

# Decision

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## Decision on the NESO Financial Handbook and Modelling suite

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This document sets out our decisions on the principles and methodologies we will apply for the implementation and operation of the National Energy System Operator (NESO) Financial Handbook and Financial Model.

In particular, it sets our decisions on the specific areas on which we sought views from respondents in our NESO Financial Handbook Consultation in September 2024.

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## **Ofgem’s responsibilities**

- 1.1 Ofgem is Great Britain’s independent energy regulator. We work to protect energy consumers, especially vulnerable people, by ensuring they are treated fairly and benefit from a cleaner, greener environment.
- 1.2 We operate in a statutory framework set by Parliament. This establishes our duties and gives us powers to achieve our objectives. We are governed by the Gas and Electricity Markets Authority (‘GEMA’), which determines Ofgem’s strategy, sets policy priorities and makes decisions on a wide range of regulatory matters.
- 1.3 Our principal duty is to protect the interests of existing and future gas and electricity consumers.
- 1.4 Over the past year there have been important changes that affect our remit. Wider responsibilities are set out in the Energy Act 2023, including in relation to National Energy System Operator (NESO), which has previously been referred to as the Future System Operator<sup>1</sup>.

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<sup>1</sup> [ESO announces the name of the forthcoming Future System Operator | ESO](#)

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## What are we deciding on?

- 1.5 In March 2024, the Department for Energy Security and Net Zero (DESNZ) and Ofgem jointly published the statutory consultation on NESO licences and other impacted licences<sup>2</sup>.
- 1.6 On 29 August 2024, DESNZ and Ofgem jointly published the response document that set out the joint considerations of the stakeholder responses received to the consultation above<sup>3</sup>.
- 1.7 A final decision on the granting of licences and making the modifications to impacted licences has been taken by the Secretary of State on 13 September 2024 in sequence with a wider set of decisions to establish NESO with effect from 1 October 2024<sup>4</sup>.
- 1.8 The decision referred to at paragraph 1.7 above also provided the complete NESO licence conditions from 'Day 1' (the date of ownership change and handover between the two regimes), including those relevant to the financial framework for NESO.
- 1.9 Licence Condition F5 (Financial Model and Handbook) in the Electricity System Operator (ESO) Licence Conditions<sup>5</sup> and Licence Condition F4 (Financial Model and Handbook) in the Gas System Planner Licence Conditions<sup>6</sup> establish the NESO Financial Handbook and set out the requirements on NESO in relation to the Financial Model.
- 1.10 Following our consultation on the NESO Financial Handbook<sup>7</sup>, we have decided on the principles and methodologies we will apply for the implementation and operation of the NESO Financial Handbook and Financial Model.
- 1.11 This document summarises the consultation responses received and provides rationale for our decision.
- 1.12 Alongside this document we have published the Direction to issue the NESO Financial Handbook and final versions of the NESO Financial Handbook, NESO Financial Model, and NESO Legacy Closeout Model.

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<sup>2</sup> [National Energy System Operator \(NESO\) licences and other impacted licences: statutory consultation | Ofgem](#)

<sup>3</sup> [Response to statutory consultation on National Energy System Operator licences and other impacted licences | Ofgem](#)

<sup>4</sup> [Decision notice to establish National Energy System Operator \(NESO\) | Ofgem](#)

<sup>5</sup> [ESO Licensing Direction and Licence Terms and Conditions \(ofgem.gov.uk\)](#)

<sup>6</sup> [GSP Licence Terms and Conditions \(ofgem.gov.uk\)](#)

<sup>7</sup> [Consultation on the National Energy System Operator Financial Handbook | Ofgem](#)

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## **Summary of consultation responses**

- 1.13 This document summarises the consultation responses received and provides rationale for our decision.
- 1.14 NESO was the sole respondent to the consultation and did not propose any substantive policy amendments.
- 1.15 NESO proposed a number of changes to Chapter 2 “NESO Financial Model” in relation to the fact that the new regulatory framework is on an actual basis rather than a notional basis. The proposed changes consisted of a number of suggested wording changes in order to provide more clarity, remove duplicative and redundant text, as well as to streamline the annual process and reporting timelines. The proposed amendments were mainly to the “The NESO Financial Model Working Group”, “Annual Iteration Process” sections and the reporting dates contained within these.
- 1.16 NESO proposed text that simplified the wording in “The NESO Financial Model Working Group” section and tweaked the associated timelines given the new regulatory framework. We have decided to broadly accept the drafting changes proposed by NESO, which still maintain the substance of the previous wording in a more concise manner.
- 1.17 NESO proposed text that simplified and removed redundant wording in the “Annual Iteration Process” section and proposed slightly amended timelines. We have decided to broadly accept the drafting changes proposed by NESO, which removed the “Annual Iteration Process” section and suggested a more streamlined annual process and reporting timelines given the new regulatory framework. The updated wording and timelines of this streamlined annual process are contained within the “Completion obligations”, “The enduring process” sections as well as Table 2.1 “Summary of timings for the Annual Submission”.
- 1.18 For the remaining chapters of the NESO Financial Handbook (i.e. Chapter 3 through Chapter 8), NESO proposed some minor drafting changes for transparency and clarity. We have accepted all these changes and amended the NESO Financial Handbook accordingly.
- 1.19 For reference, a summary of the changes can be found in the table below:

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| Paragraph or Table Reference                     | Accepted change   |
|--|---|
| Paragraph 2.11 and 2.12 (moved to 2.40 and 2.41) | Changed "issuing or amending" to "finalising" to ensure it is clear multiple changes can be incorporated into a single consultation.  |
| Paragraph 2.20                                   | Deleted this paragraph as it was unnecessary and ambiguous given NESO will be the owners of the Financial Model.  |
| Paragraph 2.57 and Table 2.1 (moved to 2.45)     | We have amended the date of the first submission of the Financial Model to 30th September each year to not clash with other regulatory reports due 31 <sup>st</sup> August outlined in Paragraph 2.35 (see paragraph 2.37 in the consultation version). |
| Paragraph 2.40-2.48 (moved to 2.39-2.44)         | We have amended the "NESO Financial Model Working Group" section, but maintained a joint functionality meeting between Ofgem and NESO in advance of a Financial Model consultation each year.   |
| Paragraph 2.57-2.66 (moved to 2.46-2.51)         | We have amended the Dry Run section text to require an initial submission and a final version in order to streamline the annual submission process.   |
| Paragraph 2.60 (moved to 2.19)                   | Changed the text to introduce a functional change cut-off date of 31 October for the Financial Model. This date can be revisited if required.   |
| Paragraph 4.18                                   | "... necessary to be recovered for H1 <b>FY24/25</b> to be consistent with the licence in force before."  |
| Table 4.1  | There have been minor wording changes to the descriptions in the table for the following terms: LEGFPN, LEGDPN, LEGRTN, LEGSOLAR, LEGWCF  |
| Paragraph 5.31 (Footnote 18)                     | Changed "RFR" to "RVR"  |
| Paragraph 6.13                                   | Changed reference to 19-year depreciation period of Wokingham RAV to 20-year period, for accuracy.  |
| Throughout document                              | References to "Allowed Revenue" have been changed to "allowed revenue"  |
| Throughout document                              | All instances of "18/19 prices" have been changed to "2018/19 prices" for consistency   |