

Consultation



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Statutory Consultation on the RII0-2 Licence Drafting modifications - reasons and effects

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1. Introduction

Scope of this consultation

1.1 We are consulting on proposed licence modifications that:

- implement the CMA's Order¹ on RIIO-2 Appeals²;
- address minor snagging issues;
- implement a number of changes that we are proposing in light of lessons learnt operating the RIIO-2 price control to date, e.g. changing the way Re-openers amend baseline allowances, adding Price Control Deliverables to Re-openers, and amending dates for various processes set out in the Price Control Financial Handbook;
- implement a number of Re-opener decisions, where the policy consultations have already taken place;
- update references to Citizens Advice Scotland to reflect the transfer of functions to Consumer Scotland;
- reflect changes made last year to the cost recovery principles³; and
- to fix two errors in the Gas Transmission Licence.

1.2 For the avoidance of doubt, we are not consulting on any modifications to the relevant licences to implement the CMA's decision on Joined Ground B ('Outperformance Wedge'). Such modifications to the relevant licences were made and implemented by the CMA's Order. We have published Price Control Financial Models (PCFMs) and Price Control Financial Handbooks (PFCHs), which reflect the CMA's decision on Joined Ground B. The Special Licence Conditions (SpCs) that we are publishing today also include⁴ those changes substituted as part of the CMA's Order for Joined Ground B.

1.3 We are also not consulting on any modifications to the licences of SPT, NGN, Scotland, Southern and WWU to implement the CMA's decision on Joined Ground C ('Ongoing Efficiency'). Such modifications to the relevant licences were made and implemented by the CMA's Order. We have published Price Control Financial Models (PCFMs) and Price

¹ CMA's Final Determinations and order in the Energy Licence Modification Appeals, issued on 28 October 2021. [Energy Licence Modification Appeals 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/energy-licence-modification-appeals-2021)

² <https://www.gov.uk/cma-cases/energy-licence-modification-appeals-2021>

³ [Licence fee decision 2021-22 | Ofgem](#)

⁴ See conditions 2.5 (for NGG) and 2.3 (for NGN, Cadent, WWU, Scotland, Southern, NGET, SHET & SPT).

Control Financial Handbooks (PFCHs) which reflect the CMA's decision on Joined Ground C. Some consequential changes were required as a result of the substitutions made by the CMA in relation to this ground. These are set out in the issues log published as part of this statutory consultation.

Introduction to proposed licence changes

- 1.4 The modifications we are proposing to make are set out in annexes to this consultation.
- 1.5 Within this document, we set out the reasons why we propose to make these changes and their intended effect.
- 1.6 This statutory consultation does not apply to the Electricity Distribution licences.

Context of these proposed licence changes

- 1.7 We are proposing changes to the following licences only:⁵
- for RIIO-ET2 - the electricity transmission licences of National Grid Electricity Transmission (NGET), Scottish Power Transmission (SPT) and Scottish Hydro Electricity Transmission (SHET)
 - for RIIO-GT2 - the gas transporter licence of National Grid Gas Transmission (NGG)
 - for RIIO-GD2 - the gas transporter licences of the following GDNs:
 - Cadent
 - Northern Gas Networks Limited (NGN)
 - Scotland Gas Networks plc
 - Southern Gas Networks plc
 - Wales and West Utilities Limited (WWU)
 - for RIIO-ESO - the National Grid Electricity System Operator (NGESO)
- 1.8 There are three different types of licence conditions to which we are proposing changes. We have summarised these below.

⁵ Note that Standard Licence Conditions may apply to licensees other than those listed.

Standard Licence Conditions (SLCs)

- 1.9 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 include some obligations related to RIIO that do not adjust allowed revenue.
- 1.10 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)

- 1.11 SSCs are similar to SLCs but only apply to NGG and the GDNs. They are grouped into different parts that either apply, or do not apply, to NGG or the GDNs, according to the activities being carried out by that Licensee.

Special Conditions (SpCs)

- 1.12 SpCs are conditions that apply to a particular licensee. However, the wording is often the same for all licensees of a particular type. The majority of the changes set out in this document relate to SpCs, as most of these relate to RIIO and many contribute to the calculation of allowed revenue.

Price Control Financial Handbooks (PCFHs)

- 1.13 PCFHs are licence instruments that form part of Special Condition 8.1 of network licences. PCFHs consist of:
- a description of the Price Control Financial Model (PCFM) and the Annual Iteration Process (AIP) for it, used to calculate licensee's Allowed Revenue during the course of the Price Control Period;
 - an overview of the variable values used during the AIP, in accordance with the Special Conditions of the licence; and
 - details of how certain variable values are revised or calculated.

NARM Handbook and Network Asset Risk Workbooks

- 1.14 Our proposed modifications to implement the CMA remedies propose making these licence instruments. They will form part of Special Condition 3.1 of NGG, NGET, SPT, SHET and the GDNs licences. The NARM Handbook:

- sets out the methodology for calculating relevant funding adjustments and penalties as a result of Outturn Network Risk Outputs being different to Baseline Network Risk Outputs; and
- provides guidance to the licensee on providing justification for over-delivery and under-delivery; the treatment of Non-Intervention Risk Changes and the meaning and treatment of 'clearly identifiable over-delivery' and 'clearly identifiable under-delivery'.

