

Response – Reasons and effect – NESO and other impacted licences

Reasons and effects- NESO and other impacted licences

1. Introduction

- 1.1 We are creating the Electricity System Operator (ESO) licence and Gas System Planner (GSP) licence that will be held by Independent System Operator and Planner (ISOP), also known as NESO.
- 1.2 Generally, within the licences NESO is referred to as the ISOP.
- 1.3 This is a follow up to our March 2024 statutory consultation and includes the changes we have made as a result of the responses to that consultation.¹
- 1.4 We are also proposing modifications to other licences where those licences are impacted by the creation of NESO.
- 1.5 Within this document we set out the reasons for why we are creating new licence conditions or making modifications to existing licences, and their intended effect.
- 1.6 The modifications we are making are set out in annexes to this response.

Context of these licence changes

- 1.7 We are creating two new licences for NESO; the ESO licence and GSP licence.
- 1.8 The powers in the Energy Act 2023 will be used to create a licensing scheme for the Secretary of State to direct that the transmission licence held by NGESO is converted, from Day 1², to have effect as an 'electricity system operator' licence held by NESO.
- 1.9 Therefore, the ESO licence consists of both modified existing NGESO licence conditions and wholly new licence conditions. The GSP licence is a fully new licence and all conditions within it are new.

¹ [National Energy System Operator \(NESO\) licences and other impacted licences: statutory consultation | Ofgem](#)

² Day 1 is the effective date of designation of the ISOP.

1.10 We have identified that the following other licences are impacted by the creation of NESO:

- Electricity Transmission Standard Licence Conditions
- National Grid Electricity Transmission plc's Special Conditions
- Scottish Power Transmission Special Conditions
- Scottish Hydro Electric Transmission Special Conditions
- Electricity Generation Standard Licence Conditions
- Electricity Interconnector Standard Licence Conditions
- Electricity Supply Standard License Conditions
- Electricity Distribution Standard Licence Conditions
- All Electricity Distribution Special Conditions (including additional changes to Scottish Hydro Distribution Special Conditions only)
- Smart Meter Communication Licence
- National Gas Transmission plc's (NGT) Gas Transporter Licence (Part C) Special Conditions

1.11 Gas Transporters to whom Standard Special Conditions Part D apply: Gas Transporter Licence Special Conditions

- Gas Transporter Standard Special Conditions (Part A)
- Gas Transporter Standard Licence Conditions

1.12 There are three different types of licence conditions to which we are making changes. We have summarised these below.

Standard Licence Conditions (SLCs)

1.13 SLCs set out the duties and obligations applicable to all holders of a particular type of licence. All transmission and gas distribution licences contain SLCs. The SLCs are grouped into different parts/sections that either apply or do not apply according to the activities carried out by the licence holder.

Standard Special Conditions (SSCs)

1.14 SSCs are similar to SLCs but only apply to NGT and the Gas Distribution Network licensees (GDNs). They are grouped into different parts that either apply, or do not apply, to NGT (Parts A and B) or the GDNs (Parts A and D), according to the activities being carried out by that Licensee.

Special Conditions (SpCs)

- 1.15 SpCs are conditions that apply to a particular licensee (e.g. Gas Transporter Licence Part C for NGT). However, the wording is often the same for all licensees of a particular type.
- 1.16 The NESO ESO and GSP licences only contain SLCs.

2. Electricity System Operator licence

- 2.1 This section sets out the licence conditions in NESO’s ESO licence in the order they appear in that licence. We have set out the purpose of each condition, whether it is new or a based on existing provisions in NGESO’s licence, and the equivalent condition in NESO’s GSP licence if applicable. Where we have indicated that there is an associated document related to the licence condition, we mean an Ofgem owned document.
- 2.2 As mentioned previously, the powers in the Energy Act 2023 are to be used to create a licensing scheme for the Secretary of State to direct that the transmission licence held by NGESO is converted, from Day 1, to have effect as an ‘electricity system operator’ licence held by NESO. We have therefore taken the approach that existing documents published by NGESO that have already been approved by Ofgem would not need to be re-published by NESO on Day 1 and would not require new approval by Ofgem. The proposed licence conditions reflect this assumption where applicable.
- 2.3 In our statutory consultation we published a list of conditions of the current NGESO licence, whether we were planning to include the condition as part of the NESO ESO licence, and the reason for our decision.³ Other than minor changes to some titles of conditions, this remains unchanged.
- 2.4 In drafting the text for these licence conditions, we have applied the drafting principles as set out in the statutory consultation.⁴

Section A: Definitions and interpretation

- 2.5 This section sets out the definitions and interpretation provisions for the licence. This includes the defined terms used in this licence, and provisions to support the

³ See Annex B: [National Energy System Operator \(NESO\) licences and other impacted licences: statutory consultation | Ofgem](#)

⁴ See Annex H: [National Energy System Operator \(NESO\) licences and other impacted licences: statutory consultation | Ofgem](#)

interpretation of licence conditions, clauses and the powers of the Authority in respect of the licence (e.g., in issuing directions).

2.6 This section also sets out the process for making licence modifications for housekeeping changes. This process reflects that which exists across Ofgem’s regulatory regime in the licences of other licensed parties, including NGESO.

A1: Definitions

Condition	A1: Definitions
Purpose	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).
Type of Change	Significant amendment of existing NGESO special licence condition and existing Electricity Transmission (ET) standard licence condition
Existing ET standard condition & NGESO special condition numbers	A1: Definitions and interpretation 1.1 Interpretation and definitions
Equivalent GSP condition	A1: Definitions
Associated document(s)	None

2.7 The reasons for amending the existing conditions are to:

- separate the definitions section from the interpretation section;
- remove defined terms not required for NESO’s ESO licence;
- add new defined terms required for NESO’s ESO licence; and
- amend existing definitions from NGESO’s licence for NESO’s ESO licence.

2.8 The effect of the amendments is to improve the clarity of the licence.

A2: Interpretation

Condition	A2: Interpretation
Purpose	The purpose of this condition is to set out provisions of general interpretation for the conditions of this licence.
Type of Change	Significant amendment of existing NGESO special licence condition and existing ET standard licence condition
Existing ET standard condition & NGESO special condition numbers	A1: Definitions and interpretation 1.1 Interpretation and definitions
Equivalent GSP condition	A2: Interpretation
Associated document(s)	None

2.9 The reasons for amending the existing conditions are to:

- separate the definition section from the interpretation section;
- remove interpretation provisions not required for NESO's ESO licence;
- add new interpretation provisions required for NESO's ESO licence;
- amend existing interpretation provisions from NGESO's licence for NESO's ESO licence; and
- align the interpretation provisions across the ESO and GSP licences.

2.10 The effect of the amendments is to improve the clarity of the licence.

A3: Housekeeping licence modifications

Condition	A3: Housekeeping licence modifications
Purpose	The purpose of this condition is to provide a process for making Housekeeping Modifications to the conditions of this licence.
Type of Change	Minor amendment of existing ET standard licence condition
Existing ET standard condition number	B24: Housekeeping
Equivalent GSP condition	A3: Housekeeping licence modifications
Associated document(s)	None

- 2.11 The reason for amending the existing condition is to modify provisions on housekeeping licence modifications to be appropriate and effective for NESO's ESO licence.
- 2.12 The effect of the amendments is to ensure there is a process for making housekeeping modifications to the conditions of NESO's licences, and to include necessary references to the Energy Act 2023 where appropriate.

Section B: Business Conduct and Independence

- 2.13 This section of the licence relates to licence conditions that provide obligations to ensure NESO's independence from industry, and the conduct of its activities.
- 2.14 There are also licence conditions setting out the requirements and restrictions related to transitional services.
- 2.15 Condition B7 of this licence also introduces provisions on protecting confidential data and confidential information within NESO. This includes ringfencing provisions and obligations on the licensee in respect of disclosure of data, which replaces the previous System Operator Functions Information (SOFI) provisions and EMR ring fence in the ESO Special Conditions.
- 2.16 This section also contains a licence condition related to fair treatment of users of the electricity transmission system which has been carried over from NGESO's licence into the ESO licence.

B1: Independence Requirements and compliance obligations

Condition	B1: Independence Requirements and compliance obligations
Purpose	<p>The purpose of this condition is to establish the Independence Requirements and compliance obligations for the licensee, as follows:</p> <p>Part A sets out the Independence Requirements;</p> <p>Part B sets out the requirements in relation to Sufficiently Independent Directors;</p> <p>Part C sets out the obligations related to Operational Services;</p> <p>Part D sets out the obligations related to Transitional Services;</p> <p>Part E sets out the requirement for an Independence Statement;</p> <p>Part F sets out the obligations for the appointment of a Compliance Officer and compliance reporting; and</p> <p>Part G provides for the licensee to apply for a derogation for relief from its obligations under this condition.</p>
Type of Change	Significant amendment of existing NGESO special licence condition and existing ET standard licence condition
Existing NGESO special and ET standard condition numbers	<p>Sp2.3: Business separation requirements and compliance obligations</p> <p>ET SLC B22: Requirement for sufficiently independent director</p>
Equivalent GSP condition	B1: Independence Requirements and compliance obligations
Associated document(s)	None

- 2.17 The reason for amending the existing conditions is to reflect the new operational model of NESO, including expectations and requirements for enabling its independence.
- 2.18 The effect of amending the existing conditions is to combine and provide clarity on obligations Sufficiently Independent Directors and the independence requirements for NESO.
- 2.19 Note that the relevant sections of NGESO’s licence we used as a basis for the drafting of this condition are:

- Part A: Independence Requirements of the licensee, of this licence condition is based on Part B: Legal and functional separation of the licensee and the Relevant Other Competitive Businesses and the Relevant Regulated Businesses of NGESO special condition 2.3 (Business Separation requirements and compliance obligations);
- Part B: Requirements for non-executive directors to be Sufficiently Independent Directors of this draft licence condition is based on condition B22 (Requirement for sufficiently independent directors) of the electricity transmission standard conditions; and
- Parts D – E of this licence condition are based on Part D: Compliance statement and compliance documents of NGESO special condition 2.3 (Business Separation requirements and compliance obligations)

2.20 Since the statutory consultation we have introduced new drafting to this condition which captures the Operational Services Agreement and the related obligations which were not envisaged at the time of the statutory consultation.

B2: Restriction on activity and financial ringfencing

Condition	B2: Restriction on activity and financial ringfencing
Purpose	The purpose of this condition is to establish the restrictions on activity, shareholdings and other investments of the licensee.
Type of Change	Significant amendment of existing ET standard licence condition
Existing ET standard condition number	B6: Restriction on Activity and Financial Ring Fencing
Equivalent GSP condition	B2: Restriction on activity and financial ring fencing
Associated document(s)	None

2.21 The reason for amending the existing condition is to reflect the new operational and governance model of NESO, and how the performance of its functions is treated in the overall regulatory framework.

2.22 The effect of the amendments is for this condition to provide necessary restrictions on NESO on shareholding, activity and other investments.

B3: Conduct of ISOP Business

Condition	B3: Conduct of ISOP Business
Purpose	The purpose of this condition is to establish the licensee’s obligations in respect of the conduct of its ISOP Business relating to discriminatory and preferential behaviour.
Type of Change	Significant amendment of existing ET standard licence conditions
Existing NGESO special condition numbers	Sp2.6: Prohibited Activities and Conduct of the Transmission Business Sp2.7: Prohibition on engaging in preferential or discriminatory behaviour
Equivalent GSP condition	B3: Conduct of ISOP Business
Associated document(s)	None

- 2.23 The reasons for amending the existing condition are to ensure it reflects NESO’s performance of its functions across the whole system, and the new operational governance model for NESO.
- 2.24 The effect of the amendments is that NESO must conduct its functions and business in a manner best calculated to secure that persons operating across gas and electricity do not obtain any unfair commercial advantage in the circumstances specified by this licence condition, nor does NESO unduly restrict, prevent or distort competition in gas and electricity markets.
- 2.25 Note that the relevant sections of NGESO’s licence we used as a basis for the drafting in this draft licence condition are:
- In Part A: Licensee’s conduct of its ISOP Business, paragraph 2 of this licence condition is adapted from Part B: Conduct of the Transmission Business from NGESO special condition 2.6 (Prohibited Activities and Conduct of the Transmission Business). Paragraph 3 of this licence condition is adapted from Part A: Prohibition on engaging in preferential or discriminatory behaviour of NGESO special condition 2.7 (Prohibition on engaging in preferential or discriminatory behaviour).
 - Part B: Licensee’s records of compliance of this licence condition is adapted from paragraph 2.7.3 of NGESO special condition 2.7 (Prohibition on engaging in preferential or discriminatory behaviour).

B4: Compliance with directions related to national security

Condition	B4: Compliance with directions related to national security
Purpose	The purpose of this condition is to require the licensee to comply with directions issued by the Secretary of State in connection with risks relating to national security.
Type of Change	New licence condition
Equivalent GSP condition	B4: Compliance with directions related to national security
Associated document(s)	None

2.26 The reason for introducing this condition is to establish the policy on NESO responding to directions from the Secretary of State related to national security.

2.27 The effect of this condition is that the licensee will take certain actions when complying with directions from the Secretary of State where there is a risk relating to national security that may detrimentally impact the resilience, safety or security of the energy system, or the continuity of essential services, and it is in the interest of national security that a direction should be issued to NESO.

B5: Prohibition of cross-subsidies

Condition	B5: Prohibition of cross-subsidies
Purpose	The purpose of this condition is to establish restrictions on the provision and receipt of cross-subsidies given by or to the licensee.
Type of Change	Minor amendment of existing ET standard licence condition
Existing ET standard condition number	B5: Prohibition of cross-subsidies
Equivalent GSP condition	B5: Prohibition of cross-subsidies
Associated document(s)	None

2.28 The reason for amending the existing condition is to ensure the prohibition of cross-subsidies is appropriate for NESO’s new operational and governance model.

2.29 The effect of the amendments is that NESO must not give any cross-subsidy to, or receive any cross-subsidy from, an ISOP Affiliate or ISOP Related Undertaking.

B6: Prohibition on discriminating between users

Condition	B6: Prohibition on discriminating between users
Purpose	The purpose of this condition is to set out the prohibition on the licensee on discriminating between users of the National Electricity Transmission System
Type of Change	Minor amendment of existing ET standard licence condition
Existing ET standard condition number	C7: Prohibition on discriminating between users
Equivalent GSP condition	None
Associated document(s)	None

2.30 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.31 The effect of the amendments is to improve the clarity of the licence condition.

B7: Information ringfencing requirements

Condition	B7: Information ringfencing requirements
Purpose	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.
Type of Change	New licence condition
Equivalent GSP condition	B6: Information ringfencing requirements
Associated document(s)	None

2.32 The reason for introducing this condition is to establish the obligations on NESO related to appropriately securing and managing sensitive information related to the performance of certain functions.

2.33 The effect of this condition is that the licensee will identify the data and confidential information it holds that should not be disclosed to persons not engaged with the delivery of the ISOP Business and put in place and maintain a code of conduct governing the disclosure of such information.

Section C: Strategic and Operational Functions

- 2.34 This section contains the licence conditions related to NESO’s strategic and operational functions, including the electricity control centre activities, market activities and network planning activities.
- 2.35 This section contains some existing activities of NGEN where we haven’t proposed significant changes for NESO, conditions that have been amended to reflect the relevant policy decisions, and new conditions to implement the policy.
- 2.36 This section also outlines obligations related to innovation, and includes new conditions related to the new system planning conditions to implement Ofgem’s Centralised Strategic Network Plan (CSNP) decisions and the government’s Strategic Spatial Energy Plan.

C1: General obligations on ISOP’s activities

Condition	C1: General obligations on ISOP’s activities
Purpose	<p>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:</p> <p>in Part A, obligations related to the operation of the National Electricity Transmission System;</p> <p>in Part B, obligations related to transparency and forecasting;</p> <p>in Part C, obligations related to procurement of Balancing Services and developing markets;</p> <p>in Part D, obligations related to coordinated development of the energy system;</p> <p>in Part E, further general obligations;</p> <p>in Part F, set out obligations related to guidance; and</p> <p>in Part G, derogations in respect of non-frequency Balancing Services.</p>
Type of Change	Significant amendment of existing ET standard licence condition.
Existing ET standard condition number	C28: Functions for an efficient, co-ordinated and economic system operator
Equivalent GSP condition	C1: General obligations on ISOP’s activities
Associated document(s)	None

2.37 The reason for amending this condition is to update a number of general obligations currently applicable to NGESO in order to reflect the roles and organisational design of NESO, as well as to bring the condition in line with our NESO licence drafting principles.

2.38 This includes changes to promote compatibility between the general obligations currently in C28 of NGESO’s licence and NESO’s new statutory duties and to generally improve clarity. We have also updated the way guidance is linked to this condition to enable us to further consider the interaction between guidance on obligations and the way we set performance expectations for incentive purposes, as we develop an enduring regulatory model (for example, considering whether the current approach the ESO Roles Guidance needs to change).

- 2.39 The effect of the amendments is to provide clarity on the obligations of the licensee, in carrying out certain activities.
- 2.40 Since the statutory consultation we have added a new paragraph to make the transparency obligations on the licensee clearer, as set out in the response document.

C2: Licensee’s regard to Strategy and Policy Statement

Condition	C2: Licensee’s regard to Strategy and Policy Statement
Purpose	The purpose of this condition is for the licensee to carry out its functions and act in accordance with obligations set out in respect of the Strategy and Policy Statement.
Type of Change	New licence condition
Equivalent GSP condition	C2: Licensee’s regard to Strategy and Policy Statement
Associated document(s)	None

- 2.41 The reason for introducing this licence condition is to set out that NESO must carry out its functions in accordance with obligations related to the Strategy and Policy Statement (SPS).
- 2.42 The effect of this licence condition is to obligate NESO to carry out its functions in accordance with obligations related to the Strategy and Policy Statement.

C3: Digitalisation

Condition	C3: Digitalisation
Purpose	<p>The purpose of this condition is to set out the licensee’s obligations to:</p> <p>In Part A, have and update a Digitalisation Strategy;</p> <p>In Part B, have and update a Digitalisation Action Plan;</p> <p>in Part C, comply with the DSAP Guidance; and</p> <p>in Part D, comply with Data Best Practice Guidance.</p>
Type of Change	Minor amendment of existing NGESO special licence condition
Existing NGESO special condition number	Sp2.11: Digitalisation
Equivalent GSP condition	C3: Digitalisation
Associated document(s)	DSAP Guidance and Data Best Practice Guidance

2.43 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles and remove references to how Ofgem will issue the first instance of the DSAP Guidance and Data Best Practice Guidance which are no longer required since these have already been issued by Ofgem. We have also removed references to the dates by which the Digitalisation Action Plan and Digitalisation Strategy will be published by the licensee since these have already been published.

2.44 The effect of the amendments is to:

- Align the drafting with the equivalent GSP licence condition; and
- Improve the clarity of the licence.

C4: Electricity System Restoration Standard

Condition	C4: Electricity System Restoration Standard
Purpose	The purpose of this condition is to set out the licensee’s obligations relating to the Electricity System Restoration Standard once the licensee has received a direction from the Secretary of State designating the Electricity System Restoration Standard
Type of Change	Minor amendment of existing NGESO special licence condition
Existing NGESO special condition number	Sp2.2: Electricity System Restoration Standard
Equivalent GSP condition	None
Associated document(s)	None

2.45 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.46 The effect of the amendments is to improve the clarity of the licence condition.

C5: Limits on the level to which Transmission Services are provided

Condition	C5: Limits on the level to which Transmission Services are provided
Purpose	The purpose of this condition is to set out the licensee’s obligation relating to the technical levels set out in the System Operator – Transmission Owner Code (STC).
Type of Change	Minor amendment of existing ET standard licence condition
Existing ET standard condition number	C12: Limits on the level to which transmission services are provided
Equivalent GSP condition	None
Associated document(s)	None

2.47 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.48 The effect of the amendments is to improve the clarity of the licence condition.

C6: Licensee’s obligations regarding critical national infrastructure

Condition	C6: Licensee’s obligations regarding critical national infrastructure
Purpose	The purpose of this condition is to ensure the licensee supports the identification of critical national infrastructure and reviews and applies methodologies where the Secretary of State may request.
Type of Change	New licence condition
Equivalent GSP condition	C5: Licensee’s obligations regarding critical national infrastructure
Associated document(s)	None

2.49 The reason for introducing this licence condition is to implement the policy decision that NESO support the identification of critical national infrastructure where requested by the Secretary of State.

2.50 The effect of this condition is that NESO is required to respond to requests received from the Secretary of State to:

- review methodologies for the identification of critical national infrastructure; and
- apply a methodology to identify sites and assets of critical national infrastructure when the Secretary of State requests.

C7: Energy resilience and resilience reporting

Condition	C7: Energy resilience and resilience reporting
Purpose	<p>The purpose of this condition is to set out the licensee's obligations related to:</p> <ul style="list-style-type: none"> in Part A, energy risk and threat advice; in Part B, post-event and post-emergency analysis; in Part C, the licensee's Energy Resilience Assessment Report; in Part D, the licensee's Emergency Processes Assessment; in Part E, the licensee's Industry Readiness and Preparedness Report; in Part F, the provision of reports and confidential information; and in Part G, derogations.
Type of Change	New licence condition
Equivalent GSP condition	C6: Energy resilience and resilience reporting
Associated document(s)	None

- 2.51 The reason for introducing this condition is to reflect the policy for NESO to deliver and perform functions in respect of energy system resilience.
- 2.52 The effect of this condition is to provide the licensee’s obligations in connection with supporting whole system energy resilience and producing regular reports and assessments on energy system risks and resilience.

C8: Electricity Market Reform (EMR) Arrangements

Condition	C8: EMR Arrangements
Purpose	The purpose of this condition is to set out the Weather Correction Methodology.
Type of Change	Major amendment of existing NGESO special licence condition
Existing NGESO special condition number	Sp2.1: EMR Arrangements
Equivalent GSP condition	None
Associated document(s)	None

2.53 The reason for amendments to this condition is to align the drafting in this condition with our Licence drafting principles including clarifying defined terms that appear in this condition. We have also removed the customer and stakeholder satisfaction survey obligations as we plan to cover these in the incentive reporting requirements alongside the other similar survey requirements.

2.54 The effect of the amendments is to improve the clarity of the licence condition and simplify NESO’s customer and stakeholder satisfaction requirements.

C9: Procurement and use of Balancing Services

Condition	C9: Procurement and use of Balancing Services
Purpose	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.
Type of Change	Minor amendment of existing ET standard licence condition
Existing ET standard condition number	C16: Procurement and use of balancing services
Equivalent GSP condition	None
Associated document(s)	None

2.55 The reason for amendments to this condition is to align the drafting in this condition with our Licence drafting principles including clarifying defined terms that appear in this condition.

2.56 The effect of the amendments is to improve the clarity of the licence condition.

C10: Network Access Policy (NAP)

Condition	C10: Network Access Policy (NAP)
Purpose	The purpose of this condition is to set out the requirements upon the licensee to facilitate the development of, and to act consistently with, the Transmission Owners’ NAP.
Type of Change	Minor amendment of existing NGESO special licence condition
Existing NGESO special condition number	Sp2.5: Network Access Policy
Equivalent GSP condition	None
Associated document(s)	None

2.57 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.58 The effect of the amendments is to improve the clarity of the licence condition.

C11: Requirements of a Connect and Manage Connection

Condition	C11: Requirements of a Connect and Manage Connection
Purpose	The purpose of this condition is to set out the requirements on the licensee on receipt of a Connect and Manage Application and in making a Connect and Manage Offer.
Type of Change	Minor amendment of existing ET standard licence condition
Existing ET standard condition number	C26: Requirements of a connect and manage connection
Equivalent GSP condition	None
Associated document(s)	None

2.59 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.60 The effect of the amendments is to improve the clarity of the licence condition.

C12: Production of information about the National Electricity Transmission System

Condition	C12: Production of information about the National Electricity Transmission System
Purpose	The purpose of this condition is to: In Part A, set out the licensee’s obligations related to the Electricity Ten Year Statement (ETYS); in Part B, set out the procedures for revision of the ETYS; and in Part C, set out the procedure for a derogation of obligations under this condition.
Type of Change	Major amendment of existing ET standard licence condition
Existing ET standard condition number	C11: Production of information about the national electricity transmission system
Equivalent GSP condition	None
Associated document(s)	None

2.61 The reasons for amendments to this condition are:

- to provide continuity in the licence for the ETYS obligations ahead of NESO delivering the first Centralised Strategic Network Plan (CSNP) under condition C17 (Centralised Strategic Network Plan);
- to align the drafting in this condition with the Licence drafting principles;
- to remove the requirements for future scenarios we have moved into a new condition C15 (Future Energy Pathways); and
- to ensure that the licensee can be relieved of these obligations if a derogation is granted by the Authority. This, for example, will be considered when ETYS is replaced by the CSNP ensuring there is flexibility in case of any delays to the CSNP.

2.62 The effect of the amendments is to:

- introduce a clause allowing the licensee to be relieved of its obligations under this condition, upon application to the Authority;
- improve the clarity of the licence, and

- remove the requirements for energy supply and demand modelling as they will be covered by a separate licence condition.

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

Condition	C13: The Network Options Assessment (NOA) process and reporting requirements
Purpose	<p>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:</p> <p>in Part A, the methodology underpinning the NOA Process, along with how this will be approved;</p> <p>in Part B, the requirements for the publication of the annual NOA report;</p> <p>in Part C, the licensee’s obligations regarding the provision of information underpinning the NOA Process;</p> <p>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</p> <p>in Part E, the process for derogations from obligations under this licence condition.</p>
Type of Change	Minor amendment of existing ET standard licence condition.
Existing ET standard condition number	C26: Network Options Assessment process and reporting requirements
Equivalent GSP condition	None
Associated document(s)	None

2.63 The reasons for amendments to this condition are:

- to provide continuity in the licence for the NOA obligations ahead of NESO delivering the first Centralised Strategic Network Plan (CSNP) under condition C17 (Centralised Strategic Network Plan);
- to align the drafting in this condition with the Licence drafting principles,

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- to remove the references to the first instance NOA report which has already been issued.
- The effect of the amendments is to improve the clarity of the licence.

C14: Electricity Network Innovation Strategy

Condition	C14: Electricity Network Innovation Strategy
Purpose	The purpose of this condition is to oblige the licensee to work with other parties to develop an Electricity Network Innovation Strategy.
Type of Change	Minor amendment of existing ET standard licence condition
Existing ET standard condition number	B16: Electricity Network Innovation Strategy
Equivalent GSP condition	C9: Gas Network Innovation Strategy
Associated document(s)	None

2.64 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles, including clarifying definitions that only appear in this condition.

2.65 The effect of the amendments is to improve the clarity of the licence condition.

C15: Future Energy Pathways

Condition	C15: Future Energy Pathways
Purpose	<p>The purpose of this condition is to set out the obligations of the licensee to develop Future Energy Pathways and the Future Energy Pathways Methodology, including setting out:</p> <ul style="list-style-type: none"> in Part A, the requirement to create Future Energy Pathways; in Part B, the creation of the Guidance for developing the Future Energy Pathways; in Part C, the process for the issuance and amendment of the Future Energy Pathways Guidance; in Part D, the creation and scope of the Future Energy Pathways Methodology; in Part E, the process for review of the Future Energy Pathways; and in Part F, application to the Authority for a derogation to from obligations in this condition.
Type of Change	Major amendment of existing licence ET standard licence condition
Existing ET standard condition number	C11: Production of information about the national electricity transmission system
Equivalent GSP condition	C10: Future Energy Pathways
Associated document(s)	None

- 2.66 The reason for introducing this condition is to separate out the requirement for NESO to carry out energy supply and demand modelling from ETYS obligations and align the obligations across the ESO and GSP licences.
- 2.67 The effect of this condition is to update the objectives, scope, content, process, and timing of future energy supply and demand modelling. The outputs of the improved modelling requirements will support NESO’s wider network planning and strategic advisor activities.

C16: Strategic Spatial Energy Plan

Condition	C16: Strategic Spatial Energy Plan
Purpose	The purpose of this condition is to establish the licensee’s obligation to produce a Strategic Spatial Energy Plan and a Strategic Spatial Energy Plan Methodology in accordance with the direction Commission issued by the Secretary of State, including setting out: in Part A, the requirement to create a Strategic Spatial Energy Plan; in Part B, the scope and timing of the Strategic Spatial Energy Plan; and in Part C, the requirement to develop the Strategic Spatial Energy Plan Methodology.
Type of Change	New licence condition
Equivalent GSP condition	C11: Strategic Spatial Energy Plan
Associated document(s)	None

- 2.68 The reason for introducing this condition is to set out the obligations in connection with the licensee producing a Strategic Spatial Energy Plan (SSEP) in accordance with a Commission issued by the Secretary of State.
- 2.69 The effect of this condition is to ensure the licensee produces a SSEP to define the optimal mix and location of clean generation and storage to meet GB forecast demand and net zero targets. The outputs of this plan will inform the network infrastructure planning development carried out via the Centralised Strategic Network Plan (condition C17).

C17: Centralised Strategic Network Planning

Condition	C17: Centralised Strategic Network Planning
Purpose	<p>The purpose of this condition is to set out the obligation of the licensee to develop a CSNP and CSNP Methodology, including setting out:</p> <p>in Part A, the requirement to create a Centralised Strategic Network Plan;</p> <p>in Part B, the process for issuing and amending the Centralised Strategic Network Plan Guidance;</p> <p>in Part C, the development and approval process for the Centralised Strategic Network Plan Methodology;</p> <p>in Part D, the approval process for the Centralised Strategic Network Plan; and</p> <p>in Part E, the publication of the Centralised Strategic Network Plan.</p>
Type of Change	New licence condition
Equivalent GSP condition	C12: Centralised Strategic Network Planning
Associated document(s)	None

2.70 The reason for introducing this condition is to set out the obligations in connection with the licensee producing a Centralised Strategic Network Plan (CSNP) in line with Ofgem’s decision on the framework for NESO’s CSNP.⁵

2.71 The effect of this condition is to ensure the licensee produces a CSNP to provide an independent, coordinated approach to wider network planning in GB that considers longer-term requirements and sets out projects that require immediate delivery.

Section D: Provision of advice and information

2.72 This section contains the licence conditions related to NESO’s advice and information activities, including NESO’s duty to provide advice to government and Ofgem, and NESO’s power to request information from other industry parties.

⁵ [Decision on the framework for the Future System Operator’s Centralised Strategic Network Plan | Ofgem](#)

2.73 This section contains existing activities of NGESO, where we haven't proposed significant changes for NESO including the data assurance provisions and requests for information from Ofgem. This also includes requests for information from Ofgem related to offshore electricity transmission.

D1: Provision of ISOP Advice

Condition	D1: Provision of ISOP Advice
Purpose	The purpose of this condition is to set out the licensee's obligations and reporting requirements in connection with the provision of ISOP Advice.
Type of Change	New licence condition
Equivalent GSP condition	D1: Provision of ISOP Advice
Associated document(s)	None

- 2.74 The reason for introducing this condition is to set out the obligations in connection with the licensee providing ISOP Advice under section 171 of the Energy Act 2023.
- 2.75 The effect of this condition is to ensure the licensee has regard to the provisions set out in the Advice Process Document when providing ISOP Advice.
- 2.76 Paragraph D1.5, which mirrors existing obligations in Provision of Information to the Authority conditions in the current licences, has been added to enable the common process where Ofgem plans to summarise information provided by NESO, in this case as part of a request for advice, that there is an obligation on the licensee to provide comment to Ofgem on whether the summary that Ofgem has drafted accurately reflects their views. We have added this provision because we expect Ofgem are likely to need to occasionally summarise larger pieces of advice from NESO as part of Ofgem decision documents.

D2: Information requests by the licensee

Condition	D2: Information requests by the licensee
Purpose	The purpose of this condition is to set out the obligations in connection with the licensee’s power to request information under section 172 of the Energy Act 2023.
Type of Change	New licence condition
Equivalent GSP condition	D2: Information requests by the licensee
Associated document(s)	None

2.77 The reason for introducing this condition is to set out the obligations in connection with the licensee’s power to require information under section 172 of the Energy Act 2023.

2.78 The effect of this condition is that the licensee will exercise its power under section 172 of the Energy Act 2023 and report on information requests in accordance with the requirements of this condition. This condition also provides for the ISOP Information Request Statement that sets out further detail on the process the licensee expects to follow when requesting information.

D3: Provision of information to the Authority

Condition	D3: Provision of information to the Authority
Purpose	The purpose of this condition is to set out the obligations by which the licensee provides information and reports to the Authority for the Authority to perform certain functions.
Type of Change	Minor amendment of existing ET standard licence condition
Existing ET standard condition number	B4: Provision of information to the Authority
Equivalent GSP condition	D3: Provision of information to the Authority
Associated document(s)	None

2.79 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.80 The effect of the amendments is to improve the clarity of the licence condition.

D4: Provision of information and assistance to the Authority in relation to applications requiring the appointment of an Offshore Transmission Owner

Condition	D4: Provision of information and assistance to the Authority in relation to applications requiring the appointment of an Offshore Transmission Owner
Purpose	The purpose of this condition is to set out the information and assistance as is required by the Authority in relation to: in Part A, any application, offer, agreement or variation to contractual terms made under condition E12 (Requirement to offer terms) requiring the appointment of an Offshore Transmission Owner; in Part B, the rationale for including Developer-Associated Offshore Wider Works in an offer made under paragraph E12.4 of condition E12 requiring the appointment of an Offshore Transmission Owner.
Type of Change	Minor amendment of existing ET standard licence condition
Existing ET standard condition number	C25: Provision of information and assistance to the Authority in relation to applications requiring the appointment of an Offshore Transmission Owner
Equivalent GSP condition	None
Associated document(s)	None

2.81 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.82 The effect of the amendments is to improve the clarity of the licence condition.

D5: Data assurance requirements

Condition	D5: Data assurance requirements
Purpose	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).
Type of Change	Minor amendment of existing ET standard licence condition
Existing ET standard condition number	B23: Data Assurance Requirements
Equivalent GSP condition	D4: Data assurance requirements
Associated document(s)	The Data Assurance Guidance (DAG)

2.83 The reasons for amending the existing condition are to align the drafting in this condition with our Licence drafting principles, and to align the drafting across the ESO and GSP licences, including clearer use of definitions.

2.84 The effect of the amendments is to improve the clarity of the licence condition.

Section E: Industry codes and charging

2.85 This section of NESO’s ESO licence contains conditions for its obligations related to industry codes and network charging. This section contains only existing NGENSO conditions that have been modified for NESO and no new conditions.

2.86 Given the ongoing work on Energy Code Reform⁶, we have aimed to only propose amendments to the conditions related to industry codes where required to implement our policy decisions and the Elexon ownership decision. This has been done to avoid changing the conditions substantively several times in a short period.

2.87 It is our view that the policy decisions related to establishing NESO have not had a significant impact on the existing NGENSO codes and charging obligations that will be transferred to NESO, other than the Elexon ownership decision. Therefore, the majority of amendments to the conditions in this section are minor.

⁶ Further detail on Energy Code Reform can be found here: [Energy Code Reform | Ofgem](#)

E1: Balancing and Settlement Code (BSC)

Condition	E1: Balancing and Settlement Code (BSC)
Purpose	The purpose of this condition is to: in Part A, describe the Balancing and Settlement Code (BSC), which is a document that sets out terms between the BSC Parties; in Part B, establish the requirements for modification of the BSC; in Part C, describe the self-governance route for modification of the BSC; in Part D, establish the requirements related to a Significant Code Review; and in Part E, establish the licensee's obligations in respect of the BSC Framework Agreement.
Type of Change	Significant Amendment to existing ET Standard Condition
Existing ET standard condition number	C3: Balancing and Settlement Code (BSC)
Equivalent GSP condition	None
Associated document(s)	None

2.88 The consultation on the future ownership of Elexon⁷ concluded that Elexon should remain in industry ownership. The consultation set out the policy intent that the obligation to own Elexon should move to the licences of the new owners, while the obligations to maintain the BSC and what the BSC should contain should move to NESO from NGENSO.

2.89 The reasons for amending this licence condition are:

- to implement the changes related to the policy decision to move Elexon into industry ownership;
- to reorder the paragraphs so that all the obligations related to a specific process are grouped together (for example all the SCR related obligations);
- to remove obligations related to Offshore Transmission Implementation period, which we believe are no longer required;

⁷ Further detail on the consultation can be found here: [The future ownership of Elexon - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

- to remove obligations related to the British Electricity Trading and Transmission Arrangements (BETTA) transition period, which we no longer believe are required; and
- to align the drafting in this condition with our Licence drafting principles.

2.90 The effect of these amendments is to implement the Elexon ownership policy decision and improve the clarity of the licence.

2.91 Paragraphs E1.7-E1.11 of this condition were inserted by the Energy Market Investigation (Electricity Transmission Losses) Order 2016.⁸ As these provisions were inserted by an order by the CMA, we believe they must be retained until the order is varied or revoked under the Enterprise Act 2002 (per section 1.4 of the order).

⁸ More information on The Energy Market Investigation (Electricity Transmission Losses) Order 2016 can be found on the Government website: [Energy market investigation - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

E2: Connection and Use of System Code (CUSC)

Condition	E2: Connection and Use of System Code (CUSC)
Purpose	<p>The purpose of this condition is to:</p> <p>in Part A, describe the Connection and Use of System Code (CUSC), which is a document that sets out terms between the CUSC Parties;</p> <p>in Part B, establish the requirements for modification of the CUSC;</p> <p>in Part C, describe the self-governance route for modification of the CUSC;</p> <p>in Part D, establish the requirements related to a Significant Code Review; and</p> <p>in Part E, establish the licensee’s obligations in respect of the CUSC Framework Agreement.</p>
Type of Change	Minor amendment to existing ET standard condition
Existing ET standard condition number	C10: Connection and Use of System Code (CUSC)
Equivalent GSP condition	None
Associated document(s)	None

2.92 The reasons for amending this licence condition are:

- to reorder the paragraphs so that all the obligations related to a specific process are grouped together (for example all the SCR related obligations);
- to remove obligations related to Offshore Transmission Implementation period, which we believe are no longer required;
- to remove obligations related to the BETTA transition period, which we believe are no longer required; and
- to align the drafting in this condition with our Licence drafting principles.

2.93 The effect of these amendments is to improve the clarity of the licence.

E3: Grid Code

Condition	E3: Grid Code
Purpose	<p>The purpose of this condition is to:</p> <p>in Part A, describe the Grid Code, which is a document that sets out terms between the Grid Code Parties;</p> <p>in Part B, establish the requirements for modification of the Grid Code;</p> <p>in Part C, describe the self-governance route for modification of the Grid Code;</p> <p>in Part D, establish the requirements related to a SCR; and</p> <p>in Part E, establish the licensee’s obligations in respect of the Grid Code.</p>
Type of Change	Minor amendment to existing ET standard condition
Existing ET standard condition number	C14: Grid Code
Equivalent GSP condition	None
Associated document(s)	None

2.94 The reasons for amending this licence condition are:

- to reorder the paragraphs so that all the obligations related to a specific process are grouped together (for example all the SCR related obligations);
- to remove obligations related to the BETTA transition period, which we believe are no longer required;
- to remove obligations related to Offshore Transmission Implementation period, which we believe are no longer required;
- to add sub-paragraph (b) in paragraph E3.15, correcting an error that was introduced in a previous version of the condition; and
- to align the drafting in this condition with our Licence drafting principles.

2.95 The effect of these amendments is to improve the clarity of the licence.

E4: System Operator – Transmission Owner Code

Condition	E4: System Operator – Transmission Owner Code
Purpose	<p>The purpose of this condition is to:</p> <ul style="list-style-type: none"> in Part A, describe the System Operator – Transmission Owner Code (STC), which is a document that sets out terms between the STC Parties; in Part B, establish the requirements for modification of the STC; in Part C, describe the self-governance route for modification of the STC; in Part D, establish the requirements related to a Significant Code Review; in Part E, establish the Code of Practice in respect of the STC; in Part F, describe how the STC can be modified by the licensee; in Part F, establish the STC Framework Agreement; and in Part G, establish the STC Framework Agreement.
Type of Change	Minor amendment to existing ET standard condition
Existing ET standard condition number	B12: System Operator – Transmission Owner Code
Equivalent GSP condition	None
Associated document(s)	None

2.96 The reasons for amending this licence condition are:

- to add NESO’s obligations into the STC objectives;
- to reorder the paragraphs so that all the obligations related to a specific process are grouped together (for example all the SCR related obligations);
- to add references to the licensee where required, as they will no longer be a transmission licensee;
- to remove obligations related to Offshore Transmission Implementation period, which we believe are no longer required;
- to combine E4.20(a) into a single subparagraph, correcting an error that was introduced in previous versions of the condition; and

- to align the drafting in this condition with our Licence drafting principles.

2.97 The effect of these amendments is to improve the clarity of the licence.

2.98 We have tried to avoid making policy changes to the codes conditions where possible because of the ongoing code reform work, but we felt that given there is a reference to the obligations imposed on transmission licensees in the STC objectives, the only options were to either add the obligations on NESO or leave it as a reference to transmission licensees only (which NESO will not be). Both of these options would change the meaning. We felt that adding NESO changed the meaning less and was more in line with the intent of the code to be between the system operator of the electricity transmission system and transmission licensees.

E5: Compliance with Distribution Codes

Condition	E5: Compliance with Distribution Codes
Purpose	The purpose of this condition is to establish the licensee’s obligations in relation to the Distribution Codes.
Type of Change	Minor amendment to existing ET standard condition
Existing ET standard condition number	C15: Compliance with Distribution Codes
Equivalent GSP condition	None
Associated document(s)	None

2.99 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.100 The effect of the amendments is to improve the clarity of the licence condition.

E6: Security arrangements

Condition	E6: Security arrangements
Purpose	The purpose of this condition is to set out the licensee’s obligations in relation to security arrangements.
Type of Change	Minor amendment to Existing ET standard condition
Existing ET standard condition number	B11: Security arrangements
Equivalent GSP condition	None
Associated document(s)	None

2.101 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.102 The effect of the amendments is to improve the clarity of the licence condition.

2.103 We expect that government may make further consequential amendments to the Electricity Act 1989. We will update the drafting in this condition in accordance with any amendments to Sections 34 and 35 of the Electricity Act 1989 if required.

E7: Transmission system security standard and quality of service

Condition	E7: Transmission system security standard and quality of service
Purpose	The purpose of this condition is to establish the licensee’s obligations in relation to the National Electricity Transmission System Security and Quality of Supply Standard.
Type of Change	Minor amendment of existing ET standard condition
Existing ET standard condition number	C17: Transmission system security standard and quality of service
Equivalent GSP condition	None
Associated document(s)	None

2.104 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles including removing paragraphs related to the Authority approving the first instance of the Frequency Risk and Control Report as this has already occurred and we believe the paragraphs are no longer required.

2.105 The effect of the amendments is to improve the clarity of the licence condition.

E8: SO:TO Optimisation Governance

Condition	E8: SO:TO Optimisation Governance
Purpose	The purpose of this condition is to set out the requirements upon the licensee to act consistently with the SO:TO Optimisation Governance Document.
Type of Change	Minor amendment of existing ET standard condition
Existing NGESO special condition number	Sp2.13: SO-TO Optimisation Governance
Equivalent GSP condition	None
Associated document(s)	SO-TO Optimisation Governance

2.106 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.107 The effect of the amendments is to improve the clarity of the licence condition.

E9: Duty to Cooperate

Condition	E9: Duty to Cooperate
Purpose	<p>The purpose of this condition is to set out the licensee’s obligations to cooperate when it has followed any guidance as set out by a SCR or entered into a framework agreement or otherwise acceded to any and all of the following:</p> <ul style="list-style-type: none"> (a) the Grid Code, (b) the Distribution Code, (c) the Connection and Use of System Code (CUSC), (d) the Balancing and Settlement Code (BSC), (e) the System Operator – Transmission Owner Code (STC).
Type of Change	Minor amendment to existing ET standard condition
Existing ET standard condition number	C19: Duty to cooperate
Equivalent GSP condition	None
Associated document(s)	None

2.108 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.109 The effect of the amendments is to improve the clarity of the licence condition.

E10: Use of System charging and methodology

Condition	E10: Use of System charging and methodology
Purpose	The purpose of this condition is to establish the licensee’s obligations relating to the Use of System Charges, and to conform to the Use of System Charging Methodology as modified in accordance with Part B of this condition and condition E2 (CUSC).
Type of Change	Minor amendment to existing ET standard conditions
Existing ET standard condition numbers	C4: Charges for use of system C5: Use of system charging methodology C5A: Use of system charging requirements under the Electricity Directive
Equivalent GSP condition	None
Associated document(s)	None

2.110 The reason for amending this condition is to combine related obligations into one condition, and to align the drafting in this condition with our Licence drafting principles.

2.111 The effect of the amendments is to improve the clarity of the licence condition.

E11: Connection Charging Methodology

Condition	E11: Connection Charging Methodology
Purpose	The purpose of this condition is to establish the licensee’s duties relating to the Connection Charging Methodology: in Part A, a description of the Connection Charging Methodology; in Part B, a description of Connection Charges; in Part C, a description of the Connection Charging Methodology statement; and in Part D, setting out the Connection Charging requirements under the Electricity Directive.
Type of Change	Minor amendment to existing ET standard conditions
Existing ET standard condition numbers	C6: Connection charging methodology C6A: Connection charging requirements under the Electricity Directive
Equivalent GSP condition	None
Associated document(s)	None

2.112 The reason for amending this condition is to combine related obligations into one condition, and to align the drafting in this condition with our Licence drafting principles.

2.113 The effect of the amendments is to improve the clarity of the licence condition.

E12: Requirement to offer terms

Condition	E12: Requirement to offer terms
Purpose	The purpose of this condition is to set out the requirements on application for connection, the expectations to offering or entering into an agreement, and the timeframes for which the licensee must follow.
Type of Change	Minor amendment to existing ET standard condition
Existing ET standard condition number	C8: Requirement to offer terms
Equivalent GSP condition	None
Associated document(s)	None

2.114 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.115 The effect of the amendments is to improve the clarity of the licence condition.

E13: Functions of the Authority

Condition	E13: Functions of the Authority
Purpose	The purpose of this condition is to set out the licensee’s obligations with respect to disputes to be settled by the Authority.
Type of Change	Minor amendment to existing NGESO special condition
Existing ET standard condition number	C9: Functions of the Authority
Equivalent GSP condition	None
Associated document(s)	None

2.116 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.117 The effect of the amendments is to improve the clarity of the licence condition.

2.118 This condition includes provisions related to Relevant Agreements; it is our understanding there are still Relevant Agreements in place and therefore these provisions need to remain.

E14: Energy administration, energy supply company administration and smart meter communication licensee administration: Electricity System Operator shortfall contribution obligations

Condition	E14: Energy administration, energy supply company administration and smart meter communication licensee administration: Electricity System Operator shortfall contribution obligations
Purpose	The purpose of this condition is to require the licensee, in specified circumstances, to modify the charges it imposes when carrying on its licensed activities and to raise such amounts as are specified by the Secretary of State in a Shortfall Direction: (a) from the persons, and (b) in the manner, specified in such Shortfall Direction, and to pay such amounts to the Shortfall Payment Recipients specified in the Shortfall Direction.
Type of Change	Minor amendment to existing NGESO special condition
Existing ET standard condition number	C24: Energy Administration, Energy Supply Company Administration and Smart Meter Communication Licensee Administration: National Electricity Transmission System Operator Shortfall Contribution Obligations
Equivalent GSP condition	None
Associated document(s)	None

2.119 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.120 The effect of the amendments is to improve the clarity of the licence condition.

Section F: Finance and funding arrangements

2.121 This section covers the financial and funding obligations for NESO. It includes all conditions related to NESO’s electricity expenditure and calculation of revenues, including revenues collected through Balancing Services Use of System (BSUoS) charges, Transmission Network Use of System (TNUoS) charges and the Assistance for Areas with High Distribution Costs Scheme. It also sets

requirements in relation to innovation funding; NESO’s treatment of its assets and resources; its approach to staff remuneration and expenses; the process for the disapplication and suspension of allowed revenue conditions; and requirements in relation to funding NESO implementation costs.

F1: Expenditure and allowed revenue

Condition	F1: Expenditure and allowed revenue
Purpose	The purpose of this condition is to establish requirements on the licensee in relation to its expenditure, and the total revenue that may be collected by the licensee for a Regulatory Year through Balancing Services Charges.
Type of Change	Major amendments to existing NGESO special conditions
Existing NGESO special condition numbers	SpC 4.1 SO Balancing Services Activity Revenue Restriction SpC 4.2 SO Internal Allowed Revenue SpC 4.3 Balancing Services external costs SpC 4.5 SO-TO mechanism SpC 4.6 Total other revenue allowances SpC 4.9 SO Legacy Adjustments (SOLARt) SpC 4.10 Legacy net RAV additions
Equivalent GSP condition	F1: Gas revenue calculations and notification process
Associated document(s)	Financial Model

2.122 The reason for materially amending existing NGESO special conditions is to ensure requirements on NESO’s expenditure, and its allowed revenue, reflect NESO’s new financial regulatory framework. This includes NESO being a not-for-profit body funded through a ‘fast money’ approach (see section 3.1 and 6.3 of the main ‘Statutory consultation on National Energy System Operator licences and other impacted licences’ document for more details on this policy).

2.123 Key changes from the existing conditions include:

- The introduction of new general requirements on NESO’s expenditure to promote efficient spending under a not-for-profit approach. This includes requirements to ensure the licensee has regard to any determinations made by Ofgem on its business plans, as well as requirements in relation to

uneconomical, inefficient and wasteful expenditure (to replace existing financial cost disallowance powers).

- New requirements on NESO to develop and follow a methodology for allocating its costs between the recovery mechanisms its electricity and gas licences.
- Introducing a key overarching requirement on NESO to set charges in a manner that ensures it does not make any lasting financial profit or loss from Day 1, as well as provisions to deal with transitional funding issues and legacy revenues from the NGESO licence.
- Consolidating, merging and simplifying several of NGESO's existing allowed revenue conditions in line with the not-for-profit approach (for example, removing existing price control elements that would expose NESO to a profit or loss).
- Adopting an actual approach to financial regulation rather than a notional one, including setting allowed revenue on a nominal price basis.
- Introducing a new revenue term to implement the government returns policy in section 3.1 of the 'Statutory consultation on National Energy System Operator licences and other impacted licences' document and enable the full depreciation of NESO's Regulatory Asset Value (RAV).
- General streamlining and simplification of existing conditions to aid clarity and align formulae with the internal processes that will be used by NESO for setting and reconciling BSUoS charges.

2.124 The effect of these changes and the consolidated condition is to:

- Establish a not-for-profit, fast money funding framework for NESO;
- Allow NESO to fund its electricity-related business activities through BSUoS charges;
- Ensure an appropriately reflective allocation of costs between electricity and gas charges;
- Enable the Government to be compensated for supporting NESO's RAV during the RAV's depreciation period; and
- Introduce regulatory protections for industry and energy consumers in relation to NESO's expenditure.

F2: Innovation funding

Condition	F2: Innovation funding
Purpose	<p>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).</p> <p>The condition also establishes governance documents relating to the regulation, administration, and governance of the NIA, SIF and NIC.</p>
Type of Change	Significant amendment of existing NGESO special conditions
Existing NGESO special condition number	<p>SpC 3.3 RIIO-1 Network Innovation Competition (NIC_t)</p> <p>SpC 3.4 The strategic innovation fund (SIF_t)</p> <p>SpC 4.7 The RIIO-2 network innovation allowance (NIA_t)</p>
Equivalent GSP condition	F2: Innovation funding
Associated document(s)	RIIO-2 Governance Document, SIF Governance Document, NIC Governance Document

2.125 The reasons for amending the existing conditions are to:

- remove the requirement for 10% of NIA expenditure to be recovered through 'totex' (total expenditure) allowances in order to simplify arrangements, given that all NESO expenditure will be incurred on a pass-through basis;
- ensure the maximum value of NIA is correctly calculated as this licence has a different price base;
- link the calculation of NIA, SIF and legacy NIC revenues with the new revenue conditions in Section F; and
- streamline and align the drafting in this condition in line with our NESO licence drafting principles.

2.126 The effect of the amendments for this condition is to ensure the licensee has access to the appropriate NIA expenditure for RIIO-2 and to improve the clarity of the licence condition.

F3: Recovery of transmission network revenues

Condition	F3: Recovery of transmission network revenues
Purpose	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.
Type of Change	Amendments to existing NGESO special conditions
Existing NGESO special condition number	SpC 3.1 Transmission Network Revenue Restriction SpC 3.2 Pass-through items SpC 3.5 Legacy adjustments to revenue SpC 3.6 Adjustment term (ADJt) SpC 3.7 Correction Term (Kt)
Equivalent GSP condition	Not applicable.
Associated document(s)	No applicable

2.127 The reason for amending these conditions is to provide clarity on the calculation of the revenues NESO can collect through TNUoS charges.

2.128 Key changes to existing conditions include:

- Consolidating and combining existing conditions to streamline the licence, including the removal of terms that have timed out (such as the correction term (Kt));
- Changes to clarify how pass-through items should be recovered and reconciled to align with NESO’s charge setting processes; and
- Changes to bring the conditions in line with NESO licence drafting principles.

2.129 The effect of these changes is to clarify the licence and the calculation of revenues with respect to TNUoS.

F4: Assets and resources

Condition	F4: Assets and resources
Purpose	The purpose of this condition is to establish requirements on the licensee in relation to securing necessary resources; maintaining an Intervention Plan; the disposal of Relevant Assets; and the use of commercial debt.
Type of Change	Major changes to multiple ET standard conditions
Existing ET standard condition number	SLC B3 Disposal of relevant assets SLC B7 Availability of resources SLC B9 Indebtedness
Equivalent GSP condition	F3: Assets and resources
Associated document(s)	Not applicable.

2.130 The reason for amending these conditions is bring requirements related to the disposal or assets, availability of resources and indebtedness in line with NESO’s organisational design and financial framework.

2.131 Key changes from the existing licence conditions include:

- The removal of requirements that we consider are redundant or unnecessary for a not-for-profit body;
- Additions to reflect NESO’s public body status and relationship with government; and
- Changes to streamline the conditions, add clarity, and bring the conditions in line with NESO licence drafting principles.

2.132 The effect of these changes is to set requirements and restrictions in relation to NESO’s treatment of assets and resources that are more appropriate for a not for profit, government owned body.

F5: Financial Model and Handbook

Condition	F5: Financial Model and Handbook
Purpose	The purpose of this condition is to set out requirements on the licensee in relation to the Financial Model. This condition also establishes the Financial Handbook and the process the Authority will follow in issuing and amending the Financial Handbook
Type of Change	Significant amendment of existing NGESO special licence conditions
Existing NGESO special condition number	SpC 5.1 Governance of the ESO PCFM SpC 5.2 AIP process for the PCFM
Equivalent GSP condition	F4: Financial Model and Handbook
Associated document(s)	Financial Handbook.

2.133 The reason for amending these conditions is to establish the new Financial Model and Handbook which will set out the detailed calculation of NESO’s allowed revenue under Condition F1, as well as a new governance process for these products. These products replace the RIIO-2 Price Control Financial Model (PCFM), RIIO-2 Price Control Financial Handbook (PCFH) and Annual Interaction Process (AIP) applicable under the current NGESO licence.

2.134 Key changes from the existing conditions include:

- Simplification of current processes around the PCFM, PCFH and AIP to reflect NESO’s not-for-profit set up. This includes a streamlined and simplified governance and change process;
- Establishing the Financial Model as a product owned and managed by NESO and reviewed by Ofgem, rather than a product that forms part of the licence (as is the case with the PCFM);
- Establishing the Financial Handbook as an associated document to the licence, rather than forming part of the licence (as is the case with the PCFH); and
- Removal of most text on the AIP so this is instead covered by the processes in the Financial Handbook.

2.135 The effect of these changes condition is to establish documents that provide transparency on the full and detailed calculation of NESO’s allowed revenue for charge setting purposes each Regulatory Year. The effect is also to ensure that

the oversight of this detailed calculation, and process to change the documents that underpin it, is proportionate under a not-for-profit framework.

2.136 Following discussions with NGESO, it was decided to provide greater flexibility in terms of the period for representations on amendments to the Financial Handbook. This period was reduced from a period of 28 days to 14 days or a period as agreed with the Authority. The reason for the change is to allow the Authority to make changes to the Financial Handbook more rapidly but still with sufficient time for stakeholders to respond. The effect of this change will be to help ensure more responsive and agile regulation of NESO and this should benefit consumers.

F6: Payments by the licensee to the Authority

Condition	F6: Payments by the licensee to the Authority
Purpose	The purpose of this condition is to set requirements on the licensee in relation to payments to the Authority for the recovery of licence fees.
Type of Change	Minor amendments to existing ET standard condition.
Existing ET standard condition number	SLC A4 Payments by Licensee to the Authority
Equivalent GSP condition	Not applicable.
Associated document(s)	Not applicable.

2.137 The reason for amending this condition is to align the drafting in this condition with our NESO licence drafting principles.

2.138 The effect of this condition is to improve the clarity of the licence condition.

F7: Remuneration Policy and Expenses Policy

Condition	F7: Remuneration Policy and Expenses Policy
Purpose	The purpose of this condition is to ensure that the licensee has in place and complies with a Remuneration Policy and an Expenses Policy, that has been approved by the Authority.
Type of Change	Minor amendment of existing NGESO special licence condition
Existing NGESO special condition number	SpC 2.4 Remuneration Policy and Expenses Policy
Equivalent GSP condition	F5: Remuneration Policy and Expenses Policy
Associated document(s)	N/A

2.139 The reason for amending the existing condition is to introduce a requirement for the licensee to reflect any assessment of the licensee’s performance by the Authority, and any instances of non-compliance with the licence or enforcement actions against the licensee, within its Remuneration Policy for senior manager performance related remuneration.

2.140 The effect of the amendment is to provide greater assurance that NESO’s decisions on senior manager performance remuneration reflect the Authority’s regulatory assessments and any enforcement actions.

2.141 Since the statutory consultation we have introduced new drafting to this condition following consultee feedback received. Such changes ensure that NESO is obliged to publish the Remuneration Policy and Expenses Policy on NESO’s website. The reason for introducing this obligation is set out in section 1.3 of the main response document. The effect is to obligate transparency over NESO’s staff remuneration approach.

F8: Assistance for Areas with High Distribution Costs Scheme (AAHDCS)

Purpose	The purpose of this condition is to establish, the restriction on revenue, payments from Authorised Suppliers, payments to a Relevant Distributor; and an annual statement, in relation to the Assistance for Areas with High Distribution Costs Scheme (AAHDCS).
Type of Change	Minor change to existing ET standard conditions
Existing ET standard condition number	C20: Assistance for areas with high distribution costs scheme: restriction on revenue C21: Assistance for areas with high distribution costs scheme: payments from authorised suppliers C22: Assistance for areas with high distribution costs scheme: payments to a relevant distributor C23: Assistance for areas with high distribution costs scheme: annual statement
Equivalent GSP condition	None
Associated document(s)	None

2.142 The reason for amending this condition is to align the drafting in this condition with our Licence drafting principles.

2.143 The effect of the amendments is to improve the clarity of the licence condition.

F9: Disapplication and suspension of Relevant Licence Conditions

Condition	F9: Disapplication of Relevant Licence Conditions
Purpose	The purpose of this condition is to enable: <ul style="list-style-type: none"> a) the licensee to make a formal request for the disapplication of the Relevant Licence Conditions; b) a suspension of the Relevant Licence Conditions in the event of a Security Period where this is necessary for the recovery of Allowed Security Costs.
Type of Change	Amendments to existing NGESO special conditions.
Existing NGESO special condition number	SpC 2.10 Disapplication of Relevant Special Conditions SpC 2.8 Allowances in respect of a Security Period
Equivalent GSP condition	Not applicable.
Associated document(s)	Not applicable.

2.144 The reason for amending these conditions is to:

- consolidate requirements related to the disapplication or suspension of Relevant Licence Conditions;
- clarify text on the date from which disapplication request can take effect, to align this with the special conditions in transmission licences;
- remove certain requirements on the recovery of Allowed Security Costs that we consider are unnecessary for a body which has general requirements to set charges in a manner not to make a profit or loss.

2.145 The effect of this condition is to improve the clarity of the licence and simplify processes around the recovery of Allowed Security Costs, in line with the approach taken under Condition F1.

F10: ISOP implementation funding

Condition	F10: ISOP implementation funding
Purpose	The purpose of this condition is to establish arrangements that the licensee must follow to make any payments to National Grid plc or its Affiliates or Related Undertakings for FSO Transition Activities, as well as establishing requirements on the licensee in respect of the FSO Day 1 Report.
Type of Change	Amendments to existing NGESO special licence condition
Existing NGESO special condition number	SpC 2.15 Obligations related to the implementation of the Future System Operator
Equivalent GSP condition	N/A
Associated document(s)	FSO Transition Funding Governance Document

2.146 The reason for amending the existing condition is to ensure obligations related to FSO Transition Activities reflect post Day 1 requirements. This includes:

- removing requirements that are not needed to enable pre-Day 1 cost recovery mechanisms for FSO Transition Activities to conclude, including: requirements on the creation of a Day 1 delivery schedule for FSO Transition Activities; requirements for monthly reporting on costs and progress up to Day 1; and obligations which set general expectations in relation to the delivery of FSO Transition Activities;
- introducing a process for terminating the FSO Intragroup Contract once a final payment is made; and
- introducing requirements on any payments by NESO for FSO Transition Activities carried out by National Grid plc or its Affiliates or Related Undertakings after Day 1.

2.147 The effect of these amendments is to ensure NESO is able to make any final outstanding payments for efficient costs incurred by National Grid Holdings One plc for FSO Transition Activities carried out prior to Day 1, and to ensure there are protections in place for future payments necessary for the efficient continuation and completion of FSO Transition Activities after Day 1.

2.148 Since the statutory consultation we have added further drafting to this condition related to the Day 2 CTA Contract where further detail became clear after the statutory consultation.

Section G: Regulatory reports and assessment

2.149 This section contains requirements in relation to NESO’s performance regulation. This includes conditions covering NESO business planning process, performance reporting and assessment, and the governance arrangements for other detailed information Ofgem may need to regulate NESO’s performance.

G1: Business Plan

Condition	G1: Business Plan
Purpose	The purpose of this condition is to set obligations on the licensee related to developing a Business Plan and to establish the NESO Business Plan Guidance.
Type of Change	Significant amendment of existing NGESO licence condition
Existing NGESO special condition number	SpC 4.3 Electricity System Operator Reporting and Incentive Arrangements (ESORI _t)
Equivalent GSP condition	G1: Business Plan
Associated document(s)	NESO Business Plan Governance Document

2.150 The reasons for amending the existing condition are to:

- introduce key requirements which establish the new business planning process for NESO (including the key required content of the Business Plans, such as strategic aims, key priorities, major planned deliverables, and proposed expenditure);
- set out new requirements and processes related to stakeholder and Authority review of the Business Plans;
- establish the updated NESO Business Plan Guidance; and
- streamline the licence and align with NESO licence drafting principles.

2.151 The effect of these changes is to establish an appropriate business planning process for NESO and to improve the clarity of the licence conditions.

2.152 Since the statutory consultation we have changed the name of the business plan governance document from ISOP Business Plan Governance Document to NESO Business Plan Guidance. We believe the new title is clearer.

G2: Performance reports and assessment

Condition	G2: Performance reports and assessment
Purpose	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.
Type of Change	Significant amendment of previous NGESO Licence Special Condition
Existing NGESO special condition number	SpC 4.3 Electricity System Operator Reporting and Incentive Arrangements (ESORI _t)
Equivalent GSP condition	G2: Performance reports and assessment
Associated document(s)	NESO Performance Arrangements Governance Document

2.153 The reasons for amending the existing condition are to:

- reflect the change towards reputational incentives for NESO, by removing the financial incentive term;
- establish key overarching requirements on performance reporting, stakeholder feedback and assessment;
- establish the updated NESO Performance Arrangements Governance Document; and,
- streamline the licence and align with NESO licence drafting principles.

2.154 The effect of the amendments is to establish the basis of the new reputational incentive framework for NESO and improve the clarity of the licence condition.

2.155 Since the statutory consultation we have changed the name of the performance governance document from ISOPRI Arrangements Governance Document to NESO Performance Arrangements Governance Document. We believe the new title is clearer.

G3: Regulatory Instructions and Guidance (RIGs)

Condition	G3: Regulatory Instructions and Guidance (RIGs)
Purpose	The purpose of this condition is to set out the scope, contents, and common governance arrangements for the Regulatory Instructions and Guidance (RIGs).
Type of Change	Minor amendment of existing NGESO special licence condition.
Existing ET standard condition number	SLC B15 Regulatory Instructions and Guidance (RIGs).
Equivalent GSP condition	G3: Regulatory Instructions and Guidance (RIGs)
Associated document(s)	Regulatory Instructions and Guidance (RIGs)

2.156 The reason for amending the existing condition is to align the drafting in this condition with our NESO licence drafting principles.

2.157 The effect of the amendments is to improve the clarity of the licence condition.

3. Gas System Planner Licence

3.1 This section sets out the licence conditions in NESO’s GSP licence in the order they appear in that licence. We have set out the purpose of each condition, whether it is new or a based on existing provisions, and the equivalent condition in NESO’s ESO licence if applicable. Where we have indicated that there is an associated document related to the licence condition, we mean an Ofgem owned document.

3.2 Unlike NESO’s Electricity System Operator (ESO) licence, there will not be a licensing transfer scheme for the provisions in the GSP licence. The GSP licence will be a new licence granted by the Secretary of State of the Department of Energy, Security and Net Zero (DESNZ) under the Gas Act 1986 (with this power to the Secretary of State provided for in the provisions of the Energy Act 2023).

3.3 However, in order to maintain consistency in Ofgem’s regulatory regime, some conditions in this licence mirror and reflect existing licence obligations that exist for other licensed parties. The reasons and effects outlined below highlight where

and why changes have been made in this licence compared to any existing relevant licence obligation(s).

3.4 In drafting the text for these licence conditions, we have applied the drafting principles as set out in the statutory consultation.⁹

Section A: Definitions and interpretation

3.5 This section sets out the definitions and interpretation provisions for the licence. This includes the defined terms used in this licence, and provisions to support the interpretation of licence conditions, clauses and the powers of the Authority in respect of the licence (e.g., in issuing directions).

3.6 This section also sets out the process for making licence modifications for housekeeping changes. This process reflects that which exists across Ofgem's regulatory regime in the licences of other licensed parties, including the ESO.

A1: Definitions

Condition	A1: Definitions
Purpose	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).
Type of Change	Mirrored existing Gas Transporter (GT) special licence condition and significant amendments to condition, definitions and defined terms.
Existing GT Licence Condition	SSC A3: Definitions and Interpretation
Equivalent ESO condition	A1: Definitions
Associated document(s)	None

3.7 The reasons for adding and amending the existing conditions are to:

- separate the definition section from the interpretation section;
- remove defined terms not required for NESO's GSP licence;
- add new defined terms required for NESO's GSP licence; and
- add existing definitions from the existing GT licence and amend for NESO's GSP licence.

⁹ See Annex H: [National Energy System Operator \(NESO\) licences and other impacted licences: statutory consultation | Ofgem](#)

3.8 The effect of the amendments is to improve the clarity of the licence.

A2: Interpretation

Condition	A2: Interpretations
Purpose	The purpose of this condition is to set out the provisions of general interpretation for the conditions of this licence. Note that other provisions exist in the terms of this licence.
Type of Change	Mirrored existing GT special licence condition and significant amendments.
Existing GT Licence Condition	SSC A3: Definitions and Interpretation
Equivalent ESO condition	A2: Interpretation
Associated document(s)	None

3.9 The reasons for adding and amending the existing condition are to:

- separate the definition section from the interpretation section;
- remove interpretation provisions not required for NESO’s GSP licence;
- add new interpretation provisions required for NESO’s GSP licence;
- amend existing interpretations from the existing licences for NESO’s GSP licence; and
- align the interpretation provisions across the ESO and GSP licences.

3.10 The effect of the amendments is to improve the clarity of the licence.

A3: Housekeeping licence modifications

Condition	A3: Housekeeping licence modifications
Purpose	The purpose of this condition is to provide a process for making Housekeeping Modifications to the conditions of this licence.
Type of Change	Mirrored existing GT standard special licence condition and minor amendments.
Existing GT Licence Condition	SSC A3: Housekeeping licence modifications
Equivalent ESO condition	A3: Housekeeping licence modifications
Associated document(s)	None

- 3.11 The reason for adding and amending the existing condition is to modify provisions on housekeeping licence modifications to be appropriate and effective for NESO's GSP licence.
- 3.12 The effect of the amendments is to ensure there is a process for making housekeeping modifications to the conditions of NESO's licences, and to include necessary references to the Energy Act 2023 where appropriate.

Section B: Business conduct and independence

- 3.13 This section of the licence relates to licence conditions that provide obligations to ensure NESO's independence from industry, and the conduct of its business activity.
- 3.14 There are also licence conditions setting out the requirements and restrictions related to transitional services.
- 3.15 Condition B6 of this licence also introduces provisions on protecting confidential data and confidential information within NESO. This includes ringfencing provisions and obligations on the licensee in respect of disclosure of data, which replaces the previous System Operator Functions Information (SOFI) provisions in the ESO Special Conditions.

B1: Independence Requirements and compliance obligations

Condition	B1: Independence Requirements and compliance obligations
Purpose	<p>The purpose of this condition is to establish the Independence Requirements and compliance obligations for the licensee, as follows:</p> <p>Part A sets out the Independence Requirements;</p> <p>Part B sets out the requirements in relation to Sufficiently Independent Directors;</p> <p>Part C sets out the obligations related to Operational Services;</p> <p>Part D sets out the obligations related to Transitional Services;</p> <p>Part E sets out the requirement for an Independence Statement;</p> <p>Part F sets out the obligations for the appointment of a Compliance Officer and compliance reporting; and</p> <p>Part G provides for the licensee to apply for a derogation for relief from its obligations under this condition.</p>
Type of Change	Mirrored existing GT special licence conditions but significant amendments made to reflect changes to NESO’s independence and governance requirements
Existing GT Licence Conditions	<p>SSC A33: Restriction on Use of Certain Information and Independence of the Transportation Business</p> <p>SSC A34: Appointment of Compliance Officer</p> <p>SSC A42: Requirement for sufficiently independent directors</p>
Equivalent ESO condition	B1: Independence Requirements and compliance obligations
Associated document(s)	None

3.16 The reasons for adding and amending the existing conditions is to reflect the new operational model of NESO, including expectations and requirements for enabling its independence.

