Consultation

Consultation on funding National Grid's Consequential Costs from the separation of the ESO

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We are consulting on proposals for funding costs incurred by National Grid plc (NG) as a consequence of the introduction of the National Energy System Operator (NESO).

We are seeking responses to the questions posed in this document by 14 October 2024. Following consideration of responses, we will make our final decision on these funding proposals.

This document outlines the scope, purpose and questions of the consultation and how you can get involved. Once the consultation is closed, we will consider all responses. We want to be transparent in our consultations. We will publish the non-confidential responses we receive alongside a decision on next steps on our website at ofgem.gov.uk/consultations. If you want your response – in whole or in part – to be considered confidential, please tell us in your response and explain why. Please clearly mark the parts of your response that you consider to be confidential, and if possible, put the confidential material in separate appendices to your response.

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Executive Summary

In April 2022, Ofgem and the Department for Energy Security and Net Zero (DESNZ) jointly decided to proceed with the creation of a new, independent future system operator, also known as the National Energy System Operator (NESO). This will be an expert, impartial body with responsibilities across both the electricity and gas systems, to drive progress towards net zero while maintaining energy security and minimising costs for consumers.

To deliver NESO, the existing Electricity System Operator (ESO) is being separated from National Grid plc (NG) and acquired by Government. This process has associated costs for the ESO and NG. In June 2023, we consulted on a cost recovery framework for these companies to fund and deliver the separation work needed to achieve Day 1 of NESO, which is the first day NESO will be established as a standalone entity that is independent from NG. [1] As part of this consultation, we acknowledged that there could be consequential costs to NG resulting from the ESO no longer being part of NG's shared services function. This consultation sets out our proposals for funding these consequential costs.

NG and its subsidiary companies including ESO, National Grid Electricity Transmission (NGET) and National Grid Electricity Distribution (NGED), utilise a shared services function for a range of back-office capabilities such as HR, Finance, IT, Legal and Procurement, as well as a share of corporate costs such as executive leadership. Following the separation of the ESO from NG, there will be stranded costs for NG relating to the loss of price control income to cover the ESO's usage of the group's shared services function, which may not be possible to fully mitigate. We consider that NG should be able to recover reasonable consequential costs associated with separating the ESO from NG within the RIIO-2 period.[2]

This consultation sets out our proposed methodology for funding these costs and cost estimates from this methodology. Our key proposals include:

- Recovery of costs would be via an adjustment to NGET's RIIO-2 baseline totex allowance.
- The totex adjustment would be based on a cost recovery formula which contains a mixture of fixed and variable elements to support accuracy, accommodate uncertainty, and create an incentive to minimise costs.

[1] Funding the transition to a Future System Operator | Ofgem

[2] Our position on price control cost recovery does not include costs related to the commercial transaction and valuation activities for establishing the NESO, which are being considered by DESNZ.

- The formula would use 2023/24 actual costs for the ESO's usage of shared services as the baseline for estimating lost revenues to NG from the introduction of NESO.
- The formula would take account of reductions and mitigations to stranded shared services costs, including the ongoing recovery of costs for services still utilised by NESO through the Transitional Service Agreement (TSA) and Operational Service Agreement (OSA), as well as other mitigations such as the transfer of staff to NESO.
- The formula would include a term for Ofgem to potentially make future funding adjustments to accommodate additional costs that could arise from the ESO's early exit from one or more services within the TSA.

NG's current forecast for consequential costs under this proposed methodology is approximately £25m for the remaining duration of the RIIO-2 period.

Our policy proposals for the treatment of consequential costs arising from the separation of the ESO from NG are designed to ensure a transparent and efficient cost recovery process. Subject to the outcome of this consultation, we expect to consult on specific changes to NGET's licence later this year.

1. Introduction

In this section, we set out our previous consultations on funding the transition to NESO and past positions we've established. We provide background on NG's shared services function and why stranded costs may arise on Day 1 of the NESO, as well as key context for understanding what costs are in scope for consideration in this consultation.

Background

1.1 In April 2022, Ofgem and the Department for Energy Security and Net Zero (DESNZ) jointly decided to proceed with the creation of a new, independent future system operator, also known as the National Energy System Operator (NESO). This will be an expert, impartial body with responsibilities across both the electricity and gas systems, to drive progress towards net zero while maintaining energy security and minimising costs for consumers. Ofgem and DESNZ have an ambition for NESO to become operational in 2024.

1.2 To deliver NESO, the existing Electricity System Operator (ESO) is being separated from National Grid plc (NG) and acquired by Government. This process has associated costs for the ESO and NG.

What are we consulting on

1.3 We are consulting on our proposals for funding 'consequential costs' incurred by NG over the RIIO-2 period because of the introduction of NESO.

1.4 Chapter 2 provides an overview of the types of consequential costs that NG have proposed to us that they will incur, whilst Chapter 3 sets out our specific proposed mechanism for funding these costs through an adjustment to National Grid Electricity Transmission's (NGET's) RIIO-2 totex allowance.

Funding the Transition to the NESO

1.5 In June 2023, we consulted on a cost recovery framework for NG and ESO to fund and deliver the separation work needed to achieve Day 1 of NESO, which is the first day NESO will be established as a standalone entity that is independent from NG. At Day 1, NESO will have a Transitional Service Agreement (TSA) and Operational Service Agreement (OSA) in place with NG for access to various business services, with plans to exit from these arrangements. NESO is expected to have exited from the TSA by 'Day 2'[3], whereas the OSA may last for a longer duration.

1.6 As part of this consultation, we acknowledged that there would be other costs associated with the delivery of NESO post Day 1. The two additional categories of costs identified were the implementation costs as part of the transition to achieve Day 2 (CTA2) and stranded costs relating to the NG group's shared services function. This consultation focuses on those stranded costs, which we've termed consequential costs.

1.7 National Grid plc and its subsidiary companies including ESO, National Grid Electricity Transmission (NGET) and National Grid Electricity Distribution (NGED), utilise a shared services function for a range of back-office capabilities such as HR, Finance, IT, Legal and Procurement.

1.8 When the ESO is transferred from NG and becomes NESO, NG will no longer be receiving price control income for the ESO's allocation of its shared services costs. This leaves NG with a shared services function, and set of ongoing associated investments, that are sized to reflect a larger group of companies than it will have in practice following NESO Day 1. As a consequence, it will be left with certain stranded costs following the introduction of NESO.

Key Context for consequential costs

1.9 We have worked with NG and the ESO over the past several months to understand the nature and magnitude of these costs. This has included receiving several information submissions from NG as well as ongoing engagement across various NESO implementation activities. We have considered these costs amongst other costs related to the separation of the ESO such as the 'Funding the Future System Operator' transition costs we consulted on in June 2023, CTA2 costs, and the TSA and OSA .

1.10 Cost related to CTA2, the continued separation work required for the NESO to exit from the TSA, are planned to be recovered via a separate mechanism within the NESO licence.[4] We've designed this to ensure that there is no double funding between cost recovery for NG's separation activities and consequential costs.

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[3] Day 2 is the point at which NESO will have achieved full separation from NG's shared services function and is expected to be two years from Day 1.

[4] Condition F10 ISOP implementation funding, [ESO Licence Direction and Terms and Conditions Unsigned.pdf (ofgem.gov.uk)]

1.11 The TSA and OSA will require NESO to continue making payments for the services it receives, which will directly offset NG from incurring a portion of potential consequential costs. We consider it is important that the scope of consequential costs reflects that they may be offset elsewhere during the Day 1 to Day 2 phase, otherwise there is a risk of over funding.

1.12 The TSA and OSA applies a combination of fixed price and variable charges reflecting the nature of the different services. They also include change mechanisms to reflect changes in underlying costs (such as NESO using less of a service). We have worked with the parties negotiating the terms for these agreements to understand where any changes related to the cost and/or delivery of the TSA and OSA might impact consequential costs. Our conclusion is that provisions within the TSA and OSA arrangements cover for the vast majority of cost changes that could occur, such that there are not significant implications for consequential costs as a result of TSA/OSA charge changes. NG have proposed that while there are robust measures in place for addressing these cost changes through other routes within the TSA and OSA, there may be dis-synergy related costs that are not accounted for and could be considered as an additional consequential cost.

1.13 This consultation sets out our proposal for the scope of consequential costs and how they should be funded within the RIIO-2 period. We have set out a specific formula for this funding, whereby we define the anticipated costs and propose a formula to adjust NGET's totex allowances.

1.14 We recognise in principle that further consequential costs could be incurred by NG after the RIIO-2 period, as there may be lead times and additional actions needed by NG to fully mitigate shared services costs it may be left stranded with as NESO exits the TSA.

1.15 These costs can be considered through the next upcoming price control process. We expect that NG will submit its evidence of costs as part of NGET's RIIO-3 business plan for Ofgem's assessment. However, we are unable at this point in time to provide any conclusions on the potential outcomes from the business plan assessment process.

Associated Documents

- Ofgem (2024), National Energy System Operator (NESO) licences and other impacted licences: statutory consultation
- Ofgem (2024), Response to statutory consultation on National Energy System Operator licences and other impacted licences | Ofgem
- Ofgem (2023), Decision on the funding of the transition to a Future System Operator
- Ofgem (2023), Funding the transition to a Future System Operator
- Ofgem (2022), Proposal for a Future System Operator role - Decision

2. Overview of consequential costs

In this chapter, we outline the scope of costs under consideration for this consultation. This includes stating our view on what constitutes a stranded cost in relation to NG's shared service function and a high-level breakdown of the type of costs behind the shared services.

Scope of consequential costs

2.1 In this section we provide an overview of the types of costs that NG has proposed to us that it will incur as consequential costs. In preparation of this consultation, we have requested that NG produce an overview of their submissions to us on consequential costs to provide additional transparency to stakeholders. We are publishing this alongside this consultation as a subsidiary document. For the avoidance of doubt, any views expressed within the subsidiary document are those of National Grid only and do not represent the views of Ofgem or DESNZ. In particular, we do not intend to comment on the future treatment of consequential costs past the RIIO-2 period nor any costs referred to that fall outside of the scope of consequential costs as defined in our proposal.

2.2 For the purposes of this consultation, we define consequential costs as the net stranded costs that arise for NG relating to its shared services function as a result of the separation and transfer of the ESO. This is accounting for cost reductions that mitigate these stranded costs (i.e. consequential costs do not include shared services costs that can be reasonably mitigated or descoped, and which NESO is continuing to pay contributions for through the TSA/OSA).

2.3 Our view is that the consequential costs category should focus specifically on directly stranded opex and capex costs for the shared services function and that other routes available for cost recovery are likely to be more appropriate for costs outside this scope (for example, the cost of additional investment to improve the way NG's shared services function operates). For this reason, our policy proposal is focused on these direct consequential costs. This will minimise complexity, the risk of double funding, and enable funding of consequential costs in a timely manner.

Types of consequential costs

2.4 NG have proposed that they will incur consequential costs through one-off and associated run-the-business costs.

2.5 One-off costs relate to two categories:

- Shared technology investments by NG that support the groups IT infrastructure which have already been committed to (and sized to accommodate the ESO). Certain investments that NESO will continue to benefit from will be funded by NESO via the TSA. For the remaining investments, NG have considered where de-scoping is possible. However, there will remain some investments that cannot be descoped.
- Mitigation costs for reducing staff numbers to meet requirements for a smaller shared services function, which will in turn reduce recurring people costs.

2.6 Run-the-business costs cover people and contracts. These are summarised below.

<u>People</u>

2.7 While many staff will be transferred over to the NESO directly as their work primarily supports the NESO's operations, not all staff related to ESO shared services will be transferred. Mitigations such as staff reductions and restructuring of work teams may be required to reduce this recurring cost. Following Day 1, some of these mitigations will be funded through the TSA, OSA and CTA2, minimising costs in this category.

<u>Contracts</u>

2.8 NG's contracts with external providers for certain shared services have been negotiated based on a larger shared services function which includes ESO. Where contracts with third-party suppliers are in place that are for services directly used by ESO, we expect these to be directly transferred to NESO on Day 1. Other contracts for indirect shared services will continue to be used and paid for by NESO under the TSA/OSA or could be reasonably renegotiated when they come up for renewal. However some contracts may continue post separation that won't be used or paid for by NESO. This could include fixed term contracts that can't be immediately renegotiated (or require investments to renegotiate) and there may be other contracts costed on volume basis where NG may lose the benefits of economies of scale.

3. Funding Proposal for Consequential Costs

This chapter sets out our specific policy proposals for the treatment of consequential costs in RIIO-2. We propose that an adjustment via a new licence term is made to NGET's totex allowance in accordance with a formula for calculating consequential costs. The formula consists of variable and fixed terms, with the aim of accurately reflecting stranded costs that will arise. Including these costs as part of NGET's totex incentive mechanism will create an incentive to minimise stranded shared services costs, with savings shared with consumers.

Q1. Do you agree with the scope of consequential costs that we are proposing to fund?

Q2. Do you agree that the recovery of NG's consequential costs should be via an adjustment to NGET's totex allowance?

Q3. Do you have any comments on our specific funding mechanism for NG's consequential costs, including the proposed terms in cost recovery formula?

Introduction

3.1 In this section we outline our proposed approach to the treatment of consequential costs for the RIIO-2 period. Our proposals consider the appropriate route to recovery via NGET's price control and the overall formula for calculating the right value for consequential costs.

3.2 We have received several submissions from NG over the course of the past year. Our approach has been to understand in detail what shared services function costs NG is stranded with as a result of the transfer of the ESO. We have designed a funding formula to avoid overlap and ensure compatibility with other funding mechanisms related to the introduction of NESO, such as CTA2 and the TSA/OSA. For the avoidance of doubt, consequential costs are also separate from costs associated with the commercial acquisition of ESO by the Government.

Policy proposal for consequential cost recovery

Recovery route of consequential costs

3.3 We propose NGET's price control is the most appropriate route for the recovery of consequential costs, where consequential costs are added as part of a totex allowance adjustment. As these costs relate back to the shared service function across NG's subsidiary companies, NG would recover these costs via NGET which also currently pays an allocation for its use of shared services.

3.4 Analysis we have reviewed from NG calculates that approximately 97% of these consequential costs are distributed to NGET, with a minor portion of 3% being distributed across the group's other entities. We believe that considering the materiality of the remaining 3%, it would be appropriate to allocate all these costs via our cost recovery formula to NGET.

3.5 A totex adjustment for NGET also provides exposure to the Totex Incentive Mechanism (TIM) sharing factor, which is 33% for the remainder of RIIO-2.[5] This means any outperformance achieved by NG in reducing the stranded costs (beyond the mitigations that are expected by default), will result in benefits being passed on to consumers.

Consequential cost totex adjustment formula

3.6 Based upon NG's submission, our analysis and detailed discussion with NG and ESO, we propose to fund consequential costs through three sub-categories of stranded costs:

- Opex Stranded Costs: These are the stranded operational costs that remain from the shared services costs that would have been allocated to the ESO after accounting for continued services remunerated via the TSA/OSA, operational mitigations to reduce the shared services function, and transfers of people and contracts. In other words, this is the ESO's expected shared services baseline minus income from the TSA/OSA and minus any mitigations and transfers.
- Capex Stranded Costs: These cost are related to NG group's IT investments that have already been committed to, where it was not possible to descope the ESO's allocation, and which are not being paid for by NESO via variable TSA charges.
- Early TSA Exit Stranded Costs: The TSA is being contractually agreed for a two-year period, but if NESO builds capability earlier than expected, it may choose to exit from a specific service within the TSA earlier. As a result there may be additional stranded shared services costs within RIIO-2 as a result of NESO's exit from the TSA service that NG have been providing up till that point.

3.7 To fund these costs, we propose an adjustment to NGET's totex allowance for the period between Day 1 and the remainder of RIIO-2, based on the following formula:

[5] RIIO-2 Final Determinations - NGET Annex (REVISED) (ofgem.gov.uk)

$$\textbf{\textit{Consequential Costs}}$$
$$= (Shared\ Services\ Actuals - Fixed\ TSA/OSA\ Recovery - Mitigations\ \&\ Transfers) + Capex\ Stranded\ Costs\ +\ Early\ TSA\ Exit\ Stranded\ Costs$$

3.8 Note that the category defined as Opex stranded costs is split into the three components previously described: Shared Services Actuals, Fixed TSA/OSA Recovery and Mitigations & Transfers.

3.9 We have adopted a combination of fixed and variable terms as part of this formula to reflect the level of certainty with each element, as well as the practicality of adopting ex-ante or ex-post approaches. These are outlined in our description of each formula term in the section below.

Formula terms

Shared Services Actuals

3.10 The shared services baseline is an estimate of the operating costs for the NG Group shared services function that would have been allocated to and received from the ESO if separation had not occurred. We propose to use actual costs from the 2023/24 period, which is the most recent cost data available for these services. We consider they are the most accurate reflection of expected future costs to form a baseline.

3.11 The figure does not include costs which are being charged on a variable basis via the TSA/OSA, as NG will be remunerated for these costs on a pass-through basis. It also does not include baseline capex costs as we deal with these separately through the cost term below. We propose this is a fixed figure for the remaining duration of RIIO-2 and is set at £174.3m.

Fixed TSA/OSA Recovery

3.12 Fixed TSA/OSA Recovery represents the costs NG will recover from approximately 30 services provided by NG via the TSA and OSA with NESO that will be in place from Day 1. We also include agreements made regarding leases for property. We propose this is subtracted from consequential costs because it represents shared service baseline costs that NG will continue to receive from NESO and therefore, are not stranded. Our Fixed TSA/OSA Recovery term is scoped to costs during the remainder of the RIIO-2 period, although the TSA is expected to continue into RIIO-3.

3.13 We propose that this figure is calculated ex-ante on the basis of fixed price TSA/OSA agreements included within the broader TSA/OSA packages and that are within the scope of current shared services activities. We propose this is set at £91.2m for the remainder of the RIIO-2 period. This reflects both the values expected to be charged to the ESO by NG for shared services under an internal TSA between April 2024 and Day 1, and the TSA charges than will be in place between NG and NESO after Day 1.

3.14 It does not include the costs of variable TSA charges. It also does not include other TSA costs such as Provider Service Requests (PSRs), administrative costs and costs relating to extensions or service exits, as these costs are additional TSA-related costs that are not related to stranded shared services costs.

Mitigations & Transfers

3.15 Transfers relate to the people and contracts that the NESO will take ownership of following Day 1, which will therefore not become stranded costs for NG. We propose these are calculated on an actual basis as they are known values and verifiable values. For example, NG should have an exact figure of Full Time Employees (FTEs) and associated cost that is being transferred to the NESO on Day 1.

3.16 Mitigations refers to costs reductions and the steps NG can reasonably take for Day 1 to decrease the on-going cost of operating its shared service function. This contains four sub elements:

- Natural staff attrition;
- Departmental reorganisation;
- Reduced staff; and
- Contract resizing

3.17 Our proposal is that a reasonable assumption can be made on natural staff attrition expected through the period and this value should be fixed ex-ante. We propose this figure is set at £0.7m for the remainder of the RIIO-2 period and is based upon NG's average attrition rate from the previous year.

3.18 We also propose to fix an assumption of cost reductions from reduced staff (£2m), contract resizing (£1m) and departmental reorganisation (£10m). There are costs associated with achieving these reductions such as severance, which we also propose is a fixed term and is set at £1m and netted from the above to establish an overall Mitigations & Transfers value.

3.19 We note that any proposals to reduce the number of employees in relevant roles would be subject to NG's duty to consult both individually with affected employees and collectively with its recognised trade unions.

Capex Stranded Costs

3.20 We propose that stranded capex costs, namely IT investments, are calculated on an ex-post basis, according to the following method:

$$\begin{aligned}&Stranded\ Capex\\&\qquad = (NG\ actual\ indirect\ investment\ costs \times Representative\ ESO\ percentage)\\&\qquad - Income\ from\ indirect\ investment\ TSAs\end{aligned}$$

3.21 The methodology for calculating the allocation the ESO would have paid if it had not been separated is calculated by taking NG's actual costs for indirect investments over the remainder of RIIO-2 and multiplying that by a percentage value that is representative of the ESO's past allocation under the Unified Cost Allocation Method (UCAM)[6].

3.22 This would not be a single percentage however, as the ESO's allocation for a particular investment may vary depending on the type of project and the most relevant allocation key used as part of the UCAM. For example, a network upgrades project would use the IT Networks allocation key percentage which is based on the infrastructure usage volume of the ESO. We propose that the percentages used are based on NG data as of August 2023 and are broken down as follows:

- 48% for technology infrastructure allocation key
- 27% for IT networks allocation key
- 26% for project costs driven by headcount (ESO's proportion of NG headcount)
- 15% for enterprise resource planning (ERP) software allocation key

3.23 Variable IT investment costs charged to NESO through the TSA would then be deducted to get a final stranded cost.

Early Exit Stranded Costs

3.24 Following early exit from a service by NESO within RIIO-2, where NG is no longer recovering costs from TSA that it would otherwise should the service provision remained, there may in principle be stranded costs that can be recovered via consequential costs. As TSA arrangements already cover costs for the early exit and termination of a service, and as there are provisions for severance in CTA2, we do not currently consider that there are likely to be significant stranded costs in this category.

[6] RIIO-2 Draft Determinations – Electricity System Operator (ofgem.gov.uk)

3.25 NG have proposed that there may be dis-synergies not covered for by TSA termination costs. As a potential example, in renegotiating the downsizing of a contract with a third-party supplier, the new terms may not fully mitigate the dis-synergy or may be deferred to align with contract renewal timelines. Additionally, it could be possible that people costs cannot be mitigated with immediate effect following the exit from a TSA service, leading to dis-synergy costs until mitigations take effect.

3.26 These costs are difficult to anticipate or forecast at this point in time, and our view is that justification for them is likely to be on a case-by-case basis. For this reason, we propose that NG may submit to Ofgem requests to recover early exit stranded costs and provide detail on where and why these costs have become stranded. Costs submitted to this category would be subject to Ofgem approval, with an Ofgem direction on a value for this term.

Cost estimates for consequential costs

3.27 We have requested a financial submission and justification from NG in order to propose fixed figures for certain terms of the formula and have an understanding of forecasts for any variable figures. For the avoidance of doubt, for Early Exit Stranded Costs, where costs are subject to future assessment and Ofgem approval, we are not providing any assessment or assurance at this time.

3.28 The following table sets out each term of the formula as well as a further breakdown of certain terms to provide stakeholders with an overview of the expected value for consequential costs. These figures show total costs over the last two financial years of RIIO-2, reflecting the impact of actions that have already been taken during 2024/25 in preparation for the introduction of NESO. This includes the consequential impact of actions to separate ESO from existing NG shared services and changes to the way shared services costs are charged to ESO prior to Day 1.

Table 1: Consequential cost values across proposed formula terms in 2023/24 prices

Formula terms	**Calculation**	**2024/25**	**2025/26**	**Total**
Shared services baseline	Fixed	87.2	87.2	174.3
Fixed TSA/OSA recovery	Fixed	(45.6)	(45.6)	(91.2)
Mitigations and transfers				
Direct transfers to ESO (people/contracts)	Variable	(30.8)	(30.8)	(61.6)
Contract resizing	Fixed	-	(1.1)	(1.1)
Natural staff attrition	Fixed	(0.3)	(0.3)	(0.7)

Departmental reorganisation	Fixed	(3.9)	(3.9)	(7.8)
Staff reduction	Fixed	(1.2)	(1.2)	(2.4)
Cost to achieve mitigations	Fixed	0.7	-	0.7
Stranded capex	Variable	7.2	6.8	14.0
Early exit stranded costs	Subject to Ofgem Direction	-	-	-
Forecast Consequential total costs		13.6	11.3	24.9

Proposal rationale

3.29 Following our analysis of the information submitted by NG, we recognise that there will be legitimate consequential costs for NG from the creation of the NESO in relation to the shared services function that exists today. We have assessed the information submitted by NG, and challenged initial values where appropriate. Where we propose to fix values, we consider these values to be reasonable. Where values have been set as variable, we believe our proposed calculation methodology will provide an accurate reflection of actual costs incurred. We therefore consider it is appropriate to provide a route for these consequential costs to be recovered by NG, to ensure it does not face undue disbenefit by the creation of NESO.

3.30 Our policy proposals for the treatment of consequential costs arising from the separation of the ESO from NG are designed to ensure a transparent and efficient cost recovery process, whilst also avoiding undue complexity. We consider that the defined scope of consequential costs focuses on directly relevant stranded opex and capex, preventing the inclusion of unrelated costs and the risk of double funding through other mechanisms. By categorising costs into opex stranded costs, capex stranded costs and early TSA exit stranded costs, the framework provides a clear structure for cost allocation and flexibility for costs where there is a higher level of uncertainty.

3.31 The cost recovery formula, based on actual historic costs for shared services, adjusted by TSA/OSA recovery, transfer and mitigations, ensures that NG is able to fairly recover costs while securing opportunities to reduce costs for consumers. By making this adjustment to NGET's totex allowance, we are also leveraging the TIM for any outperformance of mitigations that NG achieves, with any further savings achieved shared with consumers.

4. Your response, data and confidentiality

Consultation stages

Outline the key stages the consultation will progress through to get to a final decision. Mention any events/workshops your team may be running as part of the process.

4.1 The consultation will be open until 14 October 2024. Responses will be reviewed and the consultation decision will be published later this year.

Alternatively, you can use a list for the stages of the consultation process.

Stage 1

Consultation opens 02/09/2025.

Stage 2

Consultation closes (awaiting decision). Deadline for responses.

Stage 3

Responses reviewed and published later this year.

Stage 4

Consultation decision/policy statement.

How to respond

4.2 We want to hear from anyone interested in this consultation. Please send your response to FSO@ofgem.gov.uk.

4.3 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.

4.4 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Your response, your data and confidentiality

4.5 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.

4.6 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you *do* wish to be kept confidential and those that you *do not* wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

4.7 If the information you give in your response contains personal data under the General Data Protection Regulation (Regulation (EU) 2016/679) as retained in domestic law following the UK's withdrawal from the European Union ("UK GDPR"), the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.

4.8 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

General feedback

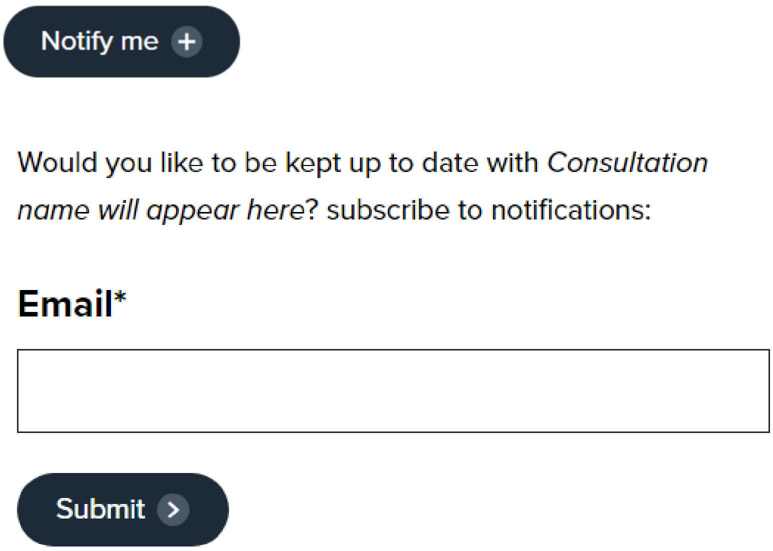
4.9 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

1. Do you have any comments about the overall process of this consultation?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Were its conclusions balanced?
5. Did it make reasoned recommendations for improvement?
6. Any further comments?

Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

You can track the progress of a consultation from upcoming to decision status using the 'notify me' function on a consultation page when published on our website. Choose the notify me button and enter your email address into the pop-up window and submit. [ofgem.gov.uk/consultations](https://www.ofgem.gov.uk/consultations)



Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

Upcoming > **Open** > **Closed** (awaiting decision) > **Closed** (with decision)

Appendix 1 – Privacy notice on consultations

Personal data

The following explains your rights and gives you the information you are entitled to under the General Data Protection Regulation (GDPR).

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. The identity of the controller and contact details of our Data Protection Officer

The Gas and Electricity Markets Authority is the controller, (for ease of reference, "Ofgem"). The Data Protection Officer can be contacted at dpo@ofgem.gov.uk

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data

As a public authority, the GDPR makes provision for Ofgem to process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

4. We will not be sharing your personal data with external organisations for the purposes of this consultation.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for six months after the project is closed.

6. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data

- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

7. Your personal data will not be sent overseas (Note that this cannot be claimed if using Survey Monkey for the consultation as their servers are in the US. In that case use "the Data you provide directly will be stored by Survey Monkey on their servers in the United States. We have taken all necessary precautions to ensure that your rights in term of data protection will not be compromised by this".

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

10. More information For more information on how Ofgem processes your data, click on the link to our "ofgem privacy promise".