1.15 The Network Asset Risk Workbook contains the following data:

- Baseline Network Risk Outputs;
- Disaggregated Network Risk Outputs;
- the baseline funding associated with the Disaggregated Network Risk Outputs;
- Asset Intervention underlying the Disaggregated Network Risk Outputs; and
- records of results from Rebasing exercise.

2. Proposed Changes to the Cross Sector Licence Conditions

Section summary

Certain licence conditions are common across all of the ET, ESO, GT, and GD sectors. We refer to these common licence conditions as “cross sector licence conditions”. This chapter explains the proposed modifications to the cross sector licence conditions, why we are proposing these changes, and their effect.

Reason and effect for minor snagging issues

- 2.1 The reason for these modifications is to address minor snagging issues, such as typographical errors, that have been raised by licensees and Ofgem since the RIIO-2 licence modifications were made on 03 February 2021 and that were not dealt with by the previous round of snagging modifications made on 28 May 2021. The issues log published alongside this consultation sets out the minor snagging issues together with our responses to date. Where an error has been identified in relation to one licensee or sector, we have endeavoured to apply the correction to other licensees where relevant. Other minor typographical or formatting issues identified by licensees in working groups or by Ofgem in the finalisation of this statutory consultation have also been made.
- 2.2 The effect of these modifications is to correct errors in the licences, to tidy and improve the clarity of the licences and to enable the licence conditions and the formulas within them to function as intended.

Reason and effect for changes to self-modification powers

- 2.3 The CMA Order required us to make changes to the licences of the appellants of joined ground D ‘licence modification process’ of the RIIO-2 appeals in relation to those self-modification powers in the licence that it found were ultra vires. We have now considered the appropriate modifications to those conditions and are proposing to make the same changes to the licences of the appellants and the non-appellants for administrative ease and to improve the clarity of the licences.

| Baseline Network Risk Output | |
|------------------------------|---|
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.1 in the ET, GT, and GD SpCs |
| Relevant licensees | All companies in ET, GT, and GD |

2.4 There are three reasons for amending this condition:

- to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants;
- to give the NARM Handbook and NARM Workbook the status of a licence instrument; and
- to make the same changes to the licences of the non-appellants for the sake of administrative ease and clarity.

2.5 The effect of the amended condition gives both the NARM Handbook and the Network Asset Risk Workbook licence instrument status. This means that both documents can be amended only through statutory modification procedure except for specified categories of modifications, which are by direction. The reasons and affect of changes to the NARM Handbook and Network Asset Risk Workbook are set out in paragraphs 2.5 to 2.9 below. It also brings the high-level Baseline Network Risk Output value that the licensee is required to deliver into the licence. This value was previously contained only in the Network Asset Risk Workbook. We have provided further detail on the criteria we will apply when rebasing Baseline Network Risk Outputs. Finally, in light of the significant changes being made to the text we also restructured the licence to be consistent with other similar special conditions, for example having the formula dealt with in Part A.

| NARM Handbook | |
|-----------------------------|--|
| Type of change | Issuing of the NARM Handbook as a licence instrument |
| Relevant licence conditions | Licence Instruments under 3.1 in the ET, GT, and GD SpCs |
| Relevant licensees | All companies in ET, GT, and GD |

2.6 As described above in order to implement the CMA 's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants and to make the same changes to the licences of the non-appellants for the sake of administrative ease and clarity, we are making the NARM Handbook a licence instrument.

2.7 In order to issue the NARM Handbook as a licence instrument we are consulting on it as part of this statutory consultation.

2.8 The NARM Handbook sets out the methodology for calculating funding adjustments and penalties related to licensees’ delivery of their Baseline Network Risk Outputs in accordance with SpC 3.1.6.

2.9 The NARM Handbook also provides additional guidance relevant to licensees on operation of the NARM mechanism, as well as background information and context and related to NARM for all stakeholders.

2.10 The NARM Handbook clearly delineates between methodology and the additional guidance.

| | |
|-----------------------------|--|
| Network Asset Risk Workbook | |
| Type of change | Issuing of the Network Asset Risk Workbook |
| Relevant licence conditions | Licence Instruments under 3.1 in the ET, GT, and GD SpCs |
| Relevant licensees | All companies in ET, GT, and GD |

2.11 As described above in order to implement the CMA 's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants and to make the same changes to the licences of the non-appellants for the sake of administrative ease and clarity, we are making the Network Asset Risk Workbook a licence instrument.

2.12 In order to issue the Network Asset Risk Workbook as a licence instrument we are consulting on it as part of this statutory consultation.

2.13 The Network Asset Risk Workbook contains a licensee’s Baseline Network Risk Outputs as well as supporting data necessary for the Authority to calculate any funding adjustments and penalties related to licensees’ delivery of their Baseline Network Risk Outputs in accordