate time segmentation; and
- (b) price, payment structure, volumes, capacity, technology type, length and end dates for all contracts held with Balancing Service providers for each Balancing Service, where appropriate in an anonymised or aggregated format.

Part C: Balancing Services Annual Report

C9.9. At the end of each Regulatory Year, the licensee must prepare a Balancing Services Annual Report in respect of the Total Costs the licensee has incurred in that Regulatory Year in relation to Balancing Services.

C9.10. Within 3 months of the end of each Regulatory Year, the licensee must submit the Balancing Services Annual Report to the Authority and publish the Balancing Services Annual Report on its website as soon as is reasonably practicable.

C9.11. The Balancing Services Annual Report must give particulars of:

- (a) the Total Costs incurred for that Regulatory Year, and how the Total Costs have been calculated in respect of the Balancing Services which the licensee has bought or acquired (other than Balancing Services which the licensee has acquired through the mere acceptance of an offer or bid in the Balancing Mechanism, provided such offer or bid was not made pursuant to any prior agreement);
- (b) how the Total Costs have been incurred in accordance with the Procurement Guidelines statement and the Balancing Principles statement; and
- (c) any other analysis or information which the licensee considers to be required to enable the Authority to fully assess the particulars to which the report relates.

C9.12. The Balancing Services Annual Report must be accompanied by a statement from an independent auditor of internationally recognised standing appointed by the licensee:

- (a) confirming that the report is accurate; and

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(b) detailing the auditor's independent assessment of the extent to which the licensee has complied with the versions of the Procurement Guidelines statements and Balancing Principles statements that were in place during the relevant Regulatory Year.

C9.13. The licensee must publish alongside the Balancing Services Annual Report, an executive summary (written by the independent auditor) of the key findings and recommendations from the statement prepared in accordance with C9.12.

C9.14. Where the licensee considers that there are legitimate reasons for not publishing certain information or data as part of the Balancing Services Annual Report, it must seek the Authority's approval to publish a redacted version.

Part D: Procurement Guidelines Statement

C9.15. The licensee must have in place a published Procurement Guidelines Statement setting out all the Balancing Services which it expects to procure and the mechanisms it has established or intends to establish for purchasing them.

C9.16. The licensee must maintain, review and update the Procurement Guidelines Statement in accordance with the governance arrangements in Part I of this condition.

Part E: Balancing Principles Statement

C9.17. The licensee must have in place a published Balancing Principles Statement setting out the principles and criteria by which the licensee will determine, at different times and in different circumstances, which Balancing Services the licensee will use to assist in coordinating and directing the flow of electricity onto and over the National Electricity Transmission System and when the licensee would resort to measures not involving the use of Balancing Services.

C9.18. The Balancing Principles Statement must:

- (a) be consistent with the licensee's duties under legislation and specifically should set out how the licensee considers the principles and criteria identified in that statement are consistent with its duties under sections 163 and 164 of the Energy Act 2023;
- (b) be consistent with the licensee's obligation under paragraphs C1.12 and C1.18 of condition C1 (general principles and minimum standards); and
- (c) evidence how the licensee's Balancing Services procurement aligns with its obligation under paragraph C1.7 of condition C1 (general principles and minimum standards).

C9.19. The licensee must maintain, review and update the Balancing Principles Statement in accordance with the governance arrangements in Part I of this condition.

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Part F: Balancing Services Adjustment Data Methodology

C9.20. Part F of this condition applies where the BSC provides that any Imbalance Price is to be determined (in whole or in part) by reference to the costs and volumes of Relevant Balancing Services.

C9.21. Where this Part F applies, the licensee must:

- (a) have in place a Balancing Services Adjustment Data Methodology;
- (b) from time to time thereafter, when the licensee first buys, sells or acquires any Relevant Balancing Services of a kind or under a mechanism which is not covered by the prevailing Balancing Services Adjustment Data Methodology, promptly seek to establish a revised Balancing Services Adjustment Data Methodology which covers that kind of Balancing Services or mechanisms for buying, selling or acquiring them;
- (c) publish the Balancing Services Adjustment Methodology, and maintain, review and update this document in accordance with the governance arrangements in Part I of this condition; and
- (d) at all times determine and provide (for use under the relevant provisions of the BSC) the costs and volumes of the Relevant Balancing Services in compliance with the prevailing Balancing Services Adjustment Data Methodology, which are to be taken into account in determining Imbalance Price under the BSC.

Part G: System Management Action Flagging Methodology

C9.22. Part G of this condition applies to the extent that the BSC provides that the licensee is required to identify Balancing Services which relate to System Management.

C9.23. Where Part G applies, the licensee must:

- (a) have in place a System Management Action Flagging Methodology;
- (b) publish the System Management Action Flagging Methodology, and maintain, review and update this document in accordance with the governance arrangements in Part I of this condition; and
- (c) at all times thereafter use its reasonable endeavours to identify the Balancing Services which the BSC requires it to identify as relating to System Management in accordance with the prevailing System Management Action Flagging Methodology and provide records (for use under the relevant provisions of the BSC) of those Balancing Services which the BSC requires must be taken into account in determining Imbalance Price.

Part H: Applicable Balancing Services Volume Data Methodology

C9.24. Part F of this condition applies where the BSC provides that any Applicable Balancing Services Volume Data is to be determined (in whole or in part) by reference to the volumes of energy associated with the provision of Applicable Balancing Services.

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C9.25. Where Part F applies the licensee must:

- (a) have in place an Applicable Balancing Services Volume Data Methodology
- (b) publish the Applicable Balancing Services Volume Data Methodology, and maintain, review and update this document in accordance with the governance arrangements in Part I of this condition; and
- (c) at all times determine and provide (for use under the relevant provisions of the BSC) the volumes of Applicable Balancing Services in compliance with the prevailing Applicable Balancing Services Volume Data Methodology, which are to be taken into account in determining Applicable Balancing Services Volume Data under the BSC.

Part I: Governance of Balancing Services statements

C9.26. The licensee must keep all documents specified in Parts D-H under review and promptly update those statements whenever a change is needed to more accurately reflect the intentions of, and methodologies used by, the licensee.

C9.27. Whenever the licensee seeks to establish a new or updated version of the statements specified in Parts D-H, it must:

- (a) Conduct a public consultation with stakeholders, for a period of no less than 28 days, on the changes the licensee proposes to make to the statement(s);
- (b) notify the Authority of the proposed changes to enable the Authority to share any views; and
- (c) where the Authority directs that either one or both of paragraphs C9.27(a) and C9.27(b) must not apply, comply with such other requirements as are specified in the direction.

C9.28. Following any consultation referred to in paragraph C9.27(a) the licensee must consider all representations made by stakeholders and the Authority and publish final versions of the statement(s) on its website within one month of the end of the consultation period.

C9.29. Alongside the publication of the updated statements in paragraph C9.28, the licensee must explain how any representations made by stakeholders during the consultation period have been considered and what changes have been made as a result.

C9.30. Where, for a period of 12 months, the licensee has not issued a consultation under paragraph C9.27(a) seeking to establish a new or updated version of the statements specified in Parts D and E, specifically, the licensee must seek feedback from stakeholders to determine whether any changes may be required to better provide clarity and transparency on the licensees' approach to procuring Balancing Services.

C9.31. The Authority may, where it considers it necessary, direct the licensee to review or change one or more of the statements in Parts D-H in the manner and timeframes specified in the relevant direction letter.

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Part J: Information records and requests

C9.32. The licensee must, unless the Authority otherwise consents, maintain for a period of 6 years:

- (a) particulars of all Balancing Services offered to it;
- (b) particulars of all contracts (other than those in the Balancing Mechanism) for Balancing Services which it entered into;
- (c) particulars of all contracts for Balancing Services entered into by way of the acceptance of a bid or offer in the Balancing Mechanism where the bid or offer was made pursuant to a prior agreement;
- (d) records of all Balancing Services called for and provided; and
- (e) records of quantities of electricity imported and exported across each Electricity Interconnector.

C9.33. The licensee must provide to the Authority such information as the Authority shall request concerning the procurement and use of Balancing Services.

Introduction

~~C9.1. The purpose of this condition is to set out the processes and activities the licensee must undertake for the procurement of Balancing Services, used to assist in coordinating and directing the flow of electricity onto and over the National Electricity Transmission System consistent with the licensee's duties in statute.~~

Part A: ~~Licensee's obligations under this condition~~

~~C9.2. The licensee may consider relevant price and technical differences between persons or classes of persons in its procurement or use of Balancing Services.~~

~~C9.3. Having taken into account relevant price and technical differences, the licensee must not discriminate between any persons or classes of persons in its procurement or use of Balancing Services.~~

~~C9.4. The licensee must prepare the following:~~

- ~~(a) procurement guidelines statement described in Part B of this condition;~~
- ~~(b) balancing principles statement described in Part C of this condition;~~
- ~~(c) Balancing Services Adjustment Data Methodology statement described in Part D of this condition;~~
- ~~(d) System Management Action Flagging Methodology statement described in Part E of this condition;~~
- ~~(e) Applicable Balancing Services Volume Data Methodology statement described in Part F of this condition; and~~
- ~~(f) Balancing Services Annual Report in accordance with Part G of this condition.~~

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Part B: Procurement guidelines statement

~~C9.5. For the preparation of the procurement guidelines statement:~~

- ~~(a) the licensee must at 12 monthly intervals (or such longer period as the Authority may approve) prepare a statement in a form approved by the Authority setting out the kinds of Balancing Services which it may be interested in purchasing in the period until the next statement is due and the mechanisms by which it would envisage purchasing them;~~
- ~~(b) where during the term of the statement referred to in paragraph C9.5(a) the licensee's intentions change regarding the types of services it wishes to purchase, the licensee must review the statement and consider whether any revision to the statement is necessary and promptly seek to establish a revised statement in accordance with the terms of paragraph C9.23 and C9.24.~~

Part C: Balancing principles statement

~~C9.6. The licensee must have in place a statement approved by the Authority setting out (consistently with the licensee's obligation under paragraph C9.3 and consistently with its other duties under the Electricity Act 1989 and the conditions of this licence) the principles and criteria by which the licensee will determine, at different times and in different circumstances, which Balancing Services the licensee will use to assist in coordinating and directing the flow of electricity onto and over the National Electricity Transmission System and when the licensee would resort to measures not involving the use of Balancing Services;~~

~~C9.7. The licensee must, if so directed by the Authority or when any modification should be made to the statement referred to in paragraph C9.6 to more closely reflect the intentions of the licensee but in any event at least once a year, review the statement prepared in accordance with paragraph C9.6 and promptly seek to establish a revised statement approved by the Authority, such revisions to be made in accordance with the terms of paragraphs C9.23 and C9.24.~~

~~C9.8. Where the licensee reviews the statement prepared under paragraph C9.6, the licensee must update the statement to include how the licensee considers the principles and criteria identified in that statement are consistent with its duties under sections 163 and 164 of the Energy Act 2023.~~

Part D: Balancing Services Adjustment Data Methodology statement

~~C9.9. Part D of this condition applies where the BSC provides that any Imbalance Price is to be determined (in whole or in part) by reference to the costs and volumes of Relevant Balancing Services.~~

~~C9.10. Where this Part D applies, the licensee must:~~

- ~~(a) have in place a Balancing Services Adjustment Data Methodology approved by the Authority;~~

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- (b) from time to time thereafter, when the licensee first buys, sells or acquires any Relevant Balancing Services of a kind or under a mechanism which is not covered by the prevailing Balancing Services Adjustment Data Methodology, promptly seek to establish a revised Balancing Services Adjustment Data Methodology approved by the Authority which covers that kind of Balancing Services or mechanisms for buying, selling or acquiring them;
- (c) prepare a statement of the prevailing Balancing Services Adjustment Data Methodology as approved by the Authority; and
- (d) at all times determine and provide (for use under the relevant provisions of the BSC) the costs and volumes of the Relevant Balancing Services in compliance with the prevailing Balancing Services Adjustment Data Methodology, which are to be taken into account in determining Imbalance Price under the BSC.

C9.11. The licensee must, when any modification should be made to the statement referred to in paragraph C9.10(c) to more closely reflect the intentions of the licensee, review the statement prepared in accordance with paragraph C9.10(c) and promptly seek to establish a revised statement approved by the Authority, such revisions to be made in accordance with the terms of paragraphs C9.23 and C9.24.

Part E: System Management Action Flagging Methodology statement

C9.12. Part E of this condition applies to the extent that the BSC provides that the licensee is required to identify Balancing Services which relate to System Management.

C9.13. Where Part E applies, the licensee must:

- (a) have in place a System Management Action Flagging Methodology approved by the Authority;
- (b) prepare a statement of the prevailing System Management Action Flagging Methodology as approved by the Authority; and
- (c) at all times thereafter use its reasonable endeavours to identify the Balancing Services which the BSC requires it to identify as relating to System Management in accordance with the prevailing System Management Action Flagging Methodology and provide records (for use under the relevant provisions of the BSC) of those Balancing Services which the BSC requires must be taken into account in determining Imbalance Price.

C9.14. The licensee must, if so directed by the Authority or when it considers that any modification should be made to the statement referred to in paragraph C9.13(b) to more accurately identify the Balancing Services which relate to System Management, review the statement prepared in accordance with paragraph C9.13(b) and promptly seek to establish a revised statement approved by the

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~~Authority, such revisions to be made in accordance with the terms of paragraphs C9.23 and C9.24.~~

Part F: ~~Applicable Balancing Services Volume Data Methodology statement~~

~~C9.15. Part F of this condition applies where the BSC provides that any Applicable Balancing Services Volume Data is to be determined (in whole or in part) by reference to the volumes of energy associated with the provision of Applicable Balancing Services.~~

~~C9.16. Where Part F applies the licensee must:~~

- ~~(a) have in place an Applicable Balancing Services Volume Data Methodology approved by the Authority;~~
- ~~(b) prepare a statement of the prevailing Applicable Balancing Services Volume Data Methodology as approved by the Authority; and~~
- ~~(c) at all times determine and provide (for use under the relevant provisions of the BSC) the volumes of Applicable Balancing Services in compliance with the prevailing Applicable Balancing Services Volume Data Methodology, which are to be taken into account in determining Applicable Balancing Services Volume Data under the BSC.~~

~~C9.17. The licensee must, when any modification should be made to the statement referred to in paragraph C9.16(b) to more closely reflect the intentions of the licensee, review the statement prepared in accordance with paragraph C9.16(b) and promptly seek to establish a revised statement approved by the Authority, such revisions to be made in accordance with the terms of paragraphs C9.23 and C9.24.~~

Part G: ~~Preparation and publication of a Balancing Services Annual Report~~

~~C9.18. At the end of each Regulatory Year, the licensee must prepare a Balancing Services Annual Report in a form approved by the Authority in respect of the Total Costs the licensee has incurred in that Regulatory Year in relation to Balancing Services.~~

~~C9.19. Within 3 months, beginning with the end of each Regulatory Year, the licensee must submit the Balancing Services Annual Report prepared in accordance with paragraph C9.18 to the Authority and publish the Balancing Services Annual Report on its website as soon as is reasonably practicable.~~

~~C9.20. Where the licensee considers that there are legitimate reasons for not publishing certain information or data on its website in accordance with paragraph C9.19, it must seek the Authority's approval to publish a redacted version.~~

~~C9.21. The report provided to the Authority under paragraph C9.19 must give particulars of:~~

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- ~~(a) the Total Costs incurred for that Regulatory Year, and how the Total Costs have been calculated in respect of the Balancing Services which the licensee has bought or acquired (other than Balancing Services which the licensee has acquired through the mere acceptance of an offer or bid in the Balancing Mechanism, provided such offer or bid was not made pursuant to any prior agreement);~~
- ~~(b) how the Total Costs have been incurred in accordance with the Balancing Services statements prepared in accordance with paragraphs C9.5(a) and C9.6; and~~
- ~~(c) any other analysis or information which the licensee considers to be required to enable the Authority to fully assess the particulars to which the report relates.~~

~~C9.22. The Balancing Services Annual Report must be accompanied by a statement from an independent auditor of internationally recognised standing appointed by the licensee:~~

- ~~(a) confirming that the report is accurate; and~~
- ~~(b) detailing the auditor's independent assessment of the extent to which the licensee has complied with the relevant approved Balancing Services statements prepared in accordance with paragraphs C9.5(a) and C9.6 together with any revision made in accordance with paragraph C9.23.~~

Part H: Governance

~~C9.23. Except where the Authority directs otherwise, before revising the statements prepared in accordance with paragraphs C9.5(a), C9.6, C9.10(c), C9.13(b) and C9.16(b) and each revision thereof the licensee must:~~

- ~~(a) send a copy of the proposed revisions to the Authority and to any person who asks for one;~~
- ~~(b) consult BSC Parties on the proposed revisions and allow them a period of not less than 28 days in which to make representations;~~
- ~~(c) submit to the Authority within 7 days of the close of the consultation period referred to in paragraph C9.23(b) a report setting out the revisions originally proposed, the representations (if any) made to the licensee, and any changes to the revisions; and~~
- ~~(d) where the Authority directs that paragraphs C9.23(a), C9.23(b) and C9.23(c) or any of them must not apply, comply with such other requirements as are specified in the direction.~~

~~C9.24. The licensee must not revise the statements referred to in paragraphs C9.5(a), C9.6, C9.10(c), C9.13(b) and C9.16(b) and each revision thereof until the expiry of 28 days from the date on which the Authority receives the report referred to in paragraph C9.23(c) unless prior to such date the Authority either:~~

- ~~(a) directs the licensee to make the revisions on an earlier date; or~~

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~~(b) directs the licensee not to make the revision.~~

~~C9.25. The licensee must take all reasonable steps to comply with the statement for the time being in force in accordance with paragraph C9.6.~~

~~C9.26. The licensee must send to the Authority a copy of each of the statements and reports prepared in accordance with Part B, Part C, Part D, Part E, Part F, and Part G and of all revisions to any such statements made in accordance with the terms of paragraphs C9.23 and C9.24.~~

~~C9.27. The licensee must:~~

~~(a) publish (in such manner as the Authority may approve from time to time) the statements prepared in accordance with paragraphs C9.5(a), C9.6, C9.10(c), C9.13(b) and C9.16(b) and each revision thereof; and~~

~~(b) send a copy of each statement and report prepared in accordance with Part B, Part C, Part D, Part E, Part F, and Part G or the latest revision of any such statements to any person who requests the same, provided that the licensee must exclude therefrom, so far as is practicable, any matter which relates to the affairs of any person where the publication of that matter would or might seriously and prejudicially affect their interests; and,~~

~~(c) for the purposes of paragraph C9.27(b), the licensee must refer for determination by the Authority any question as to whether any matter would or might seriously and prejudicially affect the interests of any person (unless the Authority consents to the licensee not doing so).~~

~~C9.28. The licensee may make a charge for any copy of a statement, report or revision sent in accordance with paragraph C9.27(b) of any amount reasonably reflecting the licensee's reasonable costs of providing such a copy, which must not exceed the maximum amount specified in directions issued by the Authority for the purpose of this condition.~~

~~C9.29. The licensee must, unless the Authority otherwise consents, maintain for a period of 6 years:~~

~~(a) particulars of all Balancing Services offered to it;~~

~~(b) particulars of all contracts (other than those in the Balancing Mechanism) for Balancing Services which it entered into;~~

~~(c) particulars of all contracts for Balancing Services entered into by way of the acceptance of a bid or offer in the Balancing Mechanism where the bid or offer was made pursuant to a prior agreement;~~

~~(d) records of all Balancing Services called for and provided; and~~

~~(e) records of quantities of electricity imported and exported across each Electricity Interconnector.~~

~~C9.30. The licensee must provide to the Authority such information as the Authority shall request concerning the procurement and use of Balancing Services.~~

Condition C12 Production of information about the National Electricity Transmission System

Introduction

C12.1. The purpose of this condition is to:

- (a) in Part A, set out the licensee's obligations related to the Electricity Ten Year Statement (ETYS);
- (b) in Part B, set out the procedures for revision of the ETYS; and
- (c) in Part C, set out the procedure for a derogation of obligations under this condition.

Part A: Electricity Ten Year Statement

C12.2. In each ~~Financial Year commencing 1 April 2024 and every subsequent~~ Financial Year, the licensee must by 31 January use reasonable endeavours to prepare and publish the ETYS, which is a statement of network development information, ~~in a form approved by the Authority in accordance with paragraph C12.10.~~

C12.3. The ETYS must set out in respect of the current Financial Year and each of the 9 succeeding Financial Years: circuit capacity, forecast power flows and loading on each part of the National Electricity Transmission System and fault levels for each transmission node, together with:

- (a) such further information as is reasonably necessary to enable any person seeking use of the National Electricity Transmission System to identify and evaluate the opportunities available when connecting to and making use of the National Electricity Transmission System;
- (b) a commentary prepared by the licensee indicating those parts of the National Electricity Transmission System most suited to new connections and transport of further quantities of electricity;
- (c) a commentary prepared by the licensee indicating where Major National Electricity Transmission System Reinforcements are likely to be required;
- (d) such further information as may be necessary for: Authorised Electricity Operators, Interconnected System Operators, or any other Transmission System Operator or Distribution System Operator with whose system a Transmission Licensee's Transmission System is connected or with whom the licensee interfaces, to ensure the secure and efficient operation, coordination, development and interoperability of the interconnected system;
- (e) commentary prepared by the licensee indicating how the ETYS is informed by and aligns with the Future Energy Pathways prepared in accordance with condition C15 (Future Energy Pathways); and

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- (f) such other matters as may be specified in directions issued by the Authority from time to time for the purposes of this condition.

C12.4. The licensee must prepare the ETYS in such a form and manner as is necessary to further the Development Information Objectives as set out in paragraph C12.5.

C12.5. In preparing the ETYS, the licensee must use the Future Energy Pathways developed in accordance with condition C15, in a manner that meets the Development Information Objectives. The Development Information Objectives are:

- (a) the licensee's best view of the design and technical characteristics of the development of the National Electricity Transmission System, considering:
 - (i) the development of the National Electricity Transmission System;
 - (ii) the probable capacity, location and timing of the development of onshore and offshore generating stations and Electricity Interconnectors;
 - (iii) the likely location of feasible connection points for new Offshore Transmission Systems to the National Electricity Transmission System;
 - (iv) to the extent that information is available to the licensee, possible routing options for new transmission circuits that might be used to connect generating stations and Electricity Interconnectors in Offshore Waters to the National Electricity Transmission System;
- (b) the licensee's best view of the potential reinforcements to the National Electricity Transmission System that may be required to connect onshore and offshore generating stations and Electricity Interconnectors;
- (c) the licensee's best estimates of the costs associated with connecting onshore and offshore generating stations and Electricity Interconnectors;
- (d) the licensee's best view of other economic and technical factors, to help planning of onshore and offshore generating stations and Electricity Interconnectors; and
- (e) the licensee's best view of the capacity, location and timing of the connection of new Electricity Interconnectors that would facilitate an efficient, economical and coordinated system of electricity. This should take into account the impact on GB wholesale prices, the provision of Ancillary Services, constraint management and other operational considerations.

C12.6. The licensee must include in every ETYS prepared in accordance with paragraphs C12.2 and C12.3 the information required by those paragraphs except that the licensee may, ~~with the prior consent of the Authority,~~ omit from the ETYS any details as to circuit capacity, power flows, loading or other information, disclosure of which would, in the view of the ~~Authority~~ licensee, seriously and prejudicially affect the commercial interests of any Transmission Licensee or any third party.

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Part B: Revision of the ETYS

- C12.7. The licensee must at least once in each ~~Financial Year, commencing 1 April 2025~~ and in every subsequent Financial Year before publication of the ETYS as set out in paragraph C12.2 and in consultation with ETYS Interested Parties, review the most recent ETYS prepared and published in accordance with paragraphs C12.2 and C12.3. ~~The licensee must provide to the Authority, no later than 14 days after it has completed its consultation, copies of all of the responses that it has received to any consultation undertaken in accordance with this paragraph.~~
- C12.8. Following a review of the ETYS pursuant to paragraph C12.7, the licensee must ~~propose to the Authority~~ determine any suggested revisions to the ETYS that it considers would better achieve the Development Information Objectives. ~~Any such revisions must, as appropriate, be included in the licensee's submissions to the Authority in accordance with paragraph C12.10.~~
- C12.9. The licensee must periodically revise (at least once every 6 months) the information set out in the ETYS prepared in accordance with paragraphs C12.2 and C12.3 to ensure that the information set out in the ETYS remains accurate in all material respects.
- C12.10. The licensee must by 1 June in each Financial Year (or by another date as directed by the Authority), notify the Authority of any proposed revisions to the ETYS it intends to make and publish in accordance with paragraph C12.2. Alongside this notification the licensee should include:
- (a) a summary of any responses that it has received to any consultation undertaken in accordance with paragraph C12.7; and
 - (b) an explanation of how the revisions to the ETYS will better achieve the Development Information Objectives.
- C12.11. ~~— The licensee must submit to the Authority for approval the proposed form of the ETYS to be published by no later than by 1 June in each Financial Year commencing 1 April 2025 and every subsequent Financial Year, and any proposed revisions to the form of the ETYS by no later than 1 June in each subsequent Financial Year, or at such other date as directed by the Authority.~~
- C12.12. ~~— The Authority may:~~
- (a) ~~within 28 days of receipt of the licensee's proposals in accordance with paragraph C12.10, advise the licensee that the proposed form of the ETYS or the proposed revisions to the form of the ETYS requires further development; and~~
 - (b) ~~subsequently, following consultation with the licensee and other ETYS Interested Parties, direct the areas in which the licensee shall be required to make revisions to the proposed form of the ETYS and the date by which the licensee shall be required to submit a revised form of the ETYS to the Authority for approval.~~

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- C12.11. ~~If, within 28 days of receipt of the licensee's proposals in accordance with paragraph C12.10, the Authority has not given a direction to the licensee in accordance with paragraph C12.11, the form of the ETYS proposed by the licensee will be deemed to have been approved by the Authority. The Authority may, where it considers it necessary, direct the licensee to review or change the proposed ETYS in the manner and timeframes specified in the relevant direction letter.~~
- C12.12. The licensee must publish the ETYS on its website in such readily accessible form and manner that it considers will facilitate the Development Information Objectives ~~and must give a copy of the ETYS on request and free of charge to any person who asks for one.~~

Part C: Derogations

- C12.13. The licensee may apply to the Authority for a derogation relieving the licensee of its obligations under this condition to such an extent, for such period of time, and subject to such conditions as may be specified by the Authority by direction after consulting the licensee.

Condition C13 The Network Options Assessment (NOA) process and reporting requirements

Introduction

C13.1. The purpose of this condition is to set out the licensee's role in assessing options for the development of the National Electricity Transmission System (including Offshore Wider Works) and Interconnector capacity, including setting out:

- (a) in Part A, the methodology underpinning the NOA Process, along with how this will be approved;
- (b) in Part B, the requirements for the publication of the annual NOA report;
- (c) in Part C, the licensee's obligations regarding the provision of information underpinning the NOA Process;
- (d) in Part D, the role the licensee will play in the early development of options and the circumstances in which the licensee will be required to do so; and
- (e) in Part E, the process for derogations from obligations under this licence condition.

Part A: The NOA methodology and form of the NOA report

C13.2. The licensee must take such steps as are within its power, and it considers may be necessary to enable the NOA Process. In carrying out the NOA Process, the licensee must act in a manner that best ensures transparency and independence.

C13.3. The licensee must, not less than once in each Financial Year (and at such other times as the Authority may direct), develop proposals for the NOA methodology and the form of the NOA report in consultation with interested parties. The consultation must be of such a form and duration as practicable to reasonably allow all interested parties to contribute.

C13.4. Following any consultation in accordance with paragraph C13.3, the licensee must, by 1 August of each Financial Year, or at such other date as directed by the Authority, submit to the Authority for approval the proposed NOA methodology ~~and form of the NOA report~~.

C13.5. Submissions made under paragraph C13.4 must include:

- (a) a detailed explanation of the consultation process undertaken in the development of the NOA methodology ~~and the form of the NOA report~~;
- (b) a summary of views from interested parties and an explanation of how these were taken into account in the development of the NOA methodology ~~and the form of the NOA report~~; and
- (c) copies of any formal responses submitted to the licensee as part of its consultation process.

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C13.6. The Authority will on receipt of a submission under paragraph C13.4:

- (a) approve the proposed NOA methodology ~~and/or form of the NOA report~~; or
- (b) give a direction to the licensee that the NOA methodology ~~and/or form of the NOA report~~ requires further development, and the date by which the licensee is required to submit a revised NOA methodology ~~and/or the form of the NOA report~~ to the Authority for approval.

C13.7. The NOA methodology must be designed to facilitate the effective development of the National Electricity Transmission System, and must include (but need not be limited to):

- (a) the approach used for determining what constitutes Major National Electricity Transmission System Reinforcements;
- (b) the approach (which must be in accordance with paragraph C13.8) used for identifying and assessing options to meet system needs;
- (c) how the licensee will engage with interested parties to share relevant information and how that information will be used to review and revise the NOA methodology; and
- (d) details of the licensee's proposed timetable for updating and consulting on the methodology for the NOA reports.

C13.8. The approach included in the methodology in accordance with paragraph C13.7(b) must include (but need not be limited to):

- (a) the approach used to assess the technical, economic and environmental impacts and risks;
- (b) the approach used for modelling boundary capacity, Offshore Transmission capacity and Interconnector capacity along with assumptions and assessment criteria used;
- (c) the basis for the cost estimate provided for each option.