- 3.17 The effect of amending the existing conditions is to combine and provide clarity on obligations Sufficiently Independent Directors and the independence requirements for NESO.
- 3.18 Since the statutory consultation we have introduced new drafting to this condition which captures the Operational Services Agreement and the related obligations which we were not envisaged at the time of the statutory consultation.

B2: Restriction on activity and financial ring fencing

Condition	B2: Restriction on activity and financial ring fencing
Purpose	The purpose of this condition is to establish the restrictions on activity, shareholdings and other investments of the licensee.
Type of Change	Mirrored existing GT special licence condition and significant amendments.
Existing GT Licence Condition	SSC A36: Restriction on Activity and Financial Ring Fencing
Equivalent ESO condition	B2: Restriction on activity and financial ring fencing
Associated document(s)	None

- 3.19 The reasons for adding and amending the existing condition is to reflect the new operational and governance model of NESO, and how the performance of its functions is treated in the overall regulatory framework.
- 3.20 The effect of the amendments is for this condition to provide necessary restrictions on NESO on shareholding, activity and other investments.

B3: Conduct of ISOP Business

Condition	B3: Conduct of ISOP Business
Purpose	The purpose of this condition is to establish the licensee’s obligations in respect of the conduct of its ISOP Business relating to discriminatory and preferential behaviour.
Type of Change	Mirrored existing GT special licence condition and significant amendments.
Existing GT Licence Condition	SSC A6: Conduct of Transportation Business
Equivalent ESO condition	B3: Conduct of ISOP Business
Associated document(s)	None

3.21 The reasons for adding and amending the existing condition is to ensure this condition in relation to the conduct of business and functions, reflects the performance of functions across the energy system and NESO’s new operational and governance model.

3.22 The effect of the amendments is that NESO must conduct its functions and business in a manner that ensures that parties operating across gas and electricity neither obtain any unfair commercial advantage nor does NESO unduly restrict, prevent or distort competition in gas and electricity markets.

B4: Compliance with directions related to national security

Condition	B4: Compliance with directions related to national security
Purpose	The purpose of this condition is to require the licensee to comply with directions issued by the Secretary of State in connection with risks relating to national security.
Type of Change	New licence condition
Equivalent ESO condition	B4: Compliance with directions related to national security
Associated document(s)	None

3.23 The reason for introducing this condition is to establish NESO policy on NESO responding to directions related to national security.

3.24 The effect of this condition is that the licensee will take certain actions when complying with directions from the Secretary of State where there is a risk

relating to national security that may detrimentally impact the resilience, safety or security of the energy system, or the continuity of essential services, and it is in the interest of national security that a direction should be issued to NESO.

B5: Prohibition of cross-subsidies

Condition	B5: Prohibition of cross-subsidies
Purpose	The purpose of this condition is to establish restrictions on the provision and receipt of cross-subsidies given by or to the licensee.
Type of Change	Mirrored existing GT special licence condition and minor amendments.
Existing GT Licence Condition	SSC A35: Prohibition of Cross-Subsidies
Equivalent ESO condition	B5: Prohibition of cross-subsidies
Associated document(s)	None

3.25 The reason for amending the existing condition is to ensure the prohibition of cross-subsidies is appropriate for NESO's new operational and governance model.

3.26 The effect of the amendments is that NESO must not give any cross-subsidy to, or receive any cross-subsidy from, an ISOP Affiliate or ISOP Related Undertaking.

B6: Information ringfencing requirements

Condition	B6: Information ringfencing requirements
Purpose	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.
Type of Change	New licence condition
Equivalent ESO condition	B7: Information ringfencing requirements
Associated document(s)	None

3.27 The reason for introducing this condition is to establish the obligations on NESO related to appropriately securing and managing sensitive information related to the performance of certain functions.

3.28 The effect of this condition is that the licensee will identify the data and confidential information it holds that should not be disclosed to persons not engaged with the delivery of the ISOP Business and put in place and maintain a code of conduct governing the disclosure of such information.

Section C: Strategic and operational functions

- 3.29 This section of the licence relates to NESO’s gas functions to be performed under its Gas System Planner Licence. This section includes the new gas activities including gas supply security, market strategy and network planning.
- 3.30 There are licence conditions in this section that also cover functions related to digitalisation, system security and resilience, and NESO’s advisory and information request powers.
- 3.31 This section also outlines obligations related to innovation, and includes new conditions related to the new system planning conditions to implement Ofgem’s CSNP decisions and the government’s Strategic Spatial Energy Plan.

C1: General obligations on ISOP’s activities

Condition	C1: General obligations on ISOP’s activities
Purpose	<p>The purpose of this condition is to set out the general obligations on the licensee to carry out certain activities as follows:</p> <p>in Part A, obligations related to transparency and forecasting;</p> <p>in Part B, obligations related to developing markets and security of supply;</p> <p>in Part C, obligations related to coordinated development of the energy system;</p> <p>in Part D, further general obligations; and</p> <p>in Part E, set out obligations related to guidance on Parts A to D.</p>
Type of Change	New licence condition
Equivalent ESO condition	C1: General obligations on ISOP’s activities
Associated document(s)	None

- 3.32 The reason for introducing this condition is to mirror the existing NGESO condition C28 and establish how NESO’s gas functions relate to the roles and organisational design of NESO.
- 3.33 The effect of the condition is to provide clarity on the obligations of the licensee, in carrying out its functions.

- 3.34 The drafting is intended to enable us to further consider the interaction between guidance on obligations and the way we set performance expectations for incentives, as we develop an enduring regulatory model for NESO (for example, considering whether the current approach the ESO Roles Guidance needs to change).
- 3.35 Since the statutory consultation we have added a new paragraph to make the transparency obligations on the licensee clearer, as set out in the response document.

C2: Licensee’s regard to Strategy and Policy Statement

Condition	C2: Licensee’s regard to Strategy and Policy Statement
Purpose	The purpose of this condition is for the licensee to carry out its functions and act in accordance with obligations set out in respect of the Strategy and Policy Statement.
Type of Change	New licence condition
Equivalent ESO condition	C2: Licensee’s regard to Strategy and Policy Statement
Associated document(s)	None

- 3.36 The reason for introducing this licence condition is to set out that NESO must carry out its functions in accordance with obligations related to the Strategy and Policy Statement (SPS).
- 3.37 The effect of this licence condition is to obligate NESO to carry out its functions in accordance with obligations set out in the Strategy and Policy Statement.

C3: Digitalisation

Condition	C3: Digitalisation
Purpose	The purpose of this condition is to set out the licensee’s obligations to: in Part A, have and update a Digitalisation Strategy; in Part B, have and update a Digitalisation Action Plan; in Part C, comply with the DSAP Guidance; and in Part D, comply with Data Best Practice Guidance.
Type of Change	Mirrored existing GT special licence condition and minor amendments.
Existing GT Licence Condition	SpC 9.5: Digitalisation
Equivalent ESO condition	C3: Digitalisation
Associated document(s)	None

3.38 The reason for adding and amending this existing condition is to include the necessary digitalisation obligations in NESO’s GSP licence. We have aligned the drafting in this condition with our Licence drafting principles and removed references to how Ofgem will issue the first instance of the DSAP Guidance and Data Best Practice Guidance that are no longer required since these have already been issued by Ofgem. We have also removed references to the dates by which the Digitalisation Action Plan and Digitalisation Strategy will be published by the licensee since these have already been published.

3.39 The effect of the amendments is to:

- Align the drafting with the equivalent ESO licence condition; and
- Improve the clarity of the licence.

C4: Licensee’s assessment of gas supply security

Condition	C4: Licensee's assessment of gas supply security
Purpose	The purpose of this condition is to set out the obligations on the licensee to produce its Gas Supply Security Assessment.
Type of Change	New licence condition to reflect NESO’s duty to promote security of supply, and the production of a Gas Supply Security Assessment as proposed in the Energy Security Plan.
Equivalent ESO condition	None.
Associated document(s)	None

3.40 The reason for introducing this condition is to reflect policy proposed as part of the Energy Security Plan for NESO to produce a medium-long term gas supply security assessment.

3.41 The effect of this condition is that the licensee will produce its Gas Supply Security Assessment, which includes consideration of gas supplies against future scenarios at future 5-year and 10-year time intervals.

C5: Licensee's obligations regarding critical national infrastructure

Condition	C5: Licensee’s obligations regarding critical national infrastructure
Purpose	The purpose of this condition is to ensure the licensee supports the identification of critical national infrastructure and reviews and applies methodologies where the Secretary of State may request.
Type of Change	New licence condition
Equivalent ESO condition	C6: Licensee’s obligations regarding critical national infrastructure
Associated document(s)	None

3.42 The reason for introducing this licence condition is to implement NESO policy decision that NESO supports the identification of critical national infrastructure when requested by the Secretary of State, as set out in the FSO policy consultation.

3.43 The effect of this condition is that NESO is required to respond to requests received from the Secretary of State to:

- review methodologies for the identification of critical national infrastructure; and
- apply a methodology to identify sites and assets of critical national infrastructure.

C6: Energy resilience and resilience reporting

Condition	C6: Energy resilience and resilience reporting
Purpose	<p>The purpose of this condition is to set out the licensee's obligations related to:</p> <ul style="list-style-type: none"> in Part A, energy risk and threat advice; in Part B, post-event and post-emergency analysis; in Part C, the licensee's Energy Resilience Assessment Report; in Part D, the licensee's Emergency Processes Assessment; in Part E, the licensee's Industry Readiness and Preparedness Report; in Part F, the provision of reports and confidential information; and in Part G, address derogations.
Type of Change	New licence condition
Equivalent ESO condition	C7: Energy resilience and resilience reporting
Associated document(s)	None

3.44 The reason for introducing this condition is to reflect the policy for NESO to deliver and perform functions in respect of energy system resilience.

3.45 The effect of this condition is to provide the licensee's obligations in connection with supporting whole system energy resilience, and producing regular reports and assessments on energy system risks and resilience.

C7: Arrangements in coordinating market strategy

Condition	C7: Arrangements in coordinating market strategy
Purpose	The purpose of this condition is to set out the licensee’s obligations to support the progression and development of energy markets.
Type of Change	New licence condition
Equivalent ESO condition	None
Associated document(s)	None

3.46 The reason for introducing this condition is to enable the performance of NESO’s gas market strategy function.

3.47 The effect of this condition is for the licensee to establish or utilise a suitable forum to coordinate future energy market developments and produce the necessary outputs to progress these changes.

C8: Gas strategic network planning

Condition	C8: Gas strategic network planning
Purpose	The purpose of this condition is to set out the licensee’s obligations in relation to performing its gas strategic network planning function.
Type of Change	New licence condition
Equivalent ESO condition	None
Associated document(s)	None

3.48 The reason for introducing this condition is to enable and provide obligations in respect of NESO’s gas strategic planning function and delivery of the gas strategic planning process.

3.49 The effect of this condition is for the licensee to coordinate its strategic gas planning process, which includes the preparation of a Gas Network Capability Needs Report and Gas Options Advice Document.

C9: Gas Network Innovation Strategy

Condition	C9: Gas Network Innovation Strategy
Purpose	The purpose of this condition is to oblige the licensee to work with other parties to develop a Gas Network Innovation Strategy.
Type of Change	Mirrored existing GT standard special licence condition and minor amendments.
Existing GT Licence Condition	SSC A28: Gas Network Innovation Strategy
Equivalent ESO condition	C14: Electricity Network Innovation Strategy
Associated document(s)	None

- 3.50 The reason for adding and amending this condition is to align the drafting in this condition with the Electricity Network Innovation Strategy licence condition (condition C14) in NESO’s ESO licence and provide clarification on definitions that only appear in this condition.
- 3.51 The effect of the amendments is to improve the clarity of the licence condition and provide obligations in NESO’s gas and electricity conditions to produce Gas and Electricity Network Innovation Strategies respectively.

C10: Future Energy Pathways

Condition	C10: Future Energy Pathways
Purpose	<p>The purpose of this condition is to set out the obligations of the licensee to develop Future Energy Pathways and the Future Energy Pathways Methodology, including setting out:</p> <ul style="list-style-type: none"> in Part A, the requirement to create Future Energy Pathways; in Part B, the creation of the Future Energy Pathways Guidance for developing the Future Energy Pathways; in Part C, the process for the issuance and amendment of the Future Energy Pathways; in Part D, the creation and scope of the Future Energy Pathways Methodology; in Part E, the process for review of the Future Energy Pathways; and in Part F, application to the Authority for a derogation from obligations in this condition.
Type of Change	Addition of new condition
Existing ET standard condition number	Not Applicable
Equivalent ESO condition	C15: Future Energy Pathways
Associated document(s)	None

- 3.52 The reason for introducing this condition is to separate out the requirement for NESO to carry out energy supply and demand modelling from ETYS obligations and align the obligations across the ESO and GSP licences.
- 3.53 The effect of this condition is to update the objectives, scope, content, process, and timing of future energy supply and demand modelling. The outputs of the improved modelling requirements will support NESO’s wider network planning and strategic advisor activities.

C11: Strategic Spatial Energy Plan

Condition	C11: Strategic Spatial Energy Plan
Purpose	The purpose of this condition is to establish the licensee’s obligation to produce a Strategic Spatial Energy Plan and a Strategic Spatial Energy Plan Methodology in accordance with the Commission issued by the Secretary of State, including setting out: in Part A, the requirement to create a Strategic Spatial Energy Plan; in Part B, the scope and timing of the Strategic Spatial Energy Plan; and in Part C, the requirement to develop the Strategic Spatial Energy Plan Methodology.
Type of Change	Addition of new condition
Existing ET standard condition number	Not Applicable
Equivalent ESO condition	C16 Strategic Spatial Energy Plan
Associated document(s)	None

- 3.54 The reason for introducing this condition is to set out the obligations in connection with the licensee producing a Strategic Spatial Energy Plan (SSEP) in accordance with a Commission issued by the Secretary of State.
- 3.55 The effect of this condition is to ensure the licensee produces a SSEP to define the optimal mix and location of clean generation and storage to meet GB forecast demand and net zero targets. The outputs of this plan will inform the network infrastructure planning development carried out via the Centralised Strategic Network Plan (condition C12).

C12: Centralised Strategic Network Planning

Condition	C12: Centralised Strategic Network Planning
Purpose	<p>The purpose of this condition is to set out the obligation of the licensee to develop a CSNP and CSNP Methodology, including setting out:</p> <p>in Part A, the requirement to create a Centralised Strategic Network Plan;</p> <p>in Part B, the process for issuing and amending the Centralised Strategic Network Plan Guidance;</p> <p>in Part C, the development and approval process for the Centralised Strategic Network Plan Methodology;</p> <p>in Part D, the approval process for the Centralised Strategic Network Plan; and</p> <p>in Part E, the publication of the Centralised Strategic Network Plan.</p>
Type of Change	Addition of new condition
Existing ET standard condition number	Not Applicable
Equivalent ESO condition	C17: Centralised Strategic Network Planning
Associated document(s)	None

3.56 The reason for introducing this condition is to set out the obligations in connection with the licensee producing a Centralised Strategic Network Plan (CSNP) in line with Ofgem’s decision on the framework for NESO’s CSNP.¹⁰

3.57 The effect of this condition is to ensure the licensee produces a CSNP to provide an independent, coordinated approach to wider network planning in GB that considers longer-term requirements and sets out projects that require immediate delivery.

¹⁰ [Decision on the framework for the Future System Operator’s Centralised Strategic Network Plan | Ofgem](#)

Section D: Provision of advice and information services

3.58 This section contains the licence conditions related to NESO’s advice and information activities, including NESO’s duty to provide advice to government and Ofgem, and NESO’s power to request information from other industry parties.

This section contains existing activities of NGENSO, where we haven’t proposed significant changes for NESO including the data assurance provisions and requests for information from Ofgem.

D1: Provision of ISOP Advice

Condition	D1: Provision of ISOP Advice
Purpose	The purpose of this condition is to set out the licensee’s obligations and reporting requirements in connection with the provision of ISOP Advice.
Type of Change	New licence condition
Equivalent ESO condition	D1: Provision of ISOP Advice
Associated document(s)	None

3.59 The reason for introducing this condition is to set out the obligations in connection with the licensee providing ISOP Advice under section 171 of the Energy Act 2023.

3.60 The effect of this condition is to ensure the licensee has regard to the provisions set out in the Advice Process Document when providing ISOP Advice.

3.61 Paragraph D1.5, which mirrors existing obligations in Provision of Information to the Authority conditions in the current licences, has been added to enable the common process where Ofgem plans to summarise information provided by NESO, in this case as part of a request for advice, that there is an obligation on the licensee to provide comment to Ofgem on whether the summary that Ofgem has drafted accurately reflects their views. We have added this provision because we expect Ofgem are likely to need to occasionally summarise larger pieces of advice from NESO as part of Ofgem decision documents.

D2: Information requests by the licensee

Condition	D2: Information requests by the licensee
Purpose	The purpose of this condition is to set out the obligations in connection with the licensee’s power to request information under section 172 of the Energy Act 2023.
Type of Change	New licence condition
Equivalent ESO condition	D2: Information requests by the licensee
Associated document(s)	None

3.62 The reason for introducing this condition is to set out the obligations in connection with the licensee’s power to request information under section 172 of the Energy Act 2023.

3.63 The effect of this condition is that the licensee will exercise its power under section 172 of the Energy Act 2023 and report on information requests in accordance with the requirements of this condition. This condition also provides for the ISOP Information Request Statement that sets out further detail on the process the licensee expects to follow when requesting information.

D3: Provision of information to the Authority

Condition	D3: Provision of information to the Authority
Purpose	The purpose of this condition is to set out the obligations by which the licensee provides information and reports to the Authority for the Authority to perform certain functions.
Type of Change	Mirrored existing licence condition and minor amendments made to reflect more appropriate language for the establishment of NESO, including addition of language used in the existing ET Standard licence condition.
Existing GT Licence Condition	SSC A26: Provision of Information to the Authority
Equivalent ESO condition	D3: Provision of information to the Authority
Associated document(s)	None

3.64 The reason for adding and amending this existing condition is to establish the provision of information to the Authority obligations appropriately for NESO,

including the removal of certain provisions due to the new NESO operational model.

3.65 The effect is that the provisions relating to ultimate controller and information covenant in the existing gas condition have not been carried over for NESO. The effect of the changes also includes mirroring the equivalent ESO condition obligations on NESO providing the Authority with information for the purposes of performing:

- any functions transferred to or conferred on the Authority by or under the Utilities Act 2000; and
- the regulatory functions conferred on the Authority by or under any other statute or enactment.

D4: Data assurance requirements

Condition	D4: Data assurance requirements
Purpose	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).
Type of Change	Mirrored existing GT special licence condition and minor amendments.
Equivalent ESO condition	D5: Data assurance requirements
Associated document(s)	The Data Assurance Guidance (DAG)

3.66 The reasons for adding and amending the existing condition is to align the drafting in this condition with our Licence drafting principles, and to align the drafting across the ESO and GSP licences, including clearer use of definitions.

3.67 The effect of the amendments is to improve the clarity of the licence condition.

Section E: Industry codes and charging

3.68 This section contains licence obligations related to NESO's relationship with the Uniform Network Code (UNC).

3.69 This section of the GSP Licence contains licence obligations related to its involvement with the Uniform Network Code (UNC), interactions with gas

transporters (e.g. National Gas Transmission plc (NGT)) and other participants within the gas industry.

- 3.70 This includes a new condition to reflect the policy proposal for NESO to accede to the UNC, including the ability to make modification proposals and representations, and provide a representative to the UNC panel.
- 3.71 As discussed in section E of the ESO licence, we have aimed to only provide for licence obligations in this section that reflect new policy decisions and are not proposing any pre-emptive changes on the basis of Energy Code Governance Reform.

E1: Obligations regarding the Uniform Network Code

Condition	E1: Obligations regarding the Uniform Network Code
Purpose	The purpose of this condition is to establish appropriate obligations on the licensee in respect of arrangements related to the Uniform Network Code, including obligations related to the modification procedures and duty to cooperate, as well as the requirement for the licensee to accede to the Uniform Network Code and subsequently make modification proposals.
Type of Change	New licence condition
Equivalent ESO condition	None
Associated document(s)	None

- 3.72 The reason for introducing this condition is to establish obligations in respect of NESO's proposed relationship to the UNC.
- 3.73 The effect of this condition is to enable NESO to support the arrangements and functioning of the UNC, including cooperation with the Authority where necessary.

Section F: Finance and funding

- 3.74 This section covers the financial and funding obligations for NESO. It includes all conditions related to NESO's gas-related expenditure and calculation of revenues. This includes the process for NESO to receive its gas funding through gas network charges, notify NGT of its forecast gas expenditure, and reconcile differences between gas charges and actual costs.

3.75 It also sets requirements in relation to innovation funding; NESO’s treatment of its assets and resources; and its approach to staff remuneration and expenses.

F1: Gas revenue calculations and notification process

Condition	F1: Gas revenue calculations and notification process
Purpose	The purpose of this condition is to establish requirements on the licensee in relation to its expenditure; its allocation of Electricity Licence Expenditure and Gas Licence Expenditure; and the process to notify the NTS System Operator of the forecast amounts of Gas Licence Expenditure.
Type of Change	New condition
Equivalent ESO condition	F1: Expenditure and allowed revenue
Associated document(s)	Not Applicable.

3.76 The reason for introducing this condition is to apply to NESO’s gas-related expenditure the same general regulatory protections that apply to electricity expenditure under the Electricity System Operator licence. It is also to introduce a process for NESO to recover its gas-related expenditure through gas charges.

3.77 A key component of this new condition is the requirement for NESO to notify NGT of its allowed revenue for gas-related expenditure, which NGT will pass through onto gas charges. The allowed revenue formula includes an adjustment term to reconcile differences between previous charges notified to NGT and actual gas-related expenditures.

3.78 The condition also mirrors requirements in the ESO licence for NESO to establish a methodology on the allocation of its costs between electricity and gas.

3.79 The effect of this condition is to:

- Allow NESO to fund its gas-related expenditure through gas charges (via NGT);
- Ensure an appropriately reflective allocation of costs between electricity and gas charges; and
- Introduce regulatory protections for industry and energy consumers in relation to NESO’s gas expenditure.

F2: Innovation funding

Condition	F2: Innovation funding
Purpose	The purpose of this condition is to establish arrangements for the calculation of revenues with respect to the Strategic Innovation Fund (SIF).
Type of Change	New condition
Equivalent ESO condition	F2: Innovation funding
Associated document(s)	SIF Governance Document

3.80 The reason for introducing this condition is to include the necessary SIF obligations in NESO’s GSP licence. We have defined the SIF term, set the SIF Funding Return Mechanism and established the SIF Governance Document. We have also aligned the drafting in this condition with our Licence drafting principles.

3.81 The effect of this condition is to ensure the licensee has access to the appropriate SIF revenue and to improve the clarity of the licence condition.

F3: Assets and resources

Condition	F3: Assets and resources
Purpose	The purpose of this condition is to establish requirements on the licensee in relation to securing necessary resources; maintaining an Intervention Plan; the disposal of Relevant Assets; and the use of commercial debt.
Type of Change	New condition
Equivalent ESO condition	F4: Assets and resources
Associated document(s)	Not applicable.

3.82 The reason for introducing this condition is to mirror requirements on assets and resources in the Electricity System Operator licence so that they equally apply to gas-related resources and assets.

3.83 The effect of this condition (in combination with the equivalent ESO Licence condition) is to set requirements and restrictions on NESO’s treatment of assets and resources that are appropriate and proportionate for a not for profit, government owned body.

F4: Financial Model and Handbook

Condition	F4: Financial Model and Handbook
Purpose	The purpose of this condition is to set out requirements on the licensee in relation to the Financial Model. This condition also establishes the Financial Handbook and the process the Authority will follow in issuing and amending the Financial Handbook
Type of Change	New condition
Equivalent ESO condition	F5: Financial Model and Handbook
Associated document(s)	Financial Handbook

- 3.84 The reason for introducing this condition is to mirror requirements in the Electricity System Operator licence in relation to the Financial Handbook and Financial Model.
- 3.85 Whilst the calculation of allowed gas revenues is simple in isolation and does not require further detailed guidance, gas allowed revenues interact with electricity allowed revenues and this condition will therefore ensure the Financial Model and Financial Handbook covers all NESO revenues.
- 3.86 The effect of this condition (in combination with the equivalent ESO Licence condition) is to establish documents that provide transparency on the full and detailed calculation of NESO’s allowed revenue for charge setting purposes each Regulatory Year. The effect is also to ensure that the oversight of this detailed calculation, and process to change the documents that underpin it, is proportionate under a not-for-profit framework.

F5: Remuneration Policy and Expenses Policy

Condition	F5: Remuneration Policy and Expenses Policy
Purpose	The purpose of this condition is to ensure that the licensee has in place and complies with a Remuneration Policy and an Expenses Policy, that has been approved by the Authority.
Type of Change	New condition
Equivalent ESO condition	F7: Remuneration Policy and Expenses Policy
Associated document(s)	N/A

- 3.87 The reason for introducing this condition is to mirror the proposed electricity condition that establishes that the licensee must have in place and comply with a Remuneration Policy and an Expenses Policy, that has been approved by the Authority.
- 3.88 The effect of this condition is to ensure the licensee submits a Remuneration Policy and an Expenses Policy to the Authority for approval across its ESO and GSP licenses, covering both gas and electricity activities.
- 3.89 Since the statutory consultation we have introduced new drafting to this condition following consultee feedback received. Such changes ensure that NESO is obliged to publish the Remuneration Policy and Expenses Policy on NESO’s website. The reason for introducing this obligation is set out in section 1.3 of the main response document. The effect is to obligate transparency over NESO’s staff remuneration approach.

Section G: Regulatory reports and assessment

- 3.90 This section contains requirements in relation to NESO’s performance regulation. This includes conditions covering NESO business planning process, performance reporting and assessment, and the governance arrangements for other detailed information Ofgem may need to regulate NESO’s performance.

G1: Business Plan

Condition	G1: Business Plan
Purpose	The purpose of this condition is to set obligations on the licensee related to developing a Business Plan and to establish the NESO Business Plan Guidance.
Type of Change	New condition
Equivalent ESO condition	G1: Business Plan
Associated document(s)	NESO Business Plan Guidance

- 3.91 The reason for introducing the new licence condition is to mirror the proposed requirements in the ESO licence in relation to Business Plans.
- 3.92 The effect of this condition is to ensure the licensee produces and publishes an appropriate Business Plan across its ESO and GSP licenses, covering both electricity and gas activities.
- 3.93 Since the statutory consultation we have changed the name of the business plan governance document from ISOP Business Plan Governance Document to NESO Business Plan Guidance. We believe the new title is clearer.

G2: Performance reports and assessment

Condition	G2: Performance reports and assessment
Purpose	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.
Type of Change	New condition
Equivalent ESO condition	G2: Performance reports and assessment
Associated document(s)	NESO Performance Arrangements Governance Document

- 3.94 The reason for introducing the new licence condition is to mirror the proposed requirements in the ESO licence in relation to NESO’s performance incentives.
- 3.95 The effect of this condition is to establish the basis of the new reputational incentive framework for NESO across the ESO and GSP licences, so that this applies to both gas and electricity activities.
- 3.96 Since the statutory consultation we have changed the name of the performance governance document from ISOPRI Arrangements Governance Document to NESO Performance Arrangements Governance Document. We believe the new title is clearer.

G3: Regulatory Instructions and Guidance (RIGs)

Condition	G3: Regulatory Instructions and Guidance (RIGs)
Purpose	The purpose of this condition is to set out the scope, contents, and common governance arrangements for the RIGs.
Type of Change	Mirrored existing GT standard special licence condition and minor amendments.
Existing GT standard condition number	SSC A40: Regulatory Instructions and Guidance (RIGs)
Equivalent ESO condition	G3: Regulatory Instructions and Guidance (RIGs)
Associated document(s)	Regulatory Instructions and Guidance (RIGs)

- 3.97 The reason for adding and amending the existing condition is to include the RIGs in NESO’s GSP licence and align the drafting in this condition with our NESO licence drafting principles.
- 3.98 The effect of the amendments is to improve the clarity of the licence condition.

4. Other impacted licences

- 4.1 We are modifying the licence conditions of other gas and electricity licences and the Smart Meter Communication Licence required to implement the decision to create NESO.
- 4.2 NESO will have two licences: an Electricity System Operator (ESO) Licence and a Gas System Planner (GSP) Licence. The new responsibilities and creation of NESO's new licences will have impact on other licences.
- 4.3 The modifications we are making are set out in the annexes.
- 4.4 Within this document we set out the reasons why we are making these changes and their effect.
- 4.5 We are making modifications to the following licences:
- Electricity Transmission Standard Licence Conditions
 - National Grid Electricity Transmission plc's Special Conditions
 - Scottish Power Transmission Special Conditions
 - Scottish Hydro Electric Transmission Special Conditions
 - Electricity Generation Standard Licence Conditions
 - Electricity Interconnector Standard Licence Conditions
 - Electricity Supply Standard License Conditions
 - Electricity Distribution Standard Licence Conditions
 - All Electricity Distribution Special Conditions (including additional changes to Scottish Hydro Distribution Special Conditions only)
 - Smart Meter Communication Licence
 - National Gas Transmission plc's (NGT) Gas Transporter Licence (Part C) Special Conditions
 - Gas Transporters to whom Standard Special Conditions Part D apply: Gas Transporter Licence Special Conditions Gas Transporter Standard Special Conditions (Part A)
 - Gas Transporter Standard Licence Conditions
- 4.6 As part of our statutory consultation the Reasons and Effects included lists of impacted licence conditions by licence type.¹¹ This has not changed since the statutory consultation.
- 4.7 Ofgem intend to make a change to the Electricity Supply Licence that could happen before, at the same time, or slightly after NESO day-1 depending on the timing of NESO day-1.¹² The marked up version of the Electricity Supply Licence

¹¹ See annex B: [National Energy System Operator \(NESO\) licences and other impacted licences: statutory consultation | Ofgem](#)

¹² [Non-domestic market review: decision | Ofgem](#)

does not include these changes, but we do not believe there to be any interactions between these changes and the changes we are proposing.

- 4.8 The changes we are proposing to other licences are only the insertions and deletions we have marked up, the rest of the text of those licences is presented for reader clarity only.

Changes to Cross Sector Licence Conditions

- 4.9 We are making changes throughout the electricity, gas and smart meter communication licences to implement the creation of NESO and its new ESO and GSP licences.

Reason and effect for changes to the innovation strategy conditions

Change	<i>Amendment of the Electricity and Gas Network Innovation Strategies</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	Electricity Transmission SLCs: B16 (Electricity Network Innovation Strategy) Electricity Distribution SLCs: 48A (Electricity Network Innovation Strategy) Gas Standard Special Condition A28 (Gas Network Innovation Strategy)
Relevant licensees/relevant sectors	Electricity Transmission and Distribution Gas Transporters (NGT & GDNs)

- 4.10 The reason for amending these conditions is to include NESO as one of the parties that electricity transmission and distribution licensees must coordinate with to produce the electricity network innovation strategy and coordinate with gas distribution networks and NGT to produce the gas network innovation strategy.
- 4.11 The effect of the amendments is to obligate relevant parties to coordinate with NESO to produce the electricity network innovation strategy and gas network innovation strategy.
- 4.12 Note that there are additional changes to these conditions for electricity licensees picked up in other parts of this document where the conditions cross-reference NESO's financial provisions related to innovation funding.

Changes to impacted electricity licences and the Smart Meter Communication Licence

4.13 NGESO’s role in the electricity system has led to many connections between the provisions of its licence and the provisions of other licences in the electricity sector. As part of the creation of NESO we are updating the impacted licences to reflect NESO taking on all of the roles of NGESO.

4.14 While this section mostly focuses on changes to other electricity licences, we have also included the smart meter communication licence, which contains references to NGESO as the licensee obligated to establish and maintain the Balancing and Settlement Code (BSC), since these are very similar to references in the electricity licences.

Reason and effect for changes related to cross references

Change theme	<i>Cross references to NGESO’s licence that have been moved to NESO’s ESO licence</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	<p>Electricity Transmission SLCs:</p> <ul style="list-style-type: none"> • A1 (Definitions and interpretation) • B12 (System Operator – Transmission Owner Code) • D3 (Transmission system security standard and quality of service) • D4A (Obligations in relation to offers for connection etc) • D4B (Functions of the Authority) • D16 (Requirements of a connect and manage connection) • E16 (Transmission system security standard and quality of service) • E17 (Obligations in relation to offers for connection etc.) • E18 (Functions of the Authority) <p>Electricity Transmission SpCs:</p> <ul style="list-style-type: none"> • 1.1 (Interpretation and definitions) • 9.19 (The strategic innovation fund (SIFt)) <p>Electricity Distribution SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions for the standard conditions) • 31F (Requirements relating to Electric Vehicle Recharging Points) • 48A (Electricity Network Innovation Strategy) <p>Electricity Distribution SpCs:</p> <ul style="list-style-type: none"> • 1.2 (Definitions and references to the Electricity Distributors) • 9.9 (The strategic innovation fund (SIFt)) <p>Electricity Generation SLCs:</p> <ul style="list-style-type: none"> • 9 (Balancing and Settlement Code and NETA Implementation)

	<ul style="list-style-type: none"> • 19 (Compliance with CUSC) • 20A (Transmission Constraint Licence Condition) <p>Electricity Supply SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions for standard conditions) • 15 (Assistance for areas with high distribution costs scheme, Energy Administration Orders, ESC Administration Orders and SMCL Administration Orders: payments to the ISOP) • 47 (Smart Metering – Matters Relating To Obtaining and Using Consumption Data) <p>Electricity Interconnector SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and interpretation) • 16 (BETTA implementation) <p>Smart Meter Communication Licence:</p> <ul style="list-style-type: none"> • 21 (Roles in relation to Core Industry Documents)
Relevant licensees/relevant sectors	All electricity licensees and the Smart Meter Communication licence holder

4.15 The reason for these modifications is to reflect that the conditions in NGESO’s licence are being removed from the ET licence and moved to NESO’s ESO licence.

4.16 The effect of these modifications is to update the conditions to reflect the establishment of NESO and retain the existing links between the licences.

Change theme	<i>Cross references to conditions of NGESO’s licence that have been removed</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	<p>Electricity Transmission SLCs:</p> <ul style="list-style-type: none"> • A1 (Definitions and interpretation) • E3 (Change of Financial Year) • D5 (Prohibition on engaging in preferential or discriminatory behaviour)
Relevant licensees/relevant sectors	All electricity transmission licensees

4.17 The reason for these modifications is to remove references to the conditions that were part of the electricity transmission SLCs that we decided should be removed from the electricity transmission licences, where either the condition has not been moved to NESO’s ESO licence, or the cross-reference was no longer needed.

These conditions include:

- A2 (Application of Section C)
- C18 (Requirement to offer terms for connection or use of the GB transmission system during the transition period)
- D15 (Obligations relating to the preparation of TO offers during the transition period)
- A4 (Payments to the Authority)

4.18 The effect of these modifications is to update conditions to reflect the establishment of NESO and remove references to defunct licence conditions.

Change	<i>Addition of 'Electricity System Operator Licence' and 'Gas System Planner Licence' as a defined term</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	<p>Electricity Transmission SLCs: *</p> <ul style="list-style-type: none"> • A1 (Definitions and interpretation) <p>Electricity Transmission SpCs:</p> <ul style="list-style-type: none"> • 1.1 (Interpretation and definitions) <p>Electricity Distribution SLCs: *</p> <ul style="list-style-type: none"> • 1 (Definitions for the standard conditions) <p>Electricity Distribution SpCs:</p> <ul style="list-style-type: none"> • 1.2 (Definitions and references to the Electricity Distributors) <p>Electricity Generation SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and Interpretation)* <p>Electricity Supply SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions for standard conditions), • 15 (Assistance for areas with high distribution costs scheme, Energy Administration Orders, ESC Administration Orders and SMCL Administration Orders: payments to the ISOP) * <p>Electricity Interconnector SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and interpretation) * • 15 (Definitions) <p>Smart Meter Communication Licence:</p> <ul style="list-style-type: none"> • 21 (Roles in relation to Core Industry Documents)
Relevant licensees/relevant sectors	All electricity licensees and the Smart Meter Communication Licence holder
	* indicates where Gas System Planner Licence has been added in addition to Electricity System Operator Licence.

4.19 It is customary in Ofgem’s licences that the names of other licences are defined terms, to clarify the meaning when they are used as part of any relevant cross-references. The reason for these modifications is to add NESO’s ESO and GSP licences as defined terms where these are referenced in other licences.

4.20 The effect of these modifications is to clarify the cross references to NESO’s ESO licence.

4.21 Throughout all of these modifications we have used the following definitions: “Electricity System Operator Licence: *means a licence granted or treated as granted under section 6(1)(da) of the Act.*” and “Gas System Planner Licence:

means a licence granted or treated as granted under section 7AA of the Gas Act 1986.” Except where the style of that licence is to cross refer to the definition in another licence (for example the Electricity Transmission SpCs refer to the definition in the Electricity Transmission SLCs) then we have followed that same convention.

Change	<i>Addition of Electricity System Operator licence to interpretations</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	Electricity Transmission SLCs: <ul style="list-style-type: none"> • A1 Definitions and interpretation Electricity Transmission SpCs: <ul style="list-style-type: none"> • 1.1 Interpretation and definitions Electricity Distribution SLCs: <ul style="list-style-type: none"> • 2 (Interpretation of this licence) Electricity Distribution SpCs: <ul style="list-style-type: none"> • 1.2 (Definitions and references to the Electricity Distributors) Electricity Generation SLCs: <ul style="list-style-type: none"> • 1 (Definitions and Interpretation) Electricity Supply SLCs: <ul style="list-style-type: none"> • 2 (Interpretation of standard conditions) Electricity Interconnector SLCs: <ul style="list-style-type: none"> • A1 Definitions and interpretation
Relevant licensees/relevant sectors	All electricity licensees

4.22 In the interpretation section of most licences there is a paragraph setting out that any cross references to other licences should be taken to be a reference to that licence as modified. The reason for these modifications is to add NESO’s ESO licence to the list of licences this applies to in the licences that cross reference NESO’s ESO licence. In the case of the Electricity Supply licence, the transmission licence has also been removed from this list as no references to the transmission licence remain in the electricity supply SLCs.

4.23 The effect of these modifications is to improve the clarity of the cross references to NESO’s ESO licence in other licences.

Change	<i>Removal of references to Section C and Section C direction</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	<p>Electricity Transmission SLCs:</p> <ul style="list-style-type: none"> • A1 Definitions and interpretation <p>Electricity Transmission SpCs:</p> <ul style="list-style-type: none"> • 1.1 (Interpretations and definitions) • 9.17 (Prohibited activities and conduct of the Transmission Business) <p>Electricity Generation SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and interpretation) <p>Electricity Supply SLCs:</p> <ul style="list-style-type: none"> • 15 (Assistance for areas with high distribution costs scheme, Energy Administration Orders, ESC Administration Orders and SMCL Administration Orders: payments to ISOP) <p>Electricity Interconnector SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and interpretation) • 15 (Definitions)
Relevant licensees/relevant sectors	Electricity Transmission, Interconnector, Generation and Supply licensees.

4.24 The reason for these modifications is to remove redundant references to Section C of the Electricity Transmission SLCs, which is a section we propose to remove. This includes:

- Removing cross-references to the section of the Electricity Transmission SLCs
- Some of the definitions in standard condition A1 (Definitions and interpretation) of the Electricity Transmission SLCs set out specific meanings that only apply in specific conditions or in all of Section C of the licence. Where the condition being referred to has been removed or moved to NESO’s ESO licence, these references have been deleted, but the rest of the definition has been retained unless this amendment meant the whole definition should be deleted
- Removing the related defined term “section C (system operator standard conditions) Direction”
- Removing references to a “Section C (system operator standard conditions) Direction”

4.25 The effect of these modifications is to improve the clarity of the licence.

Change	<i>Removal of the "Transmission Licence" defined term</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	Smart Meter Communication Licence: <ul style="list-style-type: none"> • 21 (Roles in relation to Core Industry Documents) Electricity Supply SLCs: <ul style="list-style-type: none"> • 1 (Definitions for standard conditions) • 15 (Assistance for areas with high distribution costs scheme, Energy Administration Orders, ESC Administration Orders and SMCL Administration Orders: payments to the ISOP)
Relevant licensees/relevant sectors	Electricity Supply licensees and the Smart Meter Communication Company

4.26 The reason for these modifications is to remove the defined term 'Transmission Licence' where it has been replaced by 'Electricity System Operator Licence' and we propose it is no longer needed in cases where there are no references to the transmission licences remaining.

4.27 The effect of these modifications is to improve the clarity of the licence.

Reason and effect for changes related to references to the ISOP

Change theme	<i>References to the 'system operator', 'GB system operator' and 'NGESO'</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	Electricity Transmission SLCs: <ul style="list-style-type: none"> • A1 (Definitions and interpretation) • B12 (System Operator – Transmission Owner Code) • B16 (Electricity Network Innovation Strategy) • D1 (Interpretation of Section D) • D2 (Obligation to provide transmission services) • D3 (Transmission system security standard and quality of service) • D4A (Obligations in relation to offers for connection etc) • D4B (Functions of the Authority) • D16 (Requirements of a connect and manage connection) • E15 (Obligation to provide transmission services) • E16 (Transmission system security standard and quality of service) • E17 (Obligations in relation to offers for connection etc.) • E18 (Functions of the Authority) All Electricity Transmission SpCs: <ul style="list-style-type: none"> • 1.1 (Interpretation and definitions) • 3.14 (Medium Sized Investment Projects Re-opener and Price Control Deliverable (MSIPREt)) • 3.16 (Access Reform Change Re-opener (ARRt))

	<ul style="list-style-type: none"> • 3.41 (Accelerated strategic transmission investment Re-opener and Price Control Deliverable term (ASTIRt)) • 4.7 (SO-TO optimisation output delivery incentive (SOTot)) • 6.1 (Pass-through items (PTt)) • 7.11 (RIIO-ET1 network innovation competition) • 9.7 (Directly Remunerated Services) • 9.10 (Network Access Policy) • 9.11 (Provision of information to the ISOP) • 9.19 (The strategic innovation fund (SIFt)) <p>National Grid Electricity Transmission plc (NGET)'s SpCs only:</p> <ul style="list-style-type: none"> • 3.34 (Tyne Crossing Project Re-opener (TCRt)) • 3.13 (Large onshore transmission investment Re-opener (LOTIAAt and LOTIREt)) <p>Electricity Distribution SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions for the standard conditions) • 22 (Distribution Connection and Use of System Agreement) • 24 (Distribution System planning standard and quality of performance reporting) • 25B (Network Development Plan) • 31E (Procurement and use of Distribution Flexibility Services) • 31F (Requirements relating to Electric Vehicle Recharging Points) • 48A (Electricity Network Innovation Strategy) <p>Electricity Distribution SpCs:</p> <ul style="list-style-type: none"> • 1.2 (Definitions and references to the Electricity Distributors) • 3.2 (Uncertain Costs Re-openers) • 7.10 (RIIO-ED1 network innovation competition) • 9.7 (Directly Remunerated Services) • 9.9 (The strategic innovation fund (SIFt)) • 3.16 Shetland Link Contribution (Scottish Hydro Distribution only) <p>Electricity Generation SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and Interpretation) • 11 (Ancillary Services) • 18 (Generating Unit Availability) • 20A (Transmission Constraint Licence Condition) • 20B (Inflexible Offers Licence Condition) <p>Electricity Supply SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions for standard conditions) • 15 (Assistance for areas with high distribution costs scheme, Energy Administration Orders, ESC Administration Orders and SMCL Administration Orders: payments to System Operator the ISOP) <p>Electricity Interconnector SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and interpretation) • 1B (Application of Section H) • 16 (Provision of information to the GB System Operator ISOP)
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Response – Reasons and effect – NESO and other impacted licences

	<ul style="list-style-type: none">• 27 (Determination of the Interconnector Payments term with respect to costs related to the Capacity Allocation and Congestion Management Regulation)• 28 (Provision of payments information to the GB System Operator ISOP)
Relevant licensees/relevant sectors	All electricity licensees

- 4.28 The reason for these modifications is to update references in other licences to NGESO in some form (system operator, GB system operator or NGESO) to refer to the ISOP.
- 4.29 The effect of these modifications is to ensure that NESO is referred to by one consistent name throughout the licences.
- 4.30 Note that since the statutory consultation, Ofgem has made changes in Special Condition 6.1 (Pass-through items (PTt)) of NGET’s transmission licence related to pension scheme arrangements for National Grid employees transferring to the NESO.¹³ We have retained the term NGESO in parts of this condition only where it relates to this decision.

¹³ [Decision on the pension scheme arrangements for National Grid employees transferring to the Future System Operator | Ofgem](#)

Change theme	<i>References to transmission licensee</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	<p>Electricity Transmission SLCs:</p> <ul style="list-style-type: none"> • A1 (Definitions and interpretation) • B3 (Disposal of relevant assets and restrictions on charges over receivables) • B12 (System Operator – Transmission Owner Code) • D17 (Requirements of a connect and manage connection) <p>Electricity Transmission SpCs:</p> <ul style="list-style-type: none"> • 5.2 (RIIO-2 network innovation allowance (NIAt)) • 5.3 (Carry-over Network Innovation Allowance (CNIAt)) • 9.19 (The strategic innovation fund (SIFt)) <p>Electricity Distribution SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and Interpretation) • 37 (Provision of the Data Transfer Service) • 48A (Electricity Network Innovation Strategy) <p>Electricity Distribution SpCs:</p> <ul style="list-style-type: none"> • 1.2 (Definitions and references to the Electricity Distributors) • 4.4 (Interruptions incentive scheme output delivery incentive (IQt)) • 5.2 (RIIO-2 network innovation allowance (NIAt)) • 5.3 (Carry-over Network Innovation Allowance) • 7.10 (RIIO-ED1 network innovation competition) • 9.9 (The strategic innovation fund (SIFt)) <p>Electricity Generation SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and Interpretation) • 5 (Compliance with Grid Code) • 19B (BETTA run-off arrangements scheme) <p>Electricity Interconnector SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and interpretation) • 3 (Compliance with codes) • 5 (Information regarding technical rules, operation and co-ordinated development) • 15 (Definitions) • 16 (BETTA implementation)
Relevant licensees/relevant sectors	Electricity Transmission, Distribution, Generation and Interconnector licensees

- 4.31 The reason for these modifications is to update references to “transmission licensee” in light of NESO not being a transmission licensee but taking on all activities currently carried out by NGESO who is a transmission licensee.
- 4.32 The effect of these modifications is to clarify references in the licences to transmission licensees.

4.33 These modifications include removing 'other than the system operator' from any references to 'any transmission licensee other than the system operator'.

Change	<i>Addition of 'ISOP' as a defined term</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	Electricity Transmission SLCs: <ul style="list-style-type: none"> • A1 (Definitions and interpretation) Electricity Transmission SpCs: <ul style="list-style-type: none"> • 1.1 (Interpretation and definitions) Electricity Distribution SLCs: <ul style="list-style-type: none"> • 1 (Definitions for the standard conditions) Electricity Distribution SpCs: <ul style="list-style-type: none"> • 1.2 (Definitions and references to the Electricity Distributors) Electricity Generation SLCs: <ul style="list-style-type: none"> • 1 (Definitions and interpretation) Electricity Supply SLCs: <ul style="list-style-type: none"> • 15 (Assistance for areas with high distribution costs scheme, Energy Administration Orders, ESC Administration Orders and SMCL Administration Orders: payments to System Operator the ISOP) Electricity Interconnector SLCs: <ul style="list-style-type: none"> • Condition 1 (Definitions and Interpretation) • Condition 15 (Definitions)
Relevant licensees/relevant sectors	All electricity licensees

4.34 The reason for these modifications is to add the ISOP as a defined term where it is referenced in other licences.

4.35 The effect of these modifications is to clarify the references to the NESO in other licences.

4.36 Throughout all of these modifications we have used the following definition for ISOP: *"means the person for the time being designated as the Independent System Operator and Planner under section 162 of the Energy Act 2023 who holds an electricity system operator licence and gas system planner licence."* Except where the style of that licence is to cross refer to the definition in another licence (for example the Electricity Transmission SpCs refer to the definition in the Electricity Transmission SLCs), where we have followed that same convention.

4.37 NGESO is currently referred to as 'GB system operator' in the electricity interconnector licence. Because of the international nature of interconnectors, instead of replacing 'system operator' with 'ISOP' in this licence we have opted to replace 'GB system operator' with 'GB ISOP'. This includes updating the definition of GB ISOP to align with the definition of ISOP across the other licences.

Change	<i>Removal of System Operator, GB System Operator and NGESO as defined terms</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	<p>Electricity Transmission SLCs:</p> <ul style="list-style-type: none"> • A1 (Definitions and interpretation) <p>Electricity Transmission SpCs:</p> <ul style="list-style-type: none"> • 1.1 (Interpretation and definitions) <p>Electricity Distribution SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions for the standard conditions) <p>Electricity Distribution SpCs:</p> <ul style="list-style-type: none"> • 1.2 (Definitions and references to the Electricity Distributors) • 3.2 (Uncertain Costs Re-openers) • 7.10 (RIIO-ED1 network innovation competition) • 9.7 (Directly Remunerated Services) • 9.9 (The strategic innovation fund (SIFt)) <p>Electricity Generation SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and Interpretation) <p>Electricity Supply SLCs:</p> <ul style="list-style-type: none"> • 15 (Assistance for areas with high distribution costs scheme, Energy Administration Orders, ESC Administration Orders and SMCL Administration Orders: payments to the ISOP) <p>Electricity Interconnector SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions and interpretation) • 15 (Definitions)
Relevant licensees/relevant sectors	All electricity licensees

4.38 The reason for these modifications is to remove redundant terms from the definitions.

4.39 The effect of these modifications is to improve the clarity of the licence.

Reason and effect for changes to impacted definitions

Change	<i>Amendment of Authorised Electricity Operator and National Electricity Transmission System definitions</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	<p>Electricity Transmission SLCs:</p> <ul style="list-style-type: none"> • A1 (Definitions and interpretation) <p>Electricity Transmission SpCs:</p> <ul style="list-style-type: none"> • (Interpretation and definitions) <p>Electricity Distribution SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions for the standard conditions) <p>Electricity Distribution SpCs:</p> <ul style="list-style-type: none"> • 1.2 (Definitions and references to the Electricity Distributors) <p>Electricity Generation SLC:</p> <ul style="list-style-type: none"> • A1 (Definitions and Interpretation) <p>Electricity Supply SLCs:</p> <ul style="list-style-type: none"> • 1 (Definitions for standard conditions) <p>Electricity Interconnector SLCs:</p> <ul style="list-style-type: none"> • 15 (Definitions)
Relevant licensees/relevant sectors	Electricity Transmission, Distribution, Generation, Interconnector and Supply licensees

4.40 The reason for these modifications is to clarify NESO’s responsibilities within the electricity system. This includes updating “Authorised Electricity Operator” to include the NESO. “National Electricity Transmission System” and “GB transmission system” have also been amended to clarify that NESO will operate the electricity transmission system.

4.41 The effect of these modifications it to improve the clarity of the licences.

Reason and effect for changes to Whole Electricity System Obligations

Change	<i>Amendment of the Whole Electricity System Obligations</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	Electricity Transmission SLCs: <ul style="list-style-type: none"> • D17 (Whole Electricity System Obligations) Electricity Distribution SLCs: <ul style="list-style-type: none"> • 7A (Whole Electricity System Obligations)
Relevant licensees/relevant sectors	Electricity Transmission and Distribution

4.42 The reason for amending these conditions, which obligate the transmission owners and distribution network operators to coordinate with each other, other transmission licensees and the system operator, is to make it explicit that this includes NESO.

4.43 The effect of the amendments is to obligate electricity transmission and distribution licensees to coordinate with NESO as part of their whole electricity system obligations.

Changes to Electricity Transmission conditions

4.44 This section sets out the changes to the electricity transmission licence conditions, both the SLCs and the SpCs.

Change	<i>Removal of redundant defined terms</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	Electricity Transmission SLCs: <ul style="list-style-type: none"> • A1 (Definitions and interpretation)
Relevant licensees/relevant sectors	Electricity Transmission

4.45 The reason for this modification is to remove definitions which no longer appear in the Electricity Transmission SLCs as part of the changes to implement NESO. The majority of these terms were used in Section C exclusively which applied only to NGESO. Where relevant the defined terms, with necessary modifications, will move across to NESO's ESO licence:

- Affected transmission licensee
- Applicable balancing services
- Applicable balancing services volume data
- Applicable balancing services volume data methodology
- Applicable BSC objective
- Applicable CUSC objectives
- Application regulations
- Associated TO agreement
- Associated TO offer
- Balancing mechanism
- Balancing services
- Balancing services activity
- Balancing services adjustment data methodology
- Bilateral agreement
- Bilateral connection agreement
- Bilateral embedded generation agreement
- BSC Framework Agreement
- BSC party
- Connection charges
- Connection charging methodology
- Construction agreement
- CUSC Framework Agreement
- CUSC Party
- CUSC User
- Designated sum
- Director general of electricity supply
- Distribution code
- Effective time
- Eligible generator
- EMR legislation
- Estimated costs
- GB transmission system
- Imbalance price
- Interconnection
- Licenced distributor
- Offshore transmission go active
- Offshore transmission go live
- Offshore transmission implementation period
- Offshore transmission implementation plan
- Relevant agreement
- Relevant balancing services
- Relevant connect and manage derogation report
- Relevant consumers committees
- Relevant proportion
- Relevant year
- Secretary of state's costs
- Section C (system operator standard conditions) Direction
- System operator
- Total system
- Transmission constraint costs
- Transmission network services
- Use of system charges
- Use of system charging methodology

4.46 The effect of these modifications are to improve the clarity of the licence.

Change	<i>Removal from NGESO from National Grid Group</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	Electricity Transmission SLCs: <ul style="list-style-type: none"> • A1 (Definitions and interpretation) • B1 (Regulatory Accounts) Electricity Transmission SpCs: <ul style="list-style-type: none"> • 1.1 (Interpretation and definitions) • 9.7 (Directly Remunerated Services) • 9.17 (Prohibited activities and conduct of the Transmission Business) NGET SpCs only: <ul style="list-style-type: none"> • 1.2 (Variations to the standard conditions for the purposes of this licence)
Relevant licensees/relevant sectors	Electricity Transmission

4.47 NESO will be a public corporation, not part of National Grid Group like NGESO.

The reason for these amendments is to reflect these ownership changes and remove obligations related to the legal separation of NGESO which are redundant upon establishment of NESO. These changes include:

- removing the system operator activity from the transmission business activities including removing the definitions of “system operator activity”, “transmission business activities”
- removing the defined term “transmission business activity” and replace it with the existing defined term “transmission owner activity” to reflect the removal of the system operator activities from the transmission business
- removing references to “System Operator Functions” and the associated defined term
- updating the defined term “Licenced Activity” to refer to the Transmission Owner Activity
- updating the defined term “Transmission Business” to reflect the removal of the system operator activity and settlement provisions (related to ownership of the BSCco) from National Grid group (to reflect the Elexon ownership policy)¹⁴
- removing the modification of the defined term “transmission business” in SpC 1.2 (Variations to the standard conditions for the purposes of this licence) of NGET’s licence

4.48 The effect of these amendments is to improve the clarity of the licence.

Change	<i>Aligning drafting with equivalent ISOP ESO licence conditions</i>

¹⁴ [The future ownership of Elexon - GOV.UK \(www.gov.uk\)](http://www.gov.uk)

Type of change	Amendment to existing licence conditions
Impacted condition name and number	Electricity Transmission SLCs: <ul style="list-style-type: none"> • B12 (System Operator – Transmission Owner Code) • D3 (Transmission system security standard and quality of service) • E13 (System Operator – Transmission Owner Code) • E16 (Transmission system security standard and quality of service)
Relevant licensees/relevant sectors	Electricity Transmission

4.49 The reason for these amendments is to align the drafting in the System Operator Transmission Owner Code (STC) and Transmission System Security Standard and Quality of Service (SQSS) conditions in the electricity transmission licences with the amended drafting in NESO’s ESO licence. This includes removing provisions from B12 (System Operator – Transmission Owner Code) where these only apply to NESO.

4.50 The effect of these amendments is to ensure alignment across licensees who are obligated to comply with the STC and SQSS.

Change	<i>Misc definition updates</i>
Type of change	Amendment to existing licence conditions
Impacted condition name and number	Electricity Transmission SLCs: <ul style="list-style-type: none"> • A1 (Definitions and interpretation) Electricity Transmission SpCs: <ul style="list-style-type: none"> • 1.1 (Interpretation and definitions) • 1.2 (Variations to the standard conditions for the purposes of this licence)
Relevant licensees/relevant sectors	Electricity Transmission

4.51 The reason for these amendments is to update definitions because their current definition is impacted by the creation of NESO.

4.52 In the Electricity Transmission SLCs, the following definitions have been updated because the previous definition (i.e. the definition in existence prior to the creation of NESO) cross-referred to the definition in Section C that has been removed, but the defined term is still used in the remaining conditions of this

licence. For these we propose using the definition from Section C with any cross-references updated:

- ancillary services: has the meaning given in condition A1 (Definitions) of the electricity system operator licence
- Interconnectors(s): has the meaning given to 'electricity interconnector' in section 4(3E) of the Act
- Interim connect and manage offer: means an offer for connection from the ISOP pursuant to the interim connect and management framework in place between May 2009 and the Connect and Manage Implementation Date

4.53 In the Electricity Transmission SpC, the definition of STCP 11.4 Enhanced Service Provision contains a reference to NGEN's website; we expect this to change to refer to NESO's website once this is established. We propose this will need to be updated once NESO's website is known.

4.54 The following definitions in the Electricity Transmission SpC are no longer referenced in the Electricity Transmission SLCs but are retained in the SpCs. Therefore, we are adding them, and either retaining the removed definition from the Electricity Transmission SLCs or pointing to the definition in NESO's ESO licence:

- Relevant Year
- Transmission Network Services

4.55 The variations of the definitions in the SLCs by the SpCs, as set out in special condition 1.2 (Variations to the standard conditions for the purposes of this licence) of NGET's licence have been updated to reflect the removal of 'GB transmission system' as a defined term. Special condition 1.2 (Variations to the standard conditions for the purposes of this licence) of both Scottish Hydro Electric Transmission plc's and SP Transmission Ltd's licences have been updated to reflect the removal of 'GB transmission system' as a defined term.

Changes to the Gas Transporter Licence Conditions

4.56 The below changes are made to the Gas Transporter Licence Conditions.

4.57 The licences that we are changing are:

- NGT Gas Transporter Licence: Special Conditions (Part C)
- Gas Transporter Licence: Standard Special Conditions (Part A – NGT and GDNs)
- Gas Transporter Standard Licence Conditions

National Gas Transmission plc (NGT) Gas Transporter Licence: Special Conditions

Changes to specific licence conditions

We are amending the following licence conditions in NGT's Gas Transporter Licence:

Special Conditions:

- Special Condition 9.10: Long term network planning
- Special Condition 9.11: Transmission Planning Code
- Special Condition 9.12: Licensee's Network Model
- Special Condition 9.21: Provision of information
- Special Condition 6.3: System operator pass-through items (SOPTt)
- Special Condition 6.4: ISOP gas costs revenue process
- Special Condition 5.7 The strategic innovation fund (SIFt)
- Special Condition 1.1: Interpretation and definitions

Special Condition 9.10: Licensee's network planning

(Proposed new title - change from: Long term network planning)

The reason for amending this condition is to enable NESO's gas strategic planning functions and process on Day 1, including NGT's input into this process, by:

1. Removing Part B of this condition obligating NGT to produce their Annual Network Capability Assessment Report (ANCAR);
2. Providing new obligations (as a new Part B) on NGT to produce a Strategic Planning Options Proposal document for NGT to respond to the needs and assumptions set out in NESO's Gas Network Capability Needs Report (GNCNR); and
3. Introducing new requirements on what NGT must include in its Long Term Development Statement.

The effect of these amendments is that NESO can coordinate its gas strategic planning process (which will be obligated under its GSP Licence), and NGT is obligated to propose options and respond to NESO's system needs identified in NESO's GNCNR.

This also includes obligations on NGT to have regard to the assumptions and information employed by NESO in the gas strategic planning process, and identify where NGT has significant material differences between its views and NESO's assumptions and information.

The ANCAR obligations are removed from this licence as the obligations to produce the ANCAR requirements forms part of NESO's obligation to produce its GNCNR, which was consulted on as part of Ofgem's non-statutory licence consultation in September 2023.

Special Condition 9.11: Transmission Planning Code

The reasons for amending this condition is to add 'the ISOP, and any' to Paragraph 9.11.8.

The effect of this amendment is that the licensee consults with NESO when reviewing the Transmission Planning Code.

Special Condition 9.12: Licensee's Network Model

The reason for amending this condition is to ensure that NGT provides the necessary inputs for NESO to conduct gas network capability analysis and its gas strategic planning process, on an annual basis. This amendment adds a new Part E in this condition – 'Part E: Provision of Network Model and associated systems to the ISOP' that:

- Obligates NGT to provide the Network Model, the topology/visualisation of the National Transmission System, ('Master Network Model') and the data, tools and systems associated with the operation of the Network Model, to NESO on an annual basis; and
- Provides an additional new obligation that NGT must use "reasonable endeavours" to ensure the tools and Network Model are the same in use across NGT and NESO for the gas strategic planning process, and to inform NESO (and provide necessary updates and support to NESO) where versions of the Network Model change and misalign between organisations.

The effect of these amendments is to enable that NESO has the necessary data, systems and models to undertake gas network capability analysis, and that these are effectively maintained simultaneously between NESO and NGT.

Special Condition 9.21: Provision of information

The reason for amending this condition is to remove the text 'the key assumptions and analysis used by the licensee in its development of future energy scenarios' from paragraph 9.21.2.

The effect of this amendment is to remove that information from the obligations of the licensee in respect of the publication of information on its website.

Special Condition 6.3: System operator pass-through items (SOPT_t)

The reason for amending this condition is to calculate the term SOPT_t (the system operator allowed pass-through term), including terms derived in the new Special Condition 6.4.

The effect of this amendment is to ensure that the licensee's SO Allowed Revenue reflects that certain costs can be passed through to customers.

Special Condition 6.4: ISOP gas costs revenue process

The reason for the addition of this condition is to establish arrangements for the licensee to provide the amounts as notified by NESO for NESO's annual gas expenditure each Regulatory Year.

The effect of this condition is to set out the calculation of the ARGSPt term, the obligation to pay NESO and the obligation to notify NESO of relevant duties.

Special Condition 5.7: The strategic innovation fund (SIFt)

The reason for amending this condition is to establish arrangements for the SIF. The amendment puts a reporting obligation on the licensee in respect of Eligible SIF projects to ensure that learnings from the implemented projects are captured and disseminated to other Gas Transporter Licensees and NESO.

The effect of these amendments is that the licensee disseminates the project learnings on Eligible SIF projects with NESO and other Gas Transporter Licensees.

Special Condition 1.1: Interpretation and definitions

The reason for amending this condition is to add new definitions, change one existing definition and remove one definition, in the NGT Gas Transporter Licence: Special Conditions (Part C) because of the proposed amendments to Special Condition 9.10 and Special Condition 9.12.

The effect of these amendments is the addition of the following definitions in the NGT Gas Transporter Licence: Special Conditions (Part C):

- ISOP – “means the person for the time being designated as the Independent System Operator and Planner under section 162 of the Energy Act 2023 who holds an Electricity System Operator Licence and Gas System Planner Licence”;
- Electricity System Operator Licence – “means a licence granted or treated as granted under section 6(1)(da) of the Electricity Act 1989”;
- Gas System Planner Licence – “means a licence granted or treated as granted under section 7AA of the Gas Act 1986;”
- Strategic Planning Options Proposal – “means the document prepared by the licensee in accordance with Part B of Special Condition 9.10 (~~Long term~~ Licensee's Network Planning)”;
- Gas Network Capability Needs Report – “means the report prepared by the ISOP in accordance with Part B of condition C8 (Gas strategic network planning) of the Gas System Planner Licence”;

- Gas Options Assessment Document – “means the document of that name prepared by the ISOP under Part C of condition C8 (Gas strategic network planning) of the Gas System Planner Licence”.

The effect of these amendments is also the removal of the following definition from the NGT Gas Transporter Licence: Special Conditions (Part C):

- Annual Network Capability Assessment Report – “means a report prepared by the licensee in accordance with Part B of Special Condition 9.10 (Long term network planning)”.

The following definition has also been changed in National Gas Transmission Gas Transporter Licence: Special Conditions (Part C) as part of these amendments:

- Long Term Development Statement – “means a statement prepared by the licensee in accordance with Part A of Special Condition 9.10 (~~Long term~~ Licensee’s Network Planning)”.

Gas Transporter Licence: Standard Special Conditions (Part A) (GDN’s and NGT)

Changes to specific licence conditions

We are modifying the following licence conditions in the Gas Transporter Licence: Standard Special Conditions (Part A):

- Standard Special Condition A11: Network Code and Uniform Network Code
- Standard Special Condition A28: Gas Network Innovation Strategy
- Standard Special Condition A15: Central Data Service Provider
- Standard Special Condition A3: Definitions and Interpretation

SSC A11: Network Code and Uniform Network Code

The reason for amending this condition is to establish and change the necessary obligations to implement NESO’s arrangements with the Uniform Network Code (UNC) and other gas transporters and users by:

- Adding NESO as a party able to propose modifications (and make representations on modifications) to the UNC and network codes
- Including reference to “arrangements with the ISOP” in the content of paragraph 6 of this condition
- Introducing text to allow NESO to provide a representative to the UNC Panel
- Making minor housekeeping changes and changes to cross-references

The effect of these amendments is to ensure NESO is effectively signed up to the UNC under SSC A11, including being able to raise modifications to the UNC (and respective Network Codes) and provide a representative to the composition of the UNC Panel.

SSC A15: Central Data Service Provider

The reason for amending this condition is to provide for the continued appointment of a central data service provider and to set out the obligations with which the licensee must comply with respect to the ongoing operation of the central data service provider.

The effect of these amendments is to ensure that the licensee, together with Relevant Gas Transporters, makes such arrangements to always ensure that a person is appointed as the central data service provider to provide such services and systems.

SSC A28: Gas Network Innovation Strategy

The reason for amending this condition is to change the definition of “Relevant Network Licensee” within this condition to include NESO in this definition, and to make very minor housekeeping changes, text changes and updates to other definitions.

The effect of this amendment is to include NESO as a party involved in the production of the Gas Network Innovation (GNI) Strategy.¹⁵

SSC A3: Definitions and Interpretation

The reason for amending this condition is to add new definitions in the Gas Transporter Licence: Standard Special Conditions (Part A) that have been introduced through the proposed amendments to SSC A11 and SSC A28.

The effect of this amendments is the addition of the following definitions in the Gas Transporter Licence: Standard Special Conditions (Part A):

- ISOP – “means the person for the time being designated as the Independent System Operator and Planner under section 162 of the Energy Act 2023 who holds an Electricity System Operator Licence and Gas System Planner Licence”;
- Electricity System Operator Licence – “means a licence granted or treated as granted under section 6(1)(da) of the Electricity Act 1989”; and
- Gas System Planner Licence – “means a licence granted or treated as granted under section 7AA of the Gas Act 1986”,

¹⁵ This amendment is in line with the changes to the Electricity Transmission and Electricity Distributions licences, as described under the “Changes to Cross Sector Licence Conditions” section of this document.

Gas Transporter Licence: Standard Licence Conditions

Changes to specific licence conditions

4.58 We are proposing to amend the following licence conditions in the Gas Transporter Licence: Standard Licence Conditions:

- Standard Licence condition 9 (Network Code and Uniform Network Code)
- Standard Licence condition 1 (Definitions and Interpretation)

SLC 9: Network Code and Uniform Network Code

4.59 **The reason for amending this condition** is to establish and change the necessary obligations to implement NESO’s arrangements with the UNC and other gas transporters and users by:

- Adding NESO as a party able to propose modifications (and make representations on modifications) to the UNC and network codes

Including reference to “arrangements with the ISOP” in the content of paragraph 5 of this condition

- Making minor housekeeping changes

4.60 **The effect of these amendments is** to ensure NESO is effectively signed up to the Uniform Network Code (UNC) under SLC 9, including being able to raise modifications to the UNC (and respective Network Codes). The effect is also to correspond with the amendments to SSC A11 (outlined above).

SLC 1: Definitions and Interpretation

4.61 **The reason for amending this condition** is to add new definitions to the Gas Transporter Licence: Standard Licence Conditions that have been introduced through the proposed amendments to SLC 9 (above).

4.62 **The effect of this amendment** is the addition of the following definitions in the Gas Transporter Licence: Standard Licence Conditions:

- ISOP – “means the person for the time being designated as the Independent System Operator and Planner under section 162 of the Energy Act 2023 who holds an Electricity System Operator Licence and Gas System Planner Licence”;
- Electricity System Operator Licence – “means a licence granted or treated as granted under section 6(1)(da) of the Electricity Act 1989”; and
- Gas System Planner Licence – “means a licence granted or treated as granted under section 7AA of the Gas Act 1986”

Gas Transporters to whom Standard Special Conditions Part D apply: Gas Transporter Licence Special Conditions Changes to specific licence conditions

4.63 We are modifying the following licence conditions contained in the special licence conditions of those Gas Transporters to whom Standard Special Conditions Part D apply:

- Special condition 9.13 (The strategic innovation fund (SIFt))

SpC 9.13: The strategic innovation fund (SIFt)

The reason for amending this condition is to establish arrangements for the SIF. The amendment puts a reporting obligation on the licensee in respect of Eligible SIF projects to ensure that learnings from the implemented projects are captured and disseminated to other Gas Transporter Licensees and NESO.

The effect of these amendments is that the licensee disseminates the project learnings on Eligible SIF projects with NESO and other Gas Transporter Licensees