

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**

**Direction 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 Direction 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. In accordance with Special Condition (“SC”) 8.1 (Governance of [GT/ET/GD2] Price Control Financial Instruments) of the [Gas Transporter and Electricity Transmission] Licence the Gas and Electricity Markets Authority (“the Authority”) <sup>1</sup> gave notice on 30 July 2021 (“the Notice”) of an intended modification of the [GT2/ET2/GD2] Price Control Financial Instruments (“the PCFI”), the reason for those amendments, including why the Authority believed that the modification would not be likely to have a significant effect on any of the persons mentioned in SC 8.1.3. The deadline for representations in respect of this Notice to be made was on or before 28 August 2021.
3. We received four representations in response to the Notice prior to the close of the above mentioned period. Two highlighted minor typographical errors within the modified GT2 and ET2 Price Control Financial Handbook (“Handbook”). These have been corrected in the versions accompanying this modification direction. The other two representations received were supportive of our proposed modifications and suggested that we go one step further in making all of the re-opener and variance allowance totex allocation rates PCFM Variable Values, not just the ones that did not contain allocation percentages, as all re-opener allocation rates may be subject to change over the RIIO-2 period.
4. While we acknowledge that the allocation rates may need to be changed as re-opener decisions are made, the modifications that we have proposed are sufficient for the 2021 Annual Iteration Process and any future changes that are required to these rates will be reflected in the PCFI following a re-opener decision.

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<sup>1</sup> 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.

5. No further modifications have been made to the Price Control Financial Models that were issued with the Notice.
6. The reason for this direction is to facilitate the forecasting of all re-opener and variant allowance PCFM Variable Values in the 2021 Annual Iteration Process. Further details are contained in the Notice itself and in the appendices to this direction. This direction is our notice of reasons for the purposes of section 38A of the Gas Act 1986 and section 49A of the Electricity Act 1989.
7. In accordance with SC 8.1, the Authority hereby directs modifications to the PCFI as set out in the Appendices to this Direction that shall take effect on 31 August 2021.



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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**  
**31 August 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> | <p>SHET</p> <p>SPTL</p> <p>NGET</p> <p>Input</p>                 | <p>AP384:AT431,<br/>AP444:AT455,<br/>AP468:AT473,<br/>AP522:AT527,<br/>AP534:AT545,<br/>AP522:AT527,<br/>AP534:AT545,</p> <p>AP384:AT431,<br/>AP450:AT455,<br/>AP474:AT479,<br/>AP522:AT527,<br/>AP534:AT545,<br/>AP552:AT557,</p> <p>AP390:AT431,<br/>AP444:AT455,<br/>AP468:AT479,<br/>AP510:AT527,<br/>AP534:AT545,<br/>AP552:AT557</p> <p>AV473:AZ520,<br/>AV533:AZ544,<br/>AV557:AZ568,<br/>AV599:AZ616,<br/>AV623:AZ634,<br/>AV641:AZ646</p> |
| 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>NGGT TO</p> <p>NGGT SO</p> <p>Input</p> <p>SystemOperator</p> | <p>AP209:AT320,<br/>AP327:AT380</p> <p>AP141:AT144,<br/>AP153:AT160,<br/>AP163:AT164</p> <p>AV374:AZ397,<br/>AV404:AZ457</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>   |  | <p>AV225:AZ232,<br/>AV235:AZ236</p>     |
| 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 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> | <p>GDN input sheets<br/><br/>Input</p> | <p>AP390:AT404<br/><br/>AV471:AZ485</p> |

## Appendix 2 – Location of modifications within the Handbook

We hereby modify the Handbook 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 will 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.

### Further modifications made since the Notice:

Three typographical errors were raised during the notice period in relation to the ET2 and GT2 Handbooks. These are listed below and have been addressed as part of this modification

| <b>Issue</b>  | <b>Ofgem response</b> |
|---|-----------------------|
| Paragraph 3.13 of the ET2 and GT2 Price Control Financial Handbook states, 'to allocate variant totex allowances between the five categories of totex as listed below' this should read 'to allocate variant totex allowances between the six categories of totex as listed below'. | Now corrected.        |
| Paragraph 3.14 of the ET2 and GT2 Price Control Financial Handbook contains the following error '(see para Error! Reference source not found.)'which needs correcting.  | Now corrected.        |
| On pages 2-27 of the ET2 and GT2 Price Control Financial Handbook the header reads 'RIIO-GD1 Price Control Financial Handbook'; this should read 'RIIO-ET2 (GT2) Price Control Financial Handbook'.   | Now corrected.        |