

To:

Cadent Gas Limited
Northern Gas Networks Limited
Scotland Gas Networks plc
Southern Gas Networks plc
Wales and West Utilities Limited
National Grid Gas Plc
Scottish Hydro Electric Transmission plc
SP Transmission Ltd
National Grid Electricity Transmission plc

Notice under Part C of Special Condition 8.1 (Governance of the [GT2/ET2/GD2] Price Control Financial Instruments) of the Gas Transporter and Electricity Transmission] Licence to make modifications to the [GT2/ET2/GD2] Price Control Financial Instruments with respect to totex allocation rates for re-opener variant allowances.

1. Each of the companies to whom this Notice is addressed (each “the licensee”) is the holder of either a Gas Transporter Licence granted or treated as granted under section 7 of the Gas Act 1986 or an Electricity Transmission Licence granted or treated as granted under section 6(1)(b) of the Electricity Act 1989.
2. Special Condition (“SC”) 8.1 (Governance of [GT/ET/GD2] Price Control Financial Instruments) of the [Gas Transporter and Electricity Transmission] Licence provides that the Gas and Electricity Markets Authority (“the Authority”) ¹ will give notice of an intended modification of the [GT2/ET2/GD2] Price Control Financial Instruments (“the PCFI”), if having carried out the assessment set out in Part B of SC 8.1, the Authority considers that the intended modification would not be likely to have a significant impact on the licensee or any other persons referred to in paragraph 8.1.3 of SC 8.1.
3. In accordance with SC 8.1.7, the Authority hereby gives notice to the licensees to whom this notice is addressed that it proposes to modify the PCFI in the manner indicated in the Appendices at the end of this Notice.
4. The Authority considers that it is necessary to modify the PCFI in the manner indicated in order to facilitate the forecasting of all re-opener PCFM Variable Values in the 2021 Annual Iteration Process.
5. In April 2021, the Authority published the Price Control Financial Model (“PCFM”). This included totex variant allowance allocation percentages for some but not all of the re-opener PCFM Variable Values in the input sheets of the PCFM.
6. While the PCFM most recently published by the Authority in April 2021 contains all of the relevant re-opener PCFM Variable Values, it does not contain the allocation percentage rates required to feed any *forecast* values through to Allowed Revenue, for a number of those re-opener PCFM Variable Values. This means that any forecast

¹ The “Authority”, “Ofgem”, “we” and “our” are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports GEMA in its day to day work.

allowances input for those particular re-openers will not be reflected in licensees' Allowed Revenue.

7. To correct this error, the Authority proposes to modify the PCFM to make the "Totex variant allowances allocation percentages" cells in the input sheets PCFM Variable Values. This modification will allow licensees to input their own forecast allocation rates at each Annual Iteration Process, until such time that those allocation rates are otherwise directed by the Authority.
8. The Authority intends to treat these allocation rates as PCFM Variable Values and provide instructions to licensees on how to fill out the new category of PCFM Variable Value for the 2021 Annual Iteration Process. The Authority proposes to change the colour of these allocation percentage cells from yellow to blue for those allowance categories which have not already been populated with an existing allocation rate, as set out in Appendix 1 at the end of this Notice. A blue cell in the PCFM signifies that a value is a PCFM Variable Value and therefore can be updated through the Annual Iteration Process.
9. The Authority also proposes to direct the necessary associated modifications to the Price Control Financial Handbook ("Handbook") to include these allocation rates in the table of PCFM Variable Values for completeness and consistency with the PCFM as set out in Appendix 2 to this Notice.
10. In accordance with Part B of SC 8.1, the Authority has conducted an assessment of the likely impact of an intended modification. The Authority is satisfied, having regard to the views of the [GT2/ET2/GD2] Price Control Financial Model Working Group, the proposed PCFI modifications, as set out above, serve to correct a manifest error in the PCFI. As a result, and in accordance with SC 8.1.5, the Authority intends to modify the PCFI by direction.
11. The Authority proposes that these modifications will come into effect on 30 August 2021.
12. Any representations to the proposed modifications should be made on or before 28 August 2021 by email to RegFinance@ofgem.gov.uk.
13. Unless you mark your response confidential, we will publish it on our website, www.ofgem.gov.uk, and put it in our library. You can ask us to keep your response confidential, and we will respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004. If you want us to keep your response confidential, you should clearly mark your response to that effect and include reasons.
14. If the information you give in your response contains personal data it will be processed in accordance with Ofgem's [privacy policy](#). Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. If you are including any confidential material in your response, please put it in the appendices.
15. We prefer to receive responses in electronic form so we can more easily place them on our website.

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Steve McMahon
Deputy Director, Electricity Distribution and Cross Sector Policy
Duly authorised on behalf of the Gas and Electricity Markets Authority
30 July 2021

Appendix 1 – Location of modifications within the Price Control Financial Model

Sector	Nature of Modification	Sheet reference	Cell reference
ET2	<p>On the licensee-specific input sheets, the “Totex variant allowances allocation percentages” cells containing no allocation percentages have been changed from yellow to light blue for any uncertainty mechanism PCFM Variable Values that we propose to allow networks to update as part of their allowance forecasting.</p> <p>The change in cell colour signifies that these cells will too become PCFM Variable Values that can therefore be updated as part of the Annual Iteration Process. The equivalent cells have been highlighted light green on the Input sheet, which signifies the same thing but uses a different colour scheme.</p>	SHET	AP384:AT431, AP444:AT455, AP468:AT473, AP522:AT527, AP534:AT545, AP522:AT527, AP534:AT545,
		SPTL	AP384:AT431, AP450:AT455, AP474:AT479, AP522:AT527, AP534:AT545, AP552:AT557,
		NGET	AP390:AT431, AP444:AT455, AP468:AT479, AP510:AT527, AP534:AT545, AP552:AT557
		Input	AV473:AZ520, AV533:AZ544, AV557:AZ568, AV599:AZ616, AV623:AZ634, AV641:AZ646
GT2	<p>On the licensee-specific input sheets, the “Totex variant allowances allocation percentages” cells containing no allocation percentages have been changed from yellow to light blue for any uncertainty mechanism PCFM Variable Values that we propose to allow networks to update as part of their allowance forecasting.</p> <p>The change in cell colour signifies that these cells will too become PCFM Variable Values that can therefore be updated as part of the Annual Iteration Process. The equivalent cells have been highlighted light green on the Input and SystemOperator sheets, which signifies the same thing but uses a different colour scheme.</p>	NGGT TO	AP209:AT320, AP327:AT380
		NGGT SO	AP141:AT144, AP153:AT160, AP163:AT164
		Input	AV374:AZ397, AV404:AZ457
		SystemOperator	AV225:AZ232, AV235:AZ236
GD2	<p>On the licensee-specific input sheets, the “Totex variant allowances allocation percentages” cells containing no allocation percentages have been changed from yellow to light blue for any uncertainty mechanism PCFM Variable Values that we propose to allow</p>	GDN input sheets	AP390:AT404
		Input	AV471:AZ485

	<p>networks to update as part of their allowance forecasting.</p> <p>The change in cell colour signifies that these cells will too become PCFM Variable Values that can therefore be updated as part of the Annual Iteration Process. The equivalent cells have been highlighted light green on the Input sheet, which signifies the same thing but uses a different colour scheme.</p>		
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Appendix 2 – Location of modifications within the Price Control Financial Handbook

We propose to make the Totex variant allowances allocation percentages listed at Appendix 1 to this notice PCFM Variable Values to enable networks to update these percentages as part of their annual forecast updates through the Annual Iteration Process.

This is achieved by changing the cell colour in the [GT2/ET2/GD2] PCFM from yellow to blue. We also propose to modify the [GT2/ET2/GD2] Handbook to include this new category of PCFM Variable Value in the PCFM Variable Values table and to include a description of it, as follows:

Sector	Nature of Modification	Page number
ET2	Description of the new category of PCFM Variable Value has been added at the bottom of the PCFM Variable Values table.	25, 26 and 32
GT2	As above	25, 26 and 32
GD2	As above	25, 26 and 32

We propose to treat all of these allocation rates as a single PCFM Variable Value rather than to include each individual allocation rate for each uncertainty mechanism as an individual PCFM Variable Value. This is because each allocation rate operates in the same way, i.e. it allocates allowances between a number of expenditure categories and can therefore be categorised as a single PCFM Variable Value.

To separate each of these allocation rates out as distinct PCFM Variable Values would result in numerous new inputs, which would make the PCFM Variable Values table in the Handbook cumbersome and would provide no additional value for licensees and other users of the PCFIs.