Part B: The NOA report

C13.9. The licensee must at least once in each Financial Year ~~commencing 1 April 2025 and every subsequent Financial Year~~:

- (a) review the NOA report prepared and published in the previous Financial Year and consider any improvements to better facilitate the effective development of the National Electricity Transmission System; and
- (b) publish an updated NOA report by 31 March or such other date as directed by the Authority ~~in a form approved by the Authority~~. This must be based on and include the latest NOA methodology approved by the Authority in accordance with paragraph C13.6.

C13.10. If, following a submission of the methodology ~~and the form of the NOA report~~ by the date set out in paragraph C13.4, the Authority has not approved or directed further development of the NOA methodology ~~and/or form of the~~

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~~report~~ in accordance with paragraph C13.6 by 1 October, the publication date set out in paragraph C13.9(b) will be treated as amended accordingly. The amendment will equal the number of days between 1 October and receipt of the Authority's approval or direction.

- C13.11. The licensee must publish the NOA report on its website in such readily accessible form and manner that it considers will facilitate effective development of the National Electricity Transmission System, ~~and provide a copy of the NOA report on request, and free of charge, to any person who asks for one.~~
- C13.12. In complying with the requirements of paragraph C13.11, the licensee must have due regard to the need for excluding from the NOA report any information that would or might seriously and prejudicially affect the commercial interests of the owner of that information if published or might be expected to be incompatible with any legislation, rule of law or licence condition. The licensee must provide to the Authority its reasons for any omission of information from the NOA report.
- C13.13. Each NOA report must be produced using the latest available data and in accordance with the methodology established in accordance with Part A, and must, in respect of the Financial Year in which the report is published and each of the 9 succeeding Financial Years:
- (a) set out the licensee's best view of the options for Major National Electricity Transmission System Reinforcements and additional Interconnector capacity that could meet the needs identified in the ETYS and facilitate the effective development of the National Electricity Transmission System, including (but not limited to) any:
 - (i) options for Non Developer-Associated Offshore Wider Works;
 - (ii) options that involve construction of new transmission capacity;
 - (iii) options that do not involve, or involve minimal, construction of new transmission capacity;
 - (iv) options based on commercial arrangements with users to provide Transmission Services and Balancing Services;
 - (v) options that require liaison with a Licensed Distributor on Distribution System solutions;
 - (vi) options recommended previously by the licensee to proceed but which have not been progressed by the Transmission Licensee to which the recommendation was given;
 - (vii) options that cross the boundaries of two or more Transmission Licensee's Transmission Areas; and
 - (viii) options suggested by other interested persons.
 - (b) set out, in accordance with paragraph C13.14, the licensee's best view of the relative suitability of each option or combination of options set out in accordance with paragraph C13.13(a), for facilitating the development of an

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efficient, co-ordinated and economical the National Electricity Transmission System.

- (c) set out the licensee's recommendations on which, if any, of the options set out in accordance with paragraph C13.13(a) should be developed further to facilitate the development of an efficient, co-ordinated and economical the National Electricity Transmission System.
- (d) set out the licensee's best view of which, if any, of the options recommended in accordance with paragraph C13.13(c) comprise assets some or all of which satisfy the criteria in the Criteria Regulations;
- (e) set out the licensee's best view of which, if any, connections (or modifications to existing connections) which arise from applications made for the purposes of condition E12 (Requirement to offer terms), comprise a Network Need (Regulation 4 of the Criteria Regulations) for Wholly New assets (Regulation 5 of the Criteria Regulations), which are separable (Regulation 6 of the Criteria Regulations), and where such applications are:
 - (i) of sufficiently high value (Regulation 8 of the Criteria Regulations), when proposing a Late-Model Tender Exercise, or;
 - (ii) demonstrated to be of consumer benefit (Regulation 7 of the Criteria Regulations) using an analysis agreed with the Authority, when proposing an Early-Model Tender Exercise;
- (f) have regard to interactions with existing agreements with parties in respect of developing the National Electricity Transmission System and changes in system requirements.

C13.14. The licensee's best view, set out in accordance with paragraph C13.13(b), must include (but need not be limited to) the licensee's assessment of the impact of different options on the National Electricity Transmission System and the licensee's ability to coordinate and direct the flow of electricity onto and over the National Electricity Transmission System.

Part C: Provision of information

C13.15. Based on the NOA methodology set out in Part A, the licensee must provide Transmission Licensees and Interconnector Developers, if requested to do so, with:

- (a) information and analysis to support them in their decision-making and development of options to meet system needs as identified in the ETYS. This must include information on the potential for coordination between parties where the licensee's analysis suggests coordination could facilitate the effective development of the National Electricity Transmission System. The licensee must provide this information and analysis in such form and within such timescales as Transmission Licensees and Interconnector Developers may reasonably request and which is necessary to support these parties' decision making and development of options;

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- (b) its assessment of the options that a party is considering for Major National Electricity Transmission System Reinforcements and Electricity Interconnectors, as well as its assessment of any alternative options being considered by other parties. The licensee must provide the assessment in such form and within such timescales as Transmission Licensees and Interconnector Developers may reasonably request, and which is necessary to support these parties' decision making; and
- (c) updated information and analysis to support submissions to the Authority in such form and within such timescales as Transmission Licensees and Interconnector Developers may reasonably request, and which is necessary to support these parties' submissions to the Authority.

C13.16. In complying with the requirements of paragraph C13.15, the licensee must have due regard to the need to exclude from disclosure any information which would or might seriously and prejudicially affect the commercial interests of the owner of that information if disclosed or might be expected to be incompatible with any legislation, rule of law or licence condition. The licensee must provide to the Authority its reasons for any non-disclosure of information.

C13.17. Based on the NOA methodology set out in Part A, the licensee must if requested submit to the Authority the information it has provided to parties under paragraph C13.15. This must include, but need not be limited to, information to support a needs case for a strategic Wider Works output, a Needs Case for Developer-Associated Offshore Wider Works and any Interconnector Developers submission to the Authority. The licensee must also submit any additional information requested by the Authority. The licensee's submissions must be made in timescales consistent with related submissions from other parties to the Authority, and as directed by the Authority.

C13.18. In relation to Electricity Interconnectors, based on the NOA methodology set out in Part A, the licensee must submit to the Authority, within the timescales directed by the Authority, information on:

- (a) the efficiency of the connection choices made by Interconnector Developers, based on the licensee's involvement in assessing different options, including the costs of any necessary reinforcements required to connect Electricity Interconnectors to the National Electricity Transmission System;
- (b) the licensee's assessment of the impact of new Electricity Interconnectors on system operation. This should include costs and benefits relating to provision of security of supply including Ancillary Services, constraint management and other operational factors, which may accrue to the licensee and to consumers; and
- (c) the licensee's assessment of changes in wholesale prices as a result of Interconnector flows and the impact of these changes on GB consumers, generators and Electricity Interconnectors.

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- C13.19. The Authority may direct the licensee to submit information to the Authority, additional to the information provided by the licensee to the Authority, in accordance with paragraphs C13.17 and C13.18, within such timeframe as the Authority may require.

Part D: Early development of options

- C13.20. The licensee must undertake early development (in accordance with paragraph C13.21(b)) of any option which it intends to set out in accordance with paragraph C13.13(a) where early development is not carried out by a Transmission Licensee. Without prejudice to the generality of the first sentence of this paragraph, examples of the types of option for which the licensee may need to undertake early development include:

- (a) those set out in paragraphs C13.13(a)(i) to C13.13(a)(viii), or
- (b) those set out in paragraphs C13.13(d) to C13.13(e).

- C13.21. For the purposes of paragraph C13.20:

- (a) early development may be limited to desktop works; and
- (b) early development must be undertaken in a manner which:
 - (i) enables the licensee to adequately compare, in accordance with paragraph C13.13(b), the options that it sets out in accordance with paragraph C13.13(a);
 - (ii) is consistent with the NOA methodology set out by the licensee in accordance with Part A; and
 - (iii) is transparent.
- (c) early development must be confined to desktop works only for those applications which satisfy the Criteria Regulations set out in paragraphs C13.13(d) to C13.13(e), when proposing an Early-Model Tender Exercise pursuant to paragraph C13.13(e)(ii).

Part E: Derogations

- C13.22. The licensee may apply to the Authority for a derogation relieving the licensee of its obligations under this condition to such an extent, for such period of time, and subject to such conditions as may be specified by the Authority by direction after consulting the licensee.

Condition C17 Centralised Strategic Network Plan**Introduction**

- C17.1. The purpose of this condition is to set out the obligation of the licensee to develop a Centralised Strategic Network Plan (CSNP) and CSNP Methodology, including setting out:
- (a) in Part A, the requirement to create a Centralised Strategic Network Plan;
 - (b) in Part B, the process for issuing and amending the Centralised Strategic Network Plan Guidance;
 - (c) in Part C, the development and approval process for the Centralised Strategic Network Plan Methodology;
 - (d) in Part D, the approval process for the Centralised Strategic Network Plan; ~~and~~
 - (e) in Part E, the publication of the Centralised Strategic Network Plan;
 - (f) in Part F, requirements to report to the Authority on the quality and timeliness of information provided by Transmission Owners; and
 - (g) in Part G, the process for issuing and amending the CSNP Coordination Governance Document.

Part A: Requirement to create a Centralised Strategic Network Plan

- C17.2. The licensee must, in accordance with the CSNP Guidance:
- (a) develop and publish a CSNP Methodology; and
 - (b) develop and publish a Centralised Strategic Network Plan.
- C17.3. In developing the CSNP, the licensee must:
- (a) conduct a whole system strategic assessment of network needs over a rolling 25-year time horizon;
 - (b) evaluate network options for achieving Government net zero targets, identifying and selecting optimal network projects required for delivery in the near term and identifying and selecting a portfolio of potential projects for longer-term requirements;
 - (c) determine whether a holder of a Transmission Licensee License or Transporter License or third party will deliver a project that is identified in paragraph C17.3(b); and
 - (d) monitor and identify solutions for longer-term trends in electricity transmission and gas transmission operability that can be resolved through commercial means, innovation, or network investments.
- C17.4. During the development of the Centralised Strategic Network Plan and in accordance with the CSNP Guidance, the licensee must consult;
- (a) the Authority;

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- (b) persons as set out in the CSNP Methodology; and
- (c) publicly, other parties that might be interested in the development of the Centralised Strategic Network Plan.

C17.5. The consultation in accordance with paragraph C17.4 must be of such a form and duration, as reasonably practicable, to reasonably allow all parties set out in paragraph C17.4 to provide representations.

Part B: Centralised Strategic Network Plan Guidance

C17.6. The Authority may issue and amend the CSNP Guidance by direction.

C17.7. The CSNP Guidance will contain, but not be limited to:

- (a) instructions and guidance on the process, content, and timeframe for publishing the Centralised System Network Plan; and
- (b) instructions and guidance for the process, content, and publication of the CSNP Methodology.

C17.8. Before directing that the CSNP Guidance comes into effect, the Authority will publish:

- (a) the text of the proposed CSNP Guidance; and
- (b) the period during which representations may be made, which will not be less than 28 days.

C17.9. Before directing any amendment to the CSNP Guidance, the Authority will publish:

- (a) a consultation on the text of any amendments to the CSNP Guidance;
- (b) the date on which the Authority intends the amendments to come into effect; and
- (c) the reasons for any amendment.

Part C: The approval process for the CSNP Methodology

C17.10. By 31 December 2025 and by 31 December of every third year thereafter, the licensee must (unless otherwise directed by the Authority) publish the CSNP Methodology.

C17.11. During the development of, and prior to submitting the proposed CSNP Methodology to the Authority pursuant to paragraphs C17.13 and C17.14, the licensee must consult:

- (a) the Authority;
- (b) the Secretary of State; and
- (c) publicly, other parties that might be interested in the development of the CSNP Methodology.

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C17.12. The consultation in accordance with paragraph C17.11 must be of such a form and duration to reasonably allow all parties set out in paragraph C17.11 to provide representations.

C17.13. By 30 September 2025 and by 30 September of every third year thereafter, the licensee must (unless otherwise directed by the Authority) submit to the Authority for approval the proposed CSNP Methodology.

C17.14. Submissions made under paragraph C17.13 must include:

- (a) a detailed explanation of the consultation process undertaken in the development of the CSNP Methodology;
- (b) a summary of views from all parties and an explanation of how these were considered in the development of the CSNP Methodology; and
- (c) copies of any formal responses submitted to the licensee as part of its consultation process.

C17.15. The Authority may on receipt of a submission under paragraph C17.13 either:

- (a) approve the proposed CSNP Methodology; or
- (b) give a direction to the licensee that the CSNP Methodology requires further development, and the date by which the licensee is required to submit a revised CSNP Methodology to the Authority for approval.

Part D: The approval process for the Centralised Strategic Network Plan

C17.16. By 1 June 2027 and by 1 June of every third year thereafter, the licensee must (unless otherwise directed by the Authority) submit to the Authority for approval the proposed CSNP.

C17.17. The Authority may on receipt of a submission under paragraph C17.13 either:

- (a) approve the proposed CSNP; or
- (b) give a direction to the licensee that the CSNP requires further development, and the date by which the licensee is required to submit a revised CSNP to the Authority for approval.

Part E: Publication of the Centralised Strategic Network Plan

C17.18. By 31 December 2027 and by 31 December of every third year thereafter, (unless otherwise directed by the Authority) the licensee must publish the CSNP in accordance with the latest CSNP Methodology (or other date as directed by the Authority) and in a form approved by the Authority as accordance with any relevant requirements set out in the Centralised Strategic Network Plan Guidance).

C17.19. The licensee must publish the Centralised Strategic Network Plan on its website.

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Part F: Requirements on NESO to report on Transmission Owner data and information submissions

C17.20. The licensee must report to the Authority on the quality and timeliness of the data and information submitted by Transmission Owners to the licensee with respect to the CSNP, in accordance with the requirements contained in the CSNP Coordination Governance Document.

Part G: The CSNP Coordination Governance Document

C17.21. The licensee must comply with the CSNP Coordination Governance Document.

C17.22. The Authority will issue and amend the CSNP Coordination Governance Document by direction.

C17.23. The Authority will publish the CSNP Coordination Governance Document issued or amended on the Authority's Website.

C17.24. Before directing that the CSNP Coordination Governance Document comes into effect, the Authority will publish:

- (a) the text of the proposed CSNP Coordination Governance Document;
- (b) the date on which the Authority intends the CSNP Coordination Governance Document to come into effect; and
- (c) the period during which representations may be made on the CSNP Coordination Governance Document, which will not be less than 28 days.

C17.25. Before directing an amendment to the CSNP Coordination Governance Document, the Authority will publish on the Authority's Website:

- (a) the text of the amended CSNP Coordination Governance Document;
- (b) the date on which the Authority intends the amended CSNP Coordination Governance Document to come into effect;
- (c) the reasons for the amendments to the CSNP Coordination Governance Document; and
- (d) the period during which representations may be made on the amendments to the CSNP Coordination Governance Document, which will not be less than 28 days.

Section D: Provision of advice and information

Condition ~~D5~~ Data assurance requirements**Introduction**

~~D5.1. The purpose of this condition is to set out the processes and activities the licensee must undertake to reduce the risk, and subsequent impact and consequences, of any inaccurate or incomplete reporting, or any misreporting, of information to the Authority, and the processes the Authority will follow in issuing and amending the Data Assurance Guidance (DAG).~~

Part A: Obligations as regard data assurance requirements

~~D5.2. The licensee must:~~

- ~~(a) comply with the provisions of the DAG;~~
- ~~(b) where required to provide DAG Data under the provisions of this licence, provide DAG Data which complies with the requirements set out in the DAG;~~
- ~~(c) subject to paragraph D5.3, where required to provide DAG Data under the provisions of this licence, provide accurate and complete DAG Data;~~
- ~~(d) carry out a Risk Assessment in accordance with such provisions and timescales as are specified for that purpose in the DAG, and ensure that it has used its best endeavours to mitigate such risks as it has identified in the Risk Assessment;~~
- ~~(e) if directed by the Authority, procure an independent review of its Data Assurance Activities in accordance with such provisions and timescales as are specified for that purpose in the DAG; and~~
- ~~(f) provide to the Authority, in accordance with such provisions and timescales as are specified for that purpose in the DAG, reports that contain:

 - ~~(i) the results of the licensee's Risk Assessment;~~
 - ~~(ii) a description of the Data Assurance Activities that the licensee intends to undertake concerning expected future DAG Data submissions for the relevant reporting period set out in the DAG;~~
 - ~~(iii) a description of the Data Assurance Activities undertaken by the licensee concerning previously submitted DAG Data for the relevant reporting period set out in the DAG; and~~
 - ~~(iv) if required, the details and results of the independent review procured by the licensee of its Data Assurance Activities.~~~~

~~D5.3. DAG Data provided to the level of accuracy and reliability required under the relevant licence condition will be considered to be accurate and complete for the purposes of this condition.~~

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~~D5.4. The licensee must have in place and maintain appropriate systems, processes, and procedures to enable it to perform its obligations under paragraph D5.2.~~

Part B: Data Assurance Guidance (DAG)

~~D5.5. The Authority will issue and amend the DAG by direction.~~

~~D5.6. The Authority will publish the DAG on the Authority's Website.~~

~~D5.7. The DAG will make provision for any of the following matters:~~

- ~~(a) the DAG Data to which the Risk Assessment applies;~~
- ~~(b) the format (including its form, layout, scope and content) of the Risk Assessment;~~
- ~~(c) the frequency with which and the timescales within which the Risk Assessment is required to be carried out;~~
- ~~(d) the format (including its form, layout, scope and content) of any independent review that may be required of the licensee's Data Assurance Activities and the associated reporting requirements;~~
- ~~(e) the format (including its form, layout, scope and content) of the reporting requirements detailed in paragraph D5.2(f);~~
- ~~(f) the frequency with which and the timescales within which the licensee should report on its Data Assurance Activities to the Authority; and~~
- ~~(g) the time period to which required reports must relate.~~

~~D5.8. The provisions of the DAG will not exceed what is required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the licensee in complying with those provisions relative to the impact on consumers from data reporting errors.~~

~~D5.9. Information requested by the Authority under or in accordance with the requirements of the DAG will not exceed what could be requested from the licensee by the Authority under condition D3 (Provision of information to the Authority).~~

~~D5.10. Before issuing or amending the DAG by direction the Authority will publish on the Authority's Website:~~

- ~~(a) the proposed text of the new or amended DAG;~~
- ~~(b) the date on which the Authority intends the new or amended DAG to come into effect;~~
- ~~(c) the reasons for the new or amended DAG; and~~
- ~~(d) the period during which representations may be made on the new or amended DAG, which will not be less than 28 days.~~

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Part C: ~~Licensee's obligation to carry out a Data Assurance Activity~~

~~D5.11. The licensee must comply with any direction by the Authority requiring the licensee to carry out (or, where appropriate, procure and facilitate the carrying out of) such Data Assurance Activity as may be specified in the direction.~~

~~D5.12. Before issuing a direction under paragraph D5.10 the Authority will publish on the Authority's Website:~~

- ~~(a) the text of the proposed direction;~~
- ~~(b) the date on which the Authority intends the direction to come into effect;~~
- ~~(c) the reasons why it proposed to issue the direction; and~~
- ~~(d) the period during which representations may be made on the proposed direction which will not be less than 28 days.~~

~~D5.13. The direction will set out:~~

- ~~(a) a description of the Data Assurance Activity to be carried out by the licensee (or, where appropriate, by a person nominated by the Authority) for the purpose of ensuring the accuracy and completeness of data provided to the Authority;~~
- ~~(b) if necessary, the steps that must be taken by the licensee to procure and facilitate the carrying out of the activity under paragraph D5.13(a) by any such nominated person;~~
- ~~(c) a description of the DAG Data to which the activity described in the direction must apply;~~
- ~~(d) an explanation of why the Authority requires the licensee to carry out that activity;~~
- ~~(e) any relevant dates by which that activity must be completed; and~~
- ~~(f) the form and content of any information relating to that activity that the licensee must provide to the Authority.~~

Part D: Derogations

~~D5.14. The licensee may apply to the Authority for a derogation relieving the licensee of its obligations under this condition to such extent, for such period of time, and subject to such conditions as may be specified by the Authority by direction after consulting the licensee.~~

Section E: Industry Codes and charging

Section F: Finance and funding arrangements

Condition F1 Expenditure and allowed revenue

Introduction

- F1.1. The purpose of this condition is to establish requirements on the licensee in relation to:
- (a) the licensee's expenditure;
 - (b) the licensee's allocation of Electricity Licence Expenditure and Gas Licence Expenditure; and
 - (c) the total revenue that may be collected by the licensee for a Regulatory Year through Balancing Services Charges.

Part A: Requirements on ISOP expenditure

- F1.2. Unless the Authority consents otherwise, the licensee must only seek to incur expenditure which is for the purposes of carrying out the ISOP Business.
- F1.3. The licensee must, when incurring Internal Expenditure in a Regulatory Year, ensure that it can demonstrate that it has had regard to any relevant Plan Determination made by the Authority in accordance with condition G1 (Business Plan), including but not limited to, any determination by the Authority that the licensee must:
- (a) deliver a specific activity or set of activities at a different cost than proposed by the licensee in its Business Plan; or
 - (b) not carry out an activity at all.
- F1.4. The licensee must take all reasonable steps to ensure that it incurs no expenditure which is demonstrably uneconomical, wasteful or inefficient, provided that for these purposes:
- (a) behaviours of the licensee which might lead to expenditure, which is demonstrably uneconomical, wasteful or inefficient include (without limitation):
 - (i) an active commitment to expenditure which serves no evident purpose or benefit for carrying out the ISOP Business;
 - (ii) an active commitment to expenditure which is evidently excessive considering the other options available to the licensee;
 - (iii) a failure to keep regular expenditure under review which, as a consequence, means the licensee is unable to identify where action is required to better allocate its resources and mitigate the risk of excessive future expenditure;
 - (iv) a failure to act in reasonable timeframes in response to situations where there is known risk of excessive expenditure materialising;
 - (v) a failure to assess the economic value of alternative options, or have regard to the relative impact on energy consumers of alternative options, before committing to Material Investments;

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- (vi) a failure to follow robust decision-making and governance processes for Material Investments;
- (vii) a failure to have robust processes for procuring services from external providers;
- (viii) a failure to manage and oversee the delivery of services by an external provider or take action to address inadequate service provision; and
- (ix) where reckless or irrational actions of the licensee have caused successful legal awards against the licensee;
- ~~(b) expenditure that is in line with policies (such as staff remuneration, travel and expenses) approved by the Authority will not be considered as uneconomical, inefficient or wasteful; and~~
- (b) economy, efficiency and wastefulness will be considered on the basis of the knowledge and the information that should have been reasonably available to the licensee at the time of incurring the expenditure.

- F1.5. The Authority may issue a Cost Efficiency Notice to the licensee where the Authority considers it requires further information in relation to the licensee's compliance with paragraph F1.4 in relation to a specified activity or a specified expenditure.
- F1.6. As soon as reasonably practical after receiving a Cost Efficiency Notice, the licensee must share with the Authority a written explanation for how it has met its obligations under paragraph F1.4 for the activities or expenditure stated by the Authority in the Cost Efficiency Notice.
- F1.7. The Authority may also request that the licensee submits to it a Cost Efficiency Plan containing the information in paragraph F1.8.
- F1.8. As soon as reasonably practical after receiving a request from the Authority under paragraph F1.7, the licensee must submit to the Authority a Cost Efficiency Plan, which must outline in writing any actions or measures the licensee is taking to ensure compliance with its obligations under paragraph F1.4 for a specified activity or for specified expenditure, at all times from the point of the submission.

Part B: Allocation of revenues between licences

- F1.9. The licensee must use best endeavours to ensure there is no double recovery of expenditure through Balancing Services Charges under Part C of this condition and through charges under condition F1 (Gas revenue calculations and notification process) of the Gas System Planner Licence, by allocating its total expenditure as either Electricity Licence Expenditure or Gas Licence Expenditure.
- F1.10. By no later than 31 October 2024, or another date agreed with the Authority, the licensee must submit to the Authority a Total Cost Allocation Methodology that sets out the principles and procedures for how the licensee will allocate its

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total expenditure as either Electricity Licence Expenditure or Gas Licence Expenditure.

F1.11. On receipt of the proposed Total Cost Allocation Methodology provided for in paragraph F1.10, or any proposed revision, as provided for in paragraph F1.13, the Authority will:

- (a) approve the Total Cost Allocation Methodology and notify the licensee of approval; or
- (b) give a direction to the licensee that the Total Cost Allocation Methodology requires further development and the date by which the licensee is required to submit a revision to the Authority for approval.

F1.12. Following the Authority's approval under paragraph F1.11, the licensee must:

- (a) unless the Authority otherwise consents or directs, at all times comply with the Total Cost Allocation Methodology;
- (b) at least once in every 12 months, or at such other interval as the Authority may direct, review the Total Cost Allocation Methodology and revise it as necessary, including when circumstances change such that the methodology would no longer lead to a reflective allocation of Electricity Licence Expenditure and Gas Licence Expenditure.

F1.13. The licensee must submit any revisions made to the Total Cost Allocation Methodology to the Authority and any revisions will only become effective once the Authority has approved them, in accordance with paragraph F1.11.

F1.14. The licensee must publish a copy of the Total Cost Allocation Methodology and each revision on its website within a period of 15 Working Days beginning with the date of its approval by the Authority.

Part C: Total allowed revenue

F1.15. The licensee must set Balancing Services Charges in a manner calculated to ensure it does not make or incur a lasting financial profit or loss (which for these purposes does not include financial surpluses and deficits resulting from differences between the licensee's collected revenues from previously forecasted ESO Allowed Revenue and final ESO Allowed Revenue), excluding:

- (a) revenue collected with respect to RAV Returns; and
- (b) any charge adjustments needed to reflect financial surpluses or deficits that arose under the Transmission Licence held by the licensee immediately prior to the designation of the ISOP and this licence coming into effect.

F1.16. The licensee must, when setting Balancing Services Charges, use best endeavours to ensure that revenue collected from such charges for the Regulatory Year (after deduction of value added tax (if any) and any other taxes charged directly by reference to the amounts so collected) is consistent with its most recent forecast of the ESO Allowed Revenue term ($ESOAR_t$) derived in accordance with the following formula:

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$$ESOAR_t = INT_t + EXT_t + RTN_t$$

Where:

- INT_t has the value derived in accordance with Part D.
 EXT_t has the value derived in accordance with Part E.
 RTN_t has the value derived in accordance with Part F

Part D: Internal Expenditure

F1.17. The value of INT_t is derived in accordance with the following formula:

$$INT_t = INTE_t + INTADJ_t$$

Where:

- $INTE_t$ means all Internal Expenditure incurred by the licensee and is derived in accordance with paragraph F1.18.
 $INTADJ_t$ means adjustments to charges to reconcile differences between charges set for forecast Internal Expenditure and actual Internal Expenditure and is derived in accordance with paragraph F1.21.

F1.18. The value of $INTE_t$ is derived in accordance with the following formula:

$$INTE_t = ETE_t + OSC_t - OR_t + LEG_t + OA_t$$

Where:

- ETE_t means all expenditure incurred by the licensee in undertaking its business, excluding Gas Licence Expenditure, External Expenditure and any expenditure recovered under OSC_t .
 OSC_t means other specific cost categories and is derived in accordance with paragraph F1.19.
 OR_t means net revenues received by the licensee separately from Balancing Services Charges or Transmission Network Charges, including but not limited to the Administration Allowance derived under condition F8 (Assistance for Areas with High Distribution Costs Scheme (AAHDCS)) and other net revenues received for services provided by the licensee for the specific benefit of any third party.
 LEG_t means adjustment to charges in relation to Legacy Revenues and is calculated in line with the method in the NESO Financial Handbook.
 OA_t means the amount needed to adjust charges to ensure the licensee discharges its obligations in accordance with paragraph F1.15.

[In the formula in condition F1.19 “ $NIAE_t$ ” will be replaced with “ NIA_t ”]

F1.19. The value of OSC_t is derived in accordance with the following formula:

$$OSC_t = \cancel{NIAE_t} NIA_t + TAX_t + SOBD_t + FSONG_t + FPEN_t + ESOL_t$$

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Where:

- $NIAE_t$ means ~~Total NIA Expenditure~~ the combined expenditure on RIIO-3 NIA Projects and Eligible CNIA Projects and is subject to the requirements in the RIIO-2 NIA Governance Document and calculated in accordance with Part A of condition F2 (Innovation Funding).
- TAX_t means the corporation tax amount to be recovered in line with the requirements in the NESO Financial Handbook.
- $SOBD_t$ means the aggregate value of SO Bad Debt that has been incurred by the licensee and is derived in accordance with paragraph F1.20.
- $FSONG_t$ means the payments from the licensee to National Grid plc or its Affiliates or Related Undertakings for FSO Transition Activities which are in accordance with condition F10 (ISOP implementation funding).
- $FPEN_t$ means the aggregate value of financial fines, penalties, settlements or damages paid as a result of claims (or any similar action) by third parties or through enforcement action by the Authority or any other governmental or regulatory agency, where this results in a financial deficit the licensee needs to recover in order to meet its obligations pursuant to paragraph F1.15.
- $ESOI_t$ means net interest amounts, bank charges or working capital fees incurred by the licensee in line with the guidance in the NESO Financial Handbook.

F1.20. The value of $SOBD_t$ is derived in accordance with the following formula:

$$SOBD_t = SOBDA_t - SORBD_t$$

Where:

- $SOBDA_t$ means the aggregate value of SO Bad Debt the licensee has incurred or expects to incur with respect to Balancing Services Charges owed to the licensee by one or more Defaulting Connection and Use of System Code Parties; and
- $SORBD_t$ means the aggregate value of SO Bad Debt previously recovered by the licensee via the $SOBDA_t$ term, where the licensee has received payment through either the Defaulting Connection and Use of System Code Party or been credited by the administrator or liquidator of a Defaulting Connection and Use of System Code Party.

F1.21. The value of $INTADJ_t$ is derived in accordance with the following formula:

$$INTADJ_t = INT_{t-1} - INT_{t-1}^*$$

Where:

- INT_t has the meaning in paragraph F1.17.
- INT_t^* means the total revenue allocated to Internal Expenditure in line with the licensee's published NESO Financial Model.

Part E: External Expenditure

F1.22. The value of EXT_t is derived in accordance with the following formula:

$$EXT_t = EXTE_t + EXTK_t$$

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Where:

$EXTE_t$ means all External Expenditure incurred by the licensee as derived in accordance with paragraph F1.23.

$EXTK_t$ means adjustments to charges to reconcile differences between revenue collected through Balancing Services Charges and actual ESO Allowed Revenue, excluding adjustments made under $INTADJ_t$ and $RTNADJ_t$, as derived in accordance with paragraph F1.25.

F1.23. The value of $EXTE_t$ is derived in accordance with the following formula:

$$EXTE_t = BS_t - OM_t + SOTO_t$$

Where:

BS_t means total net expenditure the licensee has incurred for the procurement of Balancing Services, excluding any expenditure recoverable under $SOTO_t$.

OM_t means the amount received through agreements with a Supplier or Network Operator to support the stability of a User System minus the costs of providing such services.

$SOTO_t$ means total costs of payments to Transmission Owners and Offshore Transmission Owners for Outage Changes and Commercial Operational Services.

F1.24. The licensee must notify the Authority in writing if it considers that either the cost of an individual project which is part of Commercial Operational Services, or the total cost of Commercial Operational Services across all Transmission Owners and Offshore Transmission Owners during any Regulatory Year, should be or will be greater than the SO-TO Commercial Threshold. The notification should include:

- (a) a summary of the underlying reasons;
- (b) latest estimates for total expenditure on Commercial Operational Services during the relevant Regulatory Year and (where applicable) cost forecasts for any individual project which is expected to exceed the SO-TO Commercial Threshold;
- (c) confirmation by the licensee that this expenditure is in line with the requirements in the System Owner - Transmission Owner Code;
- (d) an explanation of how expenditure above the SO-TO Commercial Threshold will provide benefits to existing and future energy consumers in Great Britain.

F1.25. The value of $EXTK_t$ is derived in accordance with the following formula:

$$EXTK_t = EXT_{t-1} - REVC_{t-1}$$

Where:

EXT_t has the meaning in paragraph F1.22.

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$REVC_t$ means total revenue collected through Balancing Services Charges minus INT_t^* and RTN_t^* .

Part F: Return on capital and depreciation of RAV

F1.26. The value of RTN_t is derived in accordance with the following formula:

$$RTN_t = RTNO_t + RTNADJ_t$$

Where:

$RTNO_t$ means RAV Returns and is calculated in accordance with paragraph F1.27.

$RTNADJ_t$ means adjustments to charges to reconcile differences between charges set for expected RAV Returns and actual RAV Returns as derived in paragraph F1.28.

F1.27. The value of $RTNO_t$ is derived in accordance with the following formula:

$$RTNO_t = DPN_t + (RAV_t \times DR_t)$$

Where:

DPN_t means regulatory depreciation of the ISOP Regulatory Asset Value which is calculated in accordance with the methodology and price indexation approach in the NESO Financial Handbook.

RAV_t means the value of the ISOP Regulatory Asset Value after depreciation and has the value calculated in accordance with the methodology and price indexation approach in the NESO Financial Handbook.

DR_t means the discount rate and is equal to 3.5% in real price terms as applied in accordance with the methodology in the NESO Financial Handbook.

F1.28. The value of $RTNADJ_t$ is derived in accordance with the following formula:

$$RTNADJ_t = RTN_{t-1} - RTN_{t-1}^*$$

Where:

RTN_t has the meaning in paragraph F1.26.

RTN_t^* means the total revenue allocated to RAV Returns in line with the licensee's published NESO Financial Model.

F1.29. The Authority will direct revisions to the ISOP Regulatory Asset Value following implementation of closeout methodologies set out in the NESO Financial Handbook.

Condition F2 Innovation funding

Introduction

F2.1. The purpose of this condition is to establish arrangements for the calculation of revenues with respect to the Network Innovation Allowance (NIA) and Strategic Innovation Fund (SIF), ~~as well as the calculation of legacy revenues under the RIIO-1 Network Innovation Competition (NIC).~~ This includes:

- (a) ~~requirements with respect to~~ the calculation of the licensee's ~~maximum~~ Total NIA Expenditure ($NIAE_t$) ~~and Total CNIA Expenditure ($ECNIA_t$)~~ which ~~feeds~~ ~~feed~~ into the calculation of NIA_t and the ESO Allowed Revenue term in condition F1 (Expenditure and allowed revenue); and
- (b) the processes for the Authority's determination of $SIFF_t$ ~~and $NICF_t$~~ which ~~each feed~~ ~~feeds~~ into the calculation of Maximum Revenue in condition F3 (Recovery of transmission network revenues).

F2.2. The condition also establishes governance documents that make further provision for arrangements relating to the regulation, administration, and governance of the NIA, ~~and SIF and NIC.~~

Part A: Formula for calculating ~~maximum Total NIA Expenditure ($NIAE_t$)~~ the value of NIA_t

F2.3. The value of NIA_t is derived by the following formula:

$$\underline{NIA_t = NIAE_t + ECNIA_t}$$

$NIAE_t$ is Total NIA Expenditure and is subject to the requirements in Part B and the RIIO-3 NIA Governance Document; and

$ECNIA_t$ is Total CNIA Expenditure and is subject to the requirements in Part C.

Part B: ~~Involvement of external stakeholders within the licensee's RIIO-2 NIA Projects~~ Requirements for Total NIA Expenditure ($NIAE_t$)

F2.4. The ~~combined~~ value of $NIAE_t$ ~~the licensee's Total NIA Expenditure and Total Legacy NIA Expenditure~~ over the period from 1 April ~~2021~~2026 until 31 March ~~2026~~2031 is subject to the following cap:

$$\sum_{t=2021/22}^{2025/26} (NIAD_t + LEGNIA_t) \leq TNIA$$

[the existing formula above will be replaced with the following new formula below]:

$$\sum_{t=2026/27}^{2030/31} (NIAD_t) \leq TNIA$$

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where:

$NIAD_t$ is the value of $NIAE_t$ in ~~2018/19~~2025/26 prices and is calculated in accordance with the price indexation approach in the NESO Financial Handbook;

~~$LEGNIA_t$ is the value of Total Legacy NIA Expenditure in 2018/19 prices and is calculated in accordance with the price indexation approach in the Financial Handbook; and~~

$TNIA$ ~~is equal to £46.86m in 2018/19 prices.~~ is equal to a value directed by the Authority after a determination on the licensees' NIA for the RIIO-3 period and is stated in 2024/25 prices.

F2.5. The Authority may direct a new value of $TNIA$ after its initial determination and direction on the licensee's NIA for RIIO-3 (for example, where the licensee can demonstrate through subsequent Business Plans that additional NIA funding would be in the interests of consumers).

F2.6. The licensee must not spend more than 25% of ~~the combined total of Total NIA Expenditure and Total Legacy NIA Expenditure~~ on internal resources over the period from 1 April ~~2021~~2026 until 31 March ~~2026~~2031.

F2.7. All the licensee's RIIO-~~23~~ NIA Projects must involve partnership with at least one external stakeholder, including but not limited to Transmission Licensees, Licensed Distributors, third-party innovators, and academics.

Part C: Requirements for Total CNIA Expenditure ($ECNIA_t$)

F2.8. The total value of $ECNIA_t$ recovered by the licensee must not exceed the Carry-over Network Innovation Allowance (CNIA) which is derived in accordance with paragraphs F2.9 and F2.10.

F2.9. For the period between 1 April 2026 and 30 September 2027 CNIA is derived according to the following formula:

$$CNIA = PTNIA - PNIAE$$

where:

$PTNIA$ is the licensee's cap on expenditure under the RIIO-2 NIA, which is equal to the value of $TNIA$ in the version of this license that was in place as of 31 March 2026, and which is adjusted to current Regulatory Year prices according to the price indexation methodology in the NESO Financial Handbook.

$PNIAE$ is the licensee's cumulative expenditure under the RIIO-2 NIA up until 31 March 2026, which was recovered through the term $NIAE_t$ in the version of this license that was in place as of 31 March 2026,

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and which is adjusted to current Regulatory Year prices according to the price indexation methodology in the NESO Financial Handbook.

F2.10. In respect of any time after 30 September 2027, the value of CNIA is equal to zero.

Part D: ~~Part C:~~ The RIIO-23 NIA Governance Document

F2.11. The licensee must comply with the RIIO-23 NIA Governance Document.

F2.12. The Authority will issue and amend the RIIO-23 NIA Governance Document by direction.

F2.13. The Authority will publish the RIIO-23 NIA Governance Document on the Authority's Website.

F2.14. The RIIO-23 NIA Governance Document will make provision about the regulation, governance and administration of the NIA, including:

- (a) the definition of 'unrecoverable NIA expenditure';
- (b) the eligibility criteria, which RIIO-23 NIA Projects must meet;
- (c) the information that is to be published by the licensee before RIIO-23 NIA Projects can begin;
- (d) the circumstances in which the licensee will require approval from the Authority before beginning a RIIO-23 NIA Project, and the processes and procedures for that approval;
- (e) arrangements for ensuring that learning from RIIO-23 NIA Projects can be captured and disseminated by the licensee to Transmission Licensees and Licensed Distributors;
- (f) the reporting obligations in respect of RIIO-23 NIA Projects (which may include reporting in respect of the funding and the completion of such projects, ~~and the provisions of the RIIO-2 NIA Governance Document~~); and
- (g) arrangements relating to the treatment of intellectual property rights in respect of RIIO-23 NIA Projects.

F2.15. Before directing that the RIIO-23 NIA Governance Document comes into effect, the Authority will publish on the Authority's Website:

- (a) the text of the proposed RIIO-23 NIA Governance Document;
- (b) the date on which the Authority intends the RIIO-23 NIA Governance Document to come into effect; and
- (c) a period during which representations may be made on the content of the RIIO-23 NIA Governance Document, which will not be less than 28 days.

F2.16. Before directing an amendment to the RIIO-23 NIA Governance Document, the Authority will publish on the Authority's Website:

- (a) the text of the amended RIIO-23 NIA Governance Document;

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- (b) the date on which the Authority intends the amended RII0-~~23~~ NIA Governance Document to come into effect;
- (c) the reasons for the amendment to the RII0-~~23~~ NIA Governance Document; and
- (d) a period during which representations may be made on the amendment to the RII0-~~23~~ NIA Governance Document, which will not be less than 28 days.

F2.17. The steps required to issue or amend the RII0-~~23~~ NIA Governance Document may be satisfied by action taken before, as well as by action taken after, this condition comes into effect.

Part E: ~~Part D:~~ Determination of the value of the Strategic Innovation Fund term (SIF_t)

F2.18. The Strategic Innovation Fund term (SIF_t) term is the amount to be recovered by the licensee ~~on behalf of Transmission Licensees and any body administering the SIF~~ as determined by the Authority under paragraph F2.14~~19~~ in relation to:

- (a) the SIF Funding specified for that Regulatory Year; and
- (b) any SIF Funding Return specified for that Regulatory Year.

F2.19. In each Regulatory Year, the Authority will calculate, in accordance with the SIF Governance Document, and then by direction given to the licensee, specify:

- (a) the value of the SIF_t term for the licensee, being the amount (if any) to be recovered by the licensee in order to contribute to its own SIF Funding for that Regulatory Year, as well as that of Transmission Licensees', Licensed Distributors' and any body administering the SIF's, SIF Funding for that Regulatory Year;
- (b) the net amounts that are to be transferred between the licensee, Transmission Licensees, Licensed Distributors and any body administering the SIF in order to ensure that each receives an amount (if any) equal to the proportion of the SIF Funding for that Regulatory Year that is attributable to its Eligible SIF Projects or costs of administering the SIF (adjusted to take into account the amount of any SIF Funding Return); and
- (c) the manner in which and the timescale over which the net amounts referred to in paragraph F2.14~~19~~(b) are to be transferred.

F2.20. The licensee must comply with any direction issued by the Authority under paragraph F2.14~~19~~.

F2.21. The Authority may direct how SIF Returned Project Revenues should be paid to customers through the SIF Funding Return Mechanism, or where the Authority considers it to be appropriate, how they should be retained by the licensee.

Part F: ~~Part E~~ The SIF Governance Document

F2.22. The licensee must comply with the SIF Governance Document.

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F2.23. The Authority will issue and amend the SIF Governance Document by direction.

F2.24. The Authority will publish the SIF Governance Document on the Authority's Website.

F2.25. The SIF Governance Document will make provision about the regulation, governance and administration of the SIF, including:

- (a) the eligibility criteria to be applied by, and information to be provided to, the Authority in relation to the assessment and approval of proposed SIF projects;
- (b) the evaluation criteria against which the funding of proposed SIF projects will be assessed and approved;
- (c) the process and procedures that will be in place for the assessment, approval, and financing of Eligible SIF Projects, including the SIF Funding Mechanism and SIF Funding Return Mechanism;
- (d) arrangements to ensure that relevant matters the licensee has learned from the implementation of Eligible SIF Projects can be captured and disseminated by the licensee to Transmission Licensees and Licensed Distributors;
- (e) the nature of the reporting obligations in respect of Eligible SIF Projects, which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the SIF Governance Document; and
- (f) arrangements relating to the treatment of intellectual property rights including SIF Returned Royalty Income in respect of Eligible SIF Projects.

F2.26. Before directing that the SIF Governance Document comes into effect the Authority will publish on the Authority's Website:

- (a) the text of the proposed SIF Governance Document;
- (b) the date that the Authority intends the SIF Governance Document to come into effect; and
- (c) the time within which representations may be made on the content of the SIF Governance Document, which will not be less than 28 days.

F2.27. Before directing an amendment to the SIF Governance Document, the Authority will publish on the Authority's Website:

- (a) the text of the amended SIF Governance Document;
- (b) the date on which the Authority intends the amended SIF Governance Document to come into effect;
- (c) the reasons for the amendment to the SIF Governance Document; and
- (d) a period during which representations may be made on the amendment to the SIF Governance Document, which will not be less than 28 days.

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~~F2.28. The steps required to issue or amend the SIF Governance Document may be satisfied by action taken before, as well as by action taken after, this condition comes into effect.~~

Part F: Determination of the value of the RIIO-1 Network Innovation Competition term (NICF_t)

~~F2.24. The value of the RIIO-1 Network Innovation Competition term (NICF_t) for the licensee in each Regulatory Year, in accordance with the appropriate provisions set out in the NIC Governance Document, will be calculated by the Authority and then, by direction given to the licensee, Transmission Licensees, and Licensed Distributors specify:~~

- ~~(a) the value of NICF_t for the licensee;~~
- ~~(b) the net amounts that are to be transferred between the licensee, Transmission Licensees and Licensed Distributors in order to ensure that each such licensee receives an amount (if any) equal to the proportion of the NIC Funding for Regulatory Year t that is attributable to its Eligible NIC Projects (adjusted to take into account the amount of any Funding Return); and~~
- ~~(c) the manner in which and the timescale over which the net amounts referred to in paragraph F2.24(b) are to be transferred.~~

~~F2.25. The licensee must comply with any direction issued by the Authority under paragraph F2.24.~~

~~F2.26. The Authority may direct how the Returned Project Revenues should be paid to customers through the Funding Return Mechanism, or, where the Authority considers it to be appropriate, how they should be retained by the licensee.~~

Part G: The NIC Governance Document

~~F2.27. The licensee must comply with the NIC Governance Document.~~

~~F2.28. The Authority will amend the NIC Governance Document by direction.~~

~~F2.29. The Authority will publish the NIC Governance Document on the Authority's Website.~~

~~F2.30. The NIC Governance Document makes and will continue to make provision about:~~

- ~~(a) the process and procedures that will be in place for the assessment, approval, and financing of project funding (where necessary);~~
- ~~(b) arrangements to ensure that relevant matters the licensee has learned from the implementation of Eligible NIC Projects can be captured and disseminated by the licensee to Transmission Licensees and Licensed Distributors;~~

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- ~~(c) the nature of the reporting obligations in respect of such projects (which may include reporting in respect of the funding and the completion of such projects, as well as reporting on compliance with this condition and the provisions of the NIC Governance Document);~~
- ~~(d) arrangements relating to the treatment of intellectual property rights including Returned Royalty Income in respect of Eligible NIC Projects; and~~
- ~~(e) any other matters relating to the governance of the NIC.~~

~~F2.31. Before amending the NIC Governance Document by direction, the Authority will publish on the Authority's website:~~

- ~~(a) the text of the NIC Governance Document;~~
- ~~(b) the date on which the Authority intends the amended NIC Governance Document to come into effect;~~
- ~~(c) the reasons for the amendments to the NIC Governance Document; and~~
- ~~(d) a period during which representations may be made on the amendments to the NIC Governance Document, which will not be less than 28 days.~~

~~F2.32. The steps required to amend the NIC Governance Document may be satisfied by action taken before, as well as by action taken after, this condition comes into effect.~~

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Condition F3 Recovery of transmission network revenues

Introduction

F3.1. The purpose of this condition is to:

- (a) establish the charging restrictions that determine the level of Maximum Revenue that may be recovered by the licensee through Transmission Network Charges; and
- (b) set out the obligations on the licensee in respect of those restrictions.

Part A: Licensee's obligation when setting Transmission Network Charges

F3.2. The licensee must when setting Transmission Network Charges, use best endeavours to ensure that Transmission Network Revenue does not exceed Maximum Revenue.

Part B: Formula for calculating Maximum Revenue (TO_t)

F3.3. The value of Maximum Revenue (TO_t) is derived in accordance with the following formula:

[in the formula below the term $NICF_t$ will be removed]:

$$TO_t = PT_t + DIS_t + TS_t + \cancel{NICF_t} + SIFF_t + LAR_t + ADJ_t$$

where:

PT_t means the allowed pass-through term and is derived in accordance with Part C;

DIS_t means the amount derived as a result of:

- (a) the total amount charged to the licensee in Regulatory Year t by Scottish Hydro Electric Transmission Plc, SP Transmission Plc and National Grid Electricity Transmission Plc in respect of Site-Specific Charges, minus
- (b) the total income received by the licensee in respect of ~~Site-Specific~~ Site-Specific Connection Charges calculated and applied in accordance with the Connection Charging Methodology Statement as set out in Section 14 of CUSC in Regulatory Year t from customers in the respective Transmission Areas of Scottish Hydro Electric Transmission Plc, SP Transmission Plc and National Grid Electricity Transmission Plc;

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TS_t means the amount (for the avoidance of doubt, including any amounts that are treated as capital contribution) derived as a result of:

(a) the total amount charged to the licensee in Regulatory Year t by Scottish Hydro Electric Transmission Plc, SP Transmission Plc, National Grid Electricity Transmission Plc and any Offshore Transmission Owner in respect of Transmission Owner Final Sums minus

(b) an amount equal to the income received by the licensee in Regulatory Year t in respect of users who reduce Transmission Entry Capacity or Developer Capacity or who terminate relevant bilateral agreements for connection access rights to the National Electricity Transmission System in the respective Transmission Areas of each of Scottish Hydro Electric Transmission Plc, SP Transmission Plc, National Grid Electricity Transmission Plc and any Offshore Transmission Owner;

~~$NICF_t$ means any legacy revenues associated with the RHO-1 Network Innovation Competition and is derived in accordance with condition F2 (Innovation funding);~~

SIF_t means the SIF Funding and is derived in accordance with condition F2;

LAR_t means legacy adjustments to revenue and is derived in accordance with paragraph F3.4; and

ADJ_t means adjustments to reflect differences between charges set for Maximum Revenue and actual Maximum Revenue and is derived in accordance with Part D.

F3.4. LAR_t has the value of TRU_t as determined in accordance with Part C of special condition 3A (Restriction of Transmission Network Revenue) of the Transmission Licence held by the licensee as in force on 31 March 2021. For Regulatory Years commencing on or after 1 April 2025, the value of LAR_t is equal to zero.

Part C: Formula for calculating the allowed pass-through term (PT_t)

F3.5. The value of PT_t is derived in accordance with the following formula:

$$PT_t = PTI_t + PTE_t$$

where:

PTI_t means the total value of pass-through items for which the licensee has an annual revenue adjustment responsibility and is calculated in accordance with paragraph F3.6; and

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PTE_t means the total value of pass-through items for which the licensee does not have an annual revenue adjustment responsibility and is calculated in accordance with paragraph F3.8.

F3.6. The value of PTI_t is derived in accordance with the following formula:

$$PTI_t = LF_t + ITC_t + BD_t$$

where:

- LF_t means the net payments made by the licensee under condition F6 (Payments by the licensee to the Authority), including any interest calculated in accordance with paragraph F6.4 of condition F6;
- ITC_t means the amount equal to invoices in respect of participation in the inter-transmission system operator compensation mechanism arising from the participation by Great Britain in the inter-transmission system operator compensation mechanism as provided for in Article 49 of the Electricity Regulation (EU) 2019/943;
- BD_t means the value of bad debt and is derived in accordance with paragraph F3.7.

F3.7. The value of BD_t is derived in accordance with the following formula:

$$BD_t = BDA_t - RBD_t$$

where:

- BDA_t means the aggregate value of Bad Debt the licensee has incurred or expects to incur with respect to Transmission Network Charges owed to the licensee by one or more Defaulting Connection and Use of System Code Party, less the interest income accrued at the default rate set out in the CUSC; and
- RBD_t means the aggregate value of monies received with respect to Bad Debt previously recovered by the licensee via the BDA_t term, where the licensee has received cash through either the Defaulting Connection and Use of System Code Party or through the administrator or liquidator of a Defaulting Connection and Use of System Code Party.

F3.8. The value of PTE_t is derived in accordance with the following formula:

$$PTE_t = Term_t + TSP_t + TSH_t + TNGET_t + TOFTO_t + OFET_t + TICF_t + TICP_t$$

where:

- $Term_t$ means the adjustment equal to the income received (net of any amounts treated as capital contribution) by the licensee in respect of users who reduce Transmission Entry Capacity or Developer Capacity or who terminate relevant bilateral agreements for connection access rights to the National Electricity Transmission System;
- TSP_t means the amount notified to the licensee by SP Transmission Plc or any successor company pursuant to its Transmission Licence;

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- TSH_t means the amount notified to the licensee by Scottish Hydro Electric Transmission Plc or any successor company pursuant to its Transmission Licence;
- $TNGET_t$ means the amount notified to the licensee by National Grid Electricity Transmission Plc or any successor company pursuant to its Transmission Licence;
- $TOFTO_t$ means the total of the amounts notified to the licensee by each Offshore Transmission Owner pursuant to their Transmission Licences;
- $OFET_t$ means the amount equal to the payments made, in total, by the licensee to a Licensed Distributor with respect to charges for use of electricity distribution systems by offshore generating stations connected to those systems via Embedded Transmission Systems;
- $TICF_t$ means the total of the amounts notified to the licensee by each relevant Interconnector Owner pursuant to their electricity Interconnector Licences; and
- $TICP_t$ means the total of the amounts (whether of a positive or of a negative value) notified to the licensee by each relevant electricity interconnector licensee in relation to Relevant Year t pursuant to the conditions in their respective electricity Interconnector Licences.

Part D: Formula for calculating the adjustment term (ADJ_t)

F3.9. The value of ADJ_t is derived in accordance with the following formula:

$$ADJ_t = (TO_{t-1} - TO_{t-1}^* - (PTE_{t-1} - PTE_{t-1}^*)) \times (1 + I_{t-1} + 1.15\%)$$

where:

- TO_t means Maximum Revenue derived in accordance with Part B;
- TO_t^* means Maximum Revenue as most recently forecast and published by the licensee by 1 April of Regulatory Year t ;
- PTE_t has the meaning in paragraph F3.5;
- PTE_t^* means the value of PTE_t most recently forecast and published by the licensee by 1 April of Regulatory Year t ; and
- I_t means the average value of the Reference Variable Rate.

Condition F5 Financial Model and Handbook model and handbook**Introduction**

- F5.1. The purpose of this condition is to set out requirements on the licensee in relation to the NESO Financial Model.
- F5.2. This condition also establishes the NESO Financial Handbook and the process the Authority will follow in issuing and amending the NESO Financial Handbook.

Part A: The NESO Financial Model

- F5.3. The licensee must maintain, update, consult on, and publish the NESO Financial Model, in line with the processes and requirements in this Part and in the NESO Financial Handbook.
- F5.4. The NESO Financial Model must contain the licensee's detailed calculation for its ESO Allowed Revenue term ($ESOAR_t$) for each Regulatory Year, in line with the requirements in condition F1 (Expenditure and allowed revenue) and the NESO Financial Handbook.
- F5.5. The licensee must have in place a robust internal governance process to verify the accuracy of the data, information and calculations contained within the NESO Financial Model. This must include, at a minimum, approval from the licensee's chief financial officer (or an equivalent officer that has overall accountability for delivery of the licensee's financial obligations) prior to the publication or submission of any updated or populated versions of the NESO Financial Model to the Authority.
- F5.6. The Authority may, where it considers it necessary, direct the licensee to review or change the NESO Financial Model (or supporting models or reporting packs for the NESO Financial Model outlined in the NESO Financial Handbook) in the manner and timeframes specified in the relevant letter of direction.
- ~~F5.5. The licensee must send the Financial Model and its calculation of $ESOAR_t$ to the Authority in accordance with the process and timelines stated in the Financial Handbook.~~
- ~~F5.6. Following receipt of the Financial Model, the Authority may give a direction to the licensee that the Financial Model requires specified changes and the date by which the licensee is required to submit a revised version of the Financial Model to the Authority.~~
- ~~F5.7. Following a review of the Financial Model by the Authority and unless directed otherwise, the licensee must publish a final version of the Financial Model each Regulatory Year on its website in accordance with the timelines and requirements stated in the Financial Handbook.~~

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Part B: The NESO Financial Handbook

- F5.7. The licensee must comply with the NESO Financial Handbook.
- F5.8. The Authority will issue and amend the NESO Financial Handbook by direction.
- F5.9. The Authority will publish the NESO Financial Handbook on the Authority's Website.
- F5.10. The NESO Financial Handbook will include provisions about or impose requirements in relation to, but not limited to:
- (a) the methodologies for calculating the revenue terms LEG_t , TAX_t , $ESOI_t$, DPN_t and RAV_t , which each feed into the calculation of ESO Allowed Revenue in condition F1;
 - (b) the closeout methodology in relation to ISOP Regulatory Asset Value;
 - (c) the price indexation methodologies for determining the maximum value of ~~Total NIA Expenditure and Total Legacy NIA Expenditure~~ NIA_t, the SO-TO Commercial Threshold, and any other monetary values which require price indexation;
 - (d) the timelines and processes the licensee should follow ~~when submitting for updating, populating and publishing the NESO Financial Model to the Authority and publishing it on its website;~~
 - (e) defined benefit pension cost recovery and reporting; and
 - (f) any other matters relating to the regulation, governance and administration of the NESO Financial Model and the NESO Financial Handbook.
- F5.11. Before issuing or amending the NESO Financial Handbook, the Authority will publish on the Authority's Website:
- (a) the text of the proposed or amended NESO Financial Handbook;
 - (b) the date on which the Authority intends the NESO Financial Handbook or amended NESO Financial Handbook to come into effect; and
 - (c) a period during which representations may be made on the content of the NESO Financial Handbook, which must be at least 14 days ~~or as agreed with the Authority.~~
- F5.12. ~~After issuing or amending the Financial Handbook, the Authority must:~~
- ~~(a) publish the Financial Handbook on the Authority's Website; and~~
 - ~~(b) ensure that any amendments to Financial Handbook are promptly incorporated into a consolidated version maintained on the Authority's Website.~~
- F5.13. ~~The steps required to issue or amend the Financial Handbook may be satisfied by action taken before, as well as by action taken after, this condition comes into effect.~~

Condition F7 Requirements on staff remuneration and expenses

Remuneration Policy and Expenses Policy

Introduction

- F7.1. The purpose of this condition is to set requirements on the licensee on its approach to staff remuneration and expenses. This includes requirements on the licensee that aim to support alignment between the Authority's performance assessments and the licensees' decisions on Performance-Related Pay for senior staff. This condition also sets requirements on the licensee to publish certain policies and reports that promote transparency on the licensee's approach, decisions and costs with respect to staff remuneration and expenses.

Part A: Requirements on Performance-Related Pay for Applicable Senior Staff

- F7.2. The licensee must ensure that there is a strong relationship between its approach to Performance-Related Pay for Applicable Senior Staff and the performance arrangements established by the Authority pursuant to Condition G2 (Performance reports and assessment). This includes the licensee ensuring the Annual Performance Assessment carried out by the Authority is a material factor in its decisions on Performance-Related Pay for Applicable Senior Staff.
- F7.3. Subject to paragraph F7.2, the Licensee may consider a range of factors when determining Performance-Related Pay for Applicable Senior Staff, but it must ensure that at a minimum it demonstrably considers:
- (a) the grades in the Annual Performance Assessment;
 - (b) the Authority's key findings and reasons for the grades in the Annual Performance Assessment;
 - (c) the views of stakeholders on the licensees' performance, including but not limited to views provided by the Independent Challenge Panel; and
 - (d) the extent to which the individual accountabilities and performance of each Applicable Senior Staff member contributed to the factors in paragraphs F7.3(a), F7.3(b) and F7.3(c).
- F7.4. The licensee must ensure its arrangements for Performance-Related Pay for Applicable Senior Staff create strong incentives on Applicable Senior Staff to promote the licensee's compliance to its license obligations. This includes ensuring that any instances of enforcement action taken by the Authority against the licensee using its statutory enforcement powers are a prominent factor in Performance-Related Pay for Applicable Senior Staff with relevant accountabilities (including through the implementation and, where relevant, execution of effective malus or claw back provisions).

Part B: Confirmation of Performance-Related Pay for Applicable Senior Staff

- F7.5. Prior to authorising any Performance-Related Pay for Applicable Senior Staff, the licensee must notify the Authority in Writing of its provisional decisions on Performance-Related Pay for Applicable Senior Staff, along with a clear

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explanation of how the provisional pay awards are consistent with the requirements in Part A of this condition.

- F7.6. Within 30 days of the receipt of a notification provided by the licensee pursuant to paragraph F7.5, if the Authority is satisfied that the licensee's provisional decisions on Performance-Related Pay are consistent with the requirements of Part A of this condition, the Authority will confirm in Writing that it does not wish to issue a Performance-Related Pay Objection. If the Authority does not respond to the notification within 30 days, then the licensee can consider this as meaning the Authority has no Performance-Related Pay Objection.
- F7.7. Where the Authority is not satisfied that the provisional pay awards for Applicable Senior Staff are consistent with the requirements in Part A of this condition, the Authority will confirm to the licensee in Writing that it has a Performance-Related Pay Objection before the deadline in paragraph F7.6 and state its reasons for the Performance-Related Pay Objection.
- F7.8. Following the receipt of a Performance-Related Pay Objection, the licensee must review its provisional pay awards to address the Authority's concerns and submit a new notification under paragraph F7.5 as soon as reasonably practicable following the Authority's confirmation of a Performance-Related Pay Objection.
- F7.9. The licensee must not award any Performance-Related Pay to Applicable Senior Staff unless, pursuant to paragraph F7.6, either:
- (a) the Authority has confirmed in Writing it is satisfied that the licensee's provisional decisions on Performance-Related Pay are consistent with the requirements of Part A of this condition; or
 - (b) the Authority has not responded within 30 days to the notification provided by the licensee pursuant to paragraph F7.5.

Part C: Transparency on staff remuneration

- F7.10. The licensee must maintain and publish on its website a Remuneration Policy describing the principles, practices, and procedures that the licensee follows when remunerating its employees (including the approach to establishing base salaries, annual salary adjustments, benefit packages, and Performance-Related Pay).
- F7.11. The licensee must keep the Remuneration Policy under review and publish an updated version as soon as reasonably practicable after identifying any changes that are needed to more closely reflect the principles, practices and procedures followed by the licensee.
- F7.12. The licensee must provide transparency on its decisions on Performance-Related Pay for Applicable Senior Staff and the reasoning for these decisions through public end-of-year reporting. This public reporting must as a minimum include:

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- (a) Disaggregated data on the pay awards granted to each Applicable Executive Committee Member, including the values of pay award granted in comparison to the minimum and maximum values available;
- (b) An explanation of the rationale behind the licensee's decisions on performance related pay for each Applicable Executive Committee Member, including an explanation of how the factors in paragraph F7.3 were considered by the licensee;
- (c) Aggregated data on the pay awards granted to Applicable Senior Staff who are not Applicable Executive Committee Members, including the average percentage pay award compared to the average minimum and average maximum values available; and
- (d) A summary explanation of the rationale behind the licensee's aggregate decisions on performance related pay for Applicable Senior Staff who are not Applicable Executive Committee Members, including an explanation of how the factors in paragraph F7.3 were considered by the licensee.

Part D: Requirements with respect to expenditure on travel, expenses and hospitality

- F7.13. The licensee must have in place a robust system of internal governance, procedures and controls that ensure any travel or expenses cost incurred or claimed by its employees, or any expenditure on hospitality:
- (a) has a justified needs-case with respect to the effective operation of the ISOP Business;
 - (b) delivers value for money for energy consumers; and
 - (c) aligns with the relevant expectations established in any formal agreements with the Secretary of State, as well as any published guidance issued from time to time by HM Treasury (or a successor body) outlining the principles, recommendations or guidelines on the use and management of financial resources by public organisations in the United Kingdom.
- F7.14. The licensee must maintain and publish on its website an Expenses Policy which describes the principles, practices, procedures and systems that the licensee follows in relation to expenditure on expenses, travel and hospitality by employees (management and the wider workforce), and when carrying out the ISOP Business.
- F7.15. The licensee must keep the Expenses Policy under review and publish an updated version as soon as reasonably practicable after identifying any changes that are needed to more closely reflect the principles, practices and procedures followed by the licensee.
- F7.16. The licensee must provide transparency on the expenditure it incurs on travel, expenses and hospitality each Regulatory Year through public end-of-year reporting. This public reporting must at a minimum include:

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- (a) Data on the total expenses claimed by each member of the licensee's executive committee over the Regulatory Year, disaggregated into sub-categories which include at a minimum: air travel, rail travel, travel by taxi and car, accommodation, subsistence, and other;
- (b) Data on the cumulative total of staff expenses over the Regulatory Year disaggregated into sub-categories which include at a minimum: travel, accommodation, subsistence, and other; and
- (c) Data on the licensee's cumulative expenditure on hospitality.

Introduction

~~F7.1. The purpose of this condition is to ensure that the licensee has in place and complies with:~~

- ~~(a) a Remuneration Policy (as described in Part B of this condition); and~~
- ~~(b) an Expenses Policy (as described in Part C of this condition);~~

~~that has been approved by the Authority.~~

Part A: Submitting policies for approval

~~F7.2. The licensee must prepare and submit to the Authority:~~

- ~~(a) a Remuneration Policy; and~~
- ~~(b) an Expenses Policy,~~

~~within one month of this condition coming into effect, or such later date with the consent of the Authority.~~

~~F7.3. On receipt of the policies provided for in paragraph F7.2, or any revisions of them as provided for in paragraph F7.4(b), the Authority will:~~

- ~~(a) approve any policy (or any revised version) and notify the licensee of such approval;~~
- ~~or~~
- ~~(b) give a direction to the licensee that the new (or revised) Remuneration Policy and/or Expenses Policy requires further development and the date by which the licensee is required to submit any subsequent revisions to the Authority for approval.~~

~~F7.4. Following the Authority's approval of the policies provided for in paragraph F7.2, the licensee must (unless the Authority otherwise consents or directs):~~

- ~~(a) comply at all times with the Remuneration Policy and the Expenses Policy;~~
- ~~(b) publish the Remuneration Policy and the Expenses Policy on its Website as soon as reasonably practicable after the Authority's approval;~~
- ~~(c) review each of the policies at least every twelve months and revise them as necessary; and~~

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- ~~(d) submit any revisions to the Authority, which will only become effective once the Authority has approved them, in accordance with paragraph F7.3.~~

Part B: Remuneration Policy

~~F7.5. The Remuneration Policy must describe the principles, practices, procedures and systems that the licensee must follow when remunerating its employees, and the policy shall include the following:~~

- ~~(a) the principles the licensee follows when setting remuneration for its employees (for management and the wider workforce);~~
- ~~(b) the approach the licensee takes to annual increases in remuneration for its employees (for management and the wider workforce);~~
- ~~(c) the approach the licensee takes to avoiding any differences in remuneration between protected characteristics under the Equality Act 2010;~~
- ~~(d) the principles and methodologies for awarding performance related remuneration, including how any assessment of the licensee's performance by the Authority (including with respect to arrangements in Part A of condition G2 (Performance reports and assessments)), and any instances of non-compliance with this licence or enforcement actions against the licensee, will be taken into consideration for senior management performance related remuneration;~~
- ~~(e) the principles and methodologies for awarding any other employee benefits; and~~
- ~~(f) the remuneration ratios between senior management and the wider workforce.~~

Part C: Expenses Policy

~~F7.6. The Expenses Policy must describe the principles, practices, procedures and systems that the licensee must follow in relation to the use of, and approval of, expenses by employees (management and the wider workforce) when carrying out business on behalf of the licensee, and the policy shall include the following:~~

- ~~(a) expenses for travel by air, sea, rail, taxi or any other form of transport;~~
- ~~(b) subsistence expenses (for food and drink); and~~
- ~~(c) expenses for staying overnight.~~

Condition F10 ISOP implementation funding

Introduction

F10.1. The purpose of this condition is to establish: ~~(a) the~~ arrangements the licensee must follow to make any payments to National Grid Plc or its Affiliates or Related Undertakings for recovery through the term FSONG_t in condition F1 (Expenditure and allowed revenue);₂

~~(a) requirements on the licensee in respect of the FSO Day 1 Report; and~~

~~(b) the FSO Transition Funding Governance Document and the process the Authority will follow in issuing and amending the FSO Transition Funding Governance Document.~~

Part A: Payments for FSO Transition Activities

F10.2. The licensee may only make payments to 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 FSO Transition Activities ~~carried on or after FSO Day 1~~ if the payments are made under (and in compliance with the terms of):

(a) the Transitional Services Agreement;

(b) the Operational Services Agreement; or

(c) the Day 2 CTA Contract.

F10.3. The licensee must ~~use its best endeavours to establish and maintain~~ the Day 2 CTA Contract ~~as soon as practicable after this condition comes into effect~~ until the final payment to be made under that contract has been made in accordance with the terms of the contract, subject to the requirements in condition F10.5.

F10.4. The licensee must send the Authority, ~~in a timely manner,~~ a copy of ~~the final, legally binding version of the Day 2 CTA Contract along with~~ any updated or amended versions of the Day 2 CTA Contract as soon as reasonably practicable after any amendments are made.

F10.5. The Day 2 CTA Contract, and any amendments to the Day 2 CTA Contract, must meet the requirements set out in any direction issued by the Authority (following consultation with the licensee and National Grid Holdings One plc).

F10.6. The consultation in paragraph F10.5 may be satisfied by action taken before, as well as action taken after, this condition comes into effect.

~~F10.7. The licensee may only make payments to National Grid Holdings One plc in respect of costs incurred by National Grid Holdings One plc for FSO Transition Activities carried out prior to FSO Day 1 if:~~

~~(a) The payment is in compliance with the terms of the legally executed FSO Transition Intragroup Contract which has been approved by the Secretary of State and the Authority;~~

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- ~~(b) The Secretary of State has confirmed that they are satisfied that National Grid Holdings One plc has sufficiently demonstrated that it has taken the necessary actions within its control to achieve or make sufficient progress towards achieving the FSO Day 1 Deliverables, accounting for any changes to the FSO Day 1 Deliverables that are made through the processes set out in the FSO Transition Funding Governance Document;~~
- ~~(c) The value invoiced to the licensee by National Grid Holdings One plc has been approved by the Authority as eligible for recovery according to the FSO NG Cost Recovery Principles set out in the FSO Transition Funding Governance Document; and~~
- ~~(d) The Authority has confirmed that it is satisfied that National Grid Holdings One plc has provided the information the licensee requires to comply with Part D of this condition and any information which was required to comply with Part F of Special Condition 2.15 of the Transmission Licence held by the licensee, immediately prior to this licence having effect.~~

~~F10.8. The Authority may direct the licensee to make a payment of a different value to the amount National Grid Holdings One plc proposes to invoice the licensee for FSO Transition Activities under the FSO Transition Intragroup Contract, including where the Authority has deemed that not all proposed costs are consistent with the FSO NG Cost Recovery Principles.~~

Part B: FSO Transition Intragroup Contract

~~F10.9. The licensee must maintain a FSO Transition Intragroup Contract with National Grid Holdings One plc until the Final Intragroup Contract Payment has been made.~~

~~F10.10. — Following the Final Intragroup Contract Payment being made, the FSO Transition Intragroup Contract may be terminated following the Authority and the Secretary of State confirming in Writing their approval for the termination.~~

~~F10.11. — The FSO Transition Intragroup Contract must meet the requirements set out in the FSO Transition Funding Governance Document and this condition.~~

~~F10.12. — The FSO Transition Intragroup Contract must contain:~~

- ~~(a) A schedule of dates when amounts meeting the conditions in Part A will become payable from the licensee to National Grid Holdings One plc;~~
- ~~(b) Details of the information National Grid Holdings One plc must provide to the licensee to support the licensee's requirements under part C of this condition and any information which was required to comply with Part F of Special Condition 2.15 of the Transmission Licence held by the licensee, immediately prior to this licence having effect; and~~
- ~~(c) Any other required contents set out in the FSO Transition Funding Governance Document.~~

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~~F10.13.——The FSO Transition Intragroup Contract and any amendment to it must be approved by the Authority and the Secretary of State before it is executed.~~

~~F10.14.——Following any approved amendments to the FSO Transition Intragroup Contract, a copy of the amended FSO Transition Intragroup Contract must be provided to the Authority and the Secretary of State within 14 Business Days.~~

~~F10.15.——The licensee must use reasonable endeavours to procure that the FSO Transition Intragroup Contract is amended to comply with any change required by any amendment to the FSO Transition Funding Governance Document.~~

Part C: FSO Day 1 Report

~~F10.16.——The licensee must provide the Authority and Secretary of State with a FSO Day 1 Report, which meets the requirements in paragraph F10.17, by no later than two months following this licence coming into effect, or another date agreed with the Authority.~~

~~F10.17.——The FSO Day 1 Report must contain:~~

- ~~(a) The licensee's expected final values to be recovered through FSOESOA_t, with that term given the meaning in Special Condition 4.2.18 of the Transmission Licence held by the licensee, immediately prior to this licence having effect, and to be recovered through FSONG_t in respect of FSO Transition Activities carried out prior to FSO Day 1;~~
- ~~(b) a final assessment of the licensee's and National Grid Holdings One plc's progress against the FSO Day 1 Delivery Schedule; and~~
- ~~(c) information needed to meet any other requirements relevant to the FSO Day 1 Report set out in the FSO Transition Funding Governance Document.~~

Part D: FSO Transition Funding Governance Document

~~F10.18.——The licensee must comply with the FSO Transition Funding Governance Document.~~

~~F10.19.——The Authority will issue and may amend the FSO Transition Funding Governance Document by direction.~~

~~F10.20.——The Authority will publish the FSO Transition Funding Governance Document and any amendments to it on the Authority's Website.~~

~~F10.21.——The FSO Transition Funding Governance Document may make provision about the arrangements for the recovery of costs for FSO Transition Activities or impose requirements on the licensee related to the recovery of costs for FSO Transition Activities, which may include, but will not be limited to:~~

- ~~(a) the FSO Day 1 Delivery Schedule;~~
- ~~(b) the FSO Transition Activities;~~
- ~~(c) the FSO Transition Intragroup Contract, or any documents associated with the FSO Transition Intragroup Contract;~~

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- ~~(d) the payments made or to be made to National Grid plc or its Affiliates or Related Undertakings in association with FSONG_£;~~
- ~~(e) the FSO NG Cost Recovery Principles;~~
- ~~(f) reporting requirements; and~~
- ~~(g) any other matters relating to the regulation of or arrangements for the recovery of costs for FSO Transition Activities.~~

~~F10.22.—— Before issuing new or amending the FSO Transition Funding Governance Document, the Authority will publish on the Authority's Website:~~

- ~~(a) the text of the proposed or amended FSO Transition Funding Governance Document;~~
- ~~(b) the date on which the Authority intends the FSO Transition Funding Governance Document, or the amendment to it, to come into effect; and~~
- ~~(c) a period during which representations may be made on the content of the FSO Transition Funding Governance Document, which will not be less than 28 days.~~

~~F10.23.—— The steps required to issue or amend the FSO Transition Funding Governance Document may be satisfied by action taken before, as well as by action taken after, this condition comes into effect.~~

Section G: Regulatory reports and assessment

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Condition G1 Business Plan

Introduction

- G1.1. The purpose of this condition is to set obligations on the licensee related to ~~developing a~~ the development of Strategic Aims and Business Plans.
- G1.2. This condition also sets out the process the Authority will follow in issuing and amending the NESO Business Plan Guidance.

Part A: Strategic Aims

- G1.3. The licensee must:
- (a) develop and maintain a set of Strategic Aims; and
 - (b) publish the Strategic Aims on its website.
- G1.4. The Strategic Aims must meet the requirements set out within the NESO Business Plan Guidance.
- G1.5. The licensee must keep the Strategic Aims under review. Where the licensee identifies that the Strategic Aims will be materially inaccurate by the time of the next Business Plan submission, the licensee must seek to update and republish the Strategic Aims in sufficient timescales for the revised Strategic Aims to inform the development of the next Business Plan.
- G1.6. Subject to paragraph G1.5, the licensee must conduct a review of the Strategic Aims with stakeholders at least once every six years.

Part B: Business Plan

- G1.7. Before the start of the Regulatory Year commencing 1 April ~~2025~~2028, and subsequently ~~on an annual basis every two years~~, unless the Authority directs otherwise, the licensee must:
- (a) produce a Business Plan; and
 - (b) publish the Business Plan on its website.
- G1.8. The Business Plan must contain, with respect to the two forthcoming Regulatory Years:
- (a) the licensee's forecast of the total Internal Expenditure that it expects to incur for each of the two Regulatory Years ahead within the Business Plan period;
 - (b) an explanation of and justification for the forecast Internal Expenditure;
 - (c) ~~where and when required by the NESO Business Plan Guidance, a summary of the licensee's key strategic aims in respect of the time period specified in the NESO Business Plan Guidance; and~~
 - (c) ~~a summary of the licensee's key work priorities and major planned deliverables for the Regulatory Year, including how they relate to its latest~~

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~~key strategic aims under the requirements of paragraph G1.4(c) a clear articulation of the major outcomes the licensee is seeking to achieve over the Business Plan period, including an explanation of how those outcomes relate to the licensee's most recent Strategic Aims; and~~

(d) information and measures to explain how the outcomes in paragraph G1.8(c) will be achieved in practice (including a description of the licensee's major planned deliverables and key milestones); and

(e) any other required contents set out in the NESO Business Plan Guidance.

Part C: Stakeholder engagement

G1.9. ~~When~~ Whenever preparing the Business Plan, ~~or whenever materially revising the Strategic Aims,~~ the licensee must engage with relevant stakeholders, in line with the guidance provided in the NESO Business Plan Guidance.

Part D: Authority's review and determination on the Business Plan

G1.10. The licensee must submit the Business Plan, and any other supporting information required by the Authority for review, in line with the process and timelines set out in the NESO Business Plan Guidance.

G1.11. The Authority will assess the Business Plan, and any other supporting information required by the Authority, in line with the process and timelines set out in the NESO Business Plan Guidance.

G1.12. The Authority will publish an annual Plan Determination following its assessment of the Business Plan on the Authority's Website.

G1.13. The Authority's Plan Determination will set out the Authority's views and conclusions on the contents of the Business Plan, including, where relevant, ~~the key strategic aims, activities and costs outlined in the Business Plan~~ any additional or different expectations the Authority considers the licensee should meet over the Business Plan period, in line with the process in the NESO Business Plan Guidance.

Part E: NESO Business Plan Guidance

G1.14. The Authority will issue and amend the NESO Business Plan Guidance by direction.

G1.15. The licensee must comply with the NESO Business Plan Guidance.

G1.16. The Authority will publish the NESO Business Plan Guidance on the Authority's Website.

G1.17. The NESO Business Plan Guidance will include provisions about or impose requirements in relation to:

(a) requirements related to Strategic Aims;

(b) the date for the submission of the Business Plan;

(c) the contents of the Business Plan;

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- (d) the processes for engagement with stakeholders, including any consultations; and
- (e) how the Authority will assess the Business Plan and make a Plan Determination.

G1.18. Before issuing a new or amended NESO Business Plan Guidance, the Authority will publish on the Authority's Website:

- (a) the text of the proposed or amended NESO Business Plan Guidance;
- (b) the date on which the Authority intends the NESO Business Plan Guidance or amended NESO Business Plan Guidance to come into effect; and
- (c) a period during which representations may be made on the content of the NESO Business Plan Guidance, which will not be less than 28 days.

G1.19. After issuing or amending the NESO Business Plan Guidance, the Authority must:

- (a) publish the NESO Business Plan Guidance on the Authority's Website; and
- (b) ensure that any amendments to the NESO Business Plan Guidance are promptly incorporated into a consolidated version maintained on the Authority's Website.

G1.20. The steps required to issue or amend the NESO Business Plan Guidance may be satisfied by action taken before, as well as by action taken after, this condition comes into effect.

Condition G2 Performance reports and assessment

Introduction

- G2.1. The purpose of this condition is to establish the licensee's regulatory performance incentives, including requirements on the licensee in relation to performance reporting and gathering stakeholder feedback, and the arrangements for an assessment of the licensee's performance by the Authority.
- G2.2. This condition also establishes the NESO Performance Arrangements Governance Document and sets out the process the Authority will follow in issuing and amending the NESO Performance Arrangements Governance Document.

Part A: Performance reports, stakeholder feedback and assessment

- G2.3. The licensee must publish, on its website, reports demonstrating its performance carrying out the ISOP Business, including with respect to the achievement of ~~its delivery of its~~ Business Plan outcomes and value for money in expenditure, in line with the requirements in the NESO Performance Arrangements Governance Document.
- G2.4. The licensee must put in place arrangements that enable stakeholders to provide regular and coordinated feedback on the licensee's performance carrying out the ISOP Business, in line with the specific requirements in the NESO Performance Arrangements Governance Document, and it must use reasonable endeavours to ensure these arrangements facilitate feedback from a diverse range of stakeholders.
- G2.5. The Authority will put in place arrangements for the Independent Challenge Panel. These arrangements, including the associated requirements on the licensee, will be set out within the NESO Performance Arrangements Governance Document.
- G2.6. The licensee must engage and cooperate with the Independent Challenge Panel to enable the Independent Challenge Panel to deliver its roles and responsibilities as established in the NESO Performance Arrangements Governance Document.
- G2.7. At the end of each ~~Assessment Period~~ Regulatory Year, the Authority will publish its views ~~of on~~ the licensee's performance over that ~~Assessment Period~~ Regulatory Year, in line with the arrangements in the NESO Performance Arrangements Governance Document.

Part B: The NESO Performance Arrangements Governance Document

- G2.8. The licensee must comply with the NESO Performance Arrangements Governance Document.
- G2.9. The Authority will issue and amend the NESO Performance Arrangements Governance Document by direction.

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G2.10. The Authority will publish the NESO Performance Arrangements Governance Document on the Authority's Website.

G2.11. The NESO Performance Arrangements Governance Document will include provisions about, or impose requirements in relation to:

- (a) reports the licensee must publish on its website to demonstrate its performance in carrying out the ISOP Business (including with respect to its delivery of Business Plan outcomes and its expenditure);
- (b) the process and procedures that will be in place for any assessment of the performance of the licensee by the Authority;
- (c) the requirements the licensee must fulfil as part of any such assessment process;
- (d) how any such assessment of the performance of the licensee will be published by the Authority;
- (e) requirements in relation to licensee gathering feedback from its stakeholders; ~~and~~
- (f) the arrangements for the Independent Challenge Panel, and the licensee's obligations in relation to the Independent Challenge Panel; and
- (g) any other matters relating to the regulation, governance, or administration of the licensee's regulatory performance incentives.

G2.12. Before issuing a new or amended NESO Performance Arrangements Governance Document, the Authority will publish on the Authority's Website:

- (a) the text of the proposed or amended NESO Performance Arrangements Governance Document;
- (b) the date on which the Authority intends the NESO Performance Arrangements Governance Document or amended NESO Performance Arrangements Governance Document to come into effect; and
- (c) a period during which representations may be made on the content of the NESO Performance Arrangements Governance Document, which will not be less than 28 days.

G2.13. The steps required to issue or amend the NESO Performance Arrangements Governance Document may be satisfied by action taken before, as well as by action taken after, this condition comes into effect.

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Condition ~~G3~~ Regulatory Instructions and Guidance (RIGs)

Introduction

~~G3.1. The purpose of this condition is to set out the scope, contents, and governance arrangements for the Regulatory Instructions and Guidance (RIGs).~~

Part A: The RIGs

~~G3.2. The Authority will issue and amend the RIGs by direction.~~

~~G3.3. The Authority will maintain a current version of the RIGs on the Authority's Website.~~

~~G3.4. Subject to paragraphs G3.5 and G3.6, the RIGs will make provision for:~~

- ~~(a) instructions and guidance on the establishment of systems, processes, procedures, and ways for recording and providing Specified Information;~~
- ~~(b) instructions and guidance on the standards of accuracy and reliability that are applicable to the recording of Specified Information (including different classes of such information);~~
- ~~(c) a timetable for the development of such systems, processes, and procedures as are required to achieve such standards;~~
- ~~(d) the methodology for calculating or deriving numbers comprising Specified Information;~~
- ~~(e) provision with respect to the meaning of words and phrases used in defining Specified Information;~~
- ~~(f) requirements as to the form and manner in which, or the frequency with which, Specified Information must be recorded;~~
- ~~(g) requirements as to the form and manner in which, or the frequency with which, Specified Information must be provided to the Authority;~~
- ~~(h) requirements as to which (if any) of the Specified Information is to be subject to audit, the terms on which an auditor is to be appointed by the licensee for that purpose, and the nature of the audit to be carried out by that person;~~
- ~~(i) requirements as to the circumstances in which the Authority may appoint an Examiner to examine the recording of the Specified Information by the licensee;~~
- ~~(j) a statement on whether and to what extent each category of the Specified Information is required for the purposes of the RIGs;~~
- ~~(k) provision about how the Authority intends to monitor, assess, and enforce compliance with the RIGs; and~~
- ~~(l) instructions and guidance on the standards of accuracy and reliability that are applicable to the commentary that supports the information provided~~

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by licensees under the RIGs (to enable the Authority to assess efficiency and delivery of value to consumers).

~~G3.5. The provisions of the RIGs will not exceed what is reasonably required to achieve the purposes of this condition, having regard to the materiality of the costs likely to be incurred by the licensee in complying with those provisions.~~

~~G3.6. No Specified Information will exceed what could be requested from the licensee by the Authority under paragraph D3.2 of condition D3 (Provision of information to the Authority) excluding any reference to paragraph D3.3 of that condition.~~

~~G3.7. Before issuing new RIGs or amending the RIGs the Authority will publish on the Authority's Website:~~

- ~~(a) the proposed text of the new or amended RIGs;~~
- ~~(b) the date on which the Authority intends the new or amended RIGs to come into effect;~~
- ~~(c) the reasons for the new or amended RIGs; and~~
- ~~(d) a period during which representations may be made on the new or amended RIGs which will not be less than 28 days.~~

~~G3.8. The requirements of paragraph G3.7 of this condition may be satisfied by action taken by the Authority before, as well as by action taken after this licence condition comes into effect.~~

Part B: Compliance with the provisions of the RIGs

~~G3.9. The licensee must comply with the RIGs.~~

~~G3.10. The licensee must at all times have in place, comply with, and maintain appropriate systems, processes, and procedures to enable it to:~~

- ~~(a) estimate, measure, and record Specified Information; and~~
- ~~(b) provide Specified Information to the Authority in accordance with the RIGs.~~

~~G3.11. The accounting records and other records kept by the licensee with respect to the Specified Information must be:~~

- ~~(a) separately identified and reasonably attributed as between the ISOP Business and the business of any ISOP Affiliate or ISOP Related Undertaking; and~~
- ~~(b) maintained for a period of eight years, or such shorter period as set out in the RIGs, from the date that they are made.~~

~~G3.12. The licensee must take all reasonable steps to validate and check that the Specified Information is complete, reliable and meets the standards prescribed by the RIGs.~~

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~~G3.13. The licensee must, on or before each submission date, write to the Authority to confirm that, in its opinion, the Specified Information in respect of each Regulatory Year meets the standards prescribed by the RIGs.~~

~~G3.14. This condition does not require the licensee to produce any documents or give any information which it could not be compelled to produce or give in evidence in civil proceedings before a court.~~

Part C: Requirements for new or more detailed information

~~G3.15. The licensee may provide estimates to the Authority in respect of the relevant category of Specified Information for any Regulatory Year specified by the Authority if any new or amended RIGs have the effect of introducing a requirement to provide:~~

~~(a) a new category of Specified Information; or~~

~~(b) an existing category of Specified Information to a greater level of detail,~~

~~which has not previously been collected by the licensee, whether under the provisions of the RIGs or otherwise.~~

~~G3.16. The estimates that are mentioned in paragraph G3.15 of this condition may be derived from such other information available to the licensee as may be appropriate for that purpose.~~

Part D: Derogations

~~G3.17. The licensee may apply to the Authority for a derogation relieving the licensee of its obligations under this condition to such extent, for such period of time, and subject to such conditions as may be specified by the Authority by direction after consulting the licensee.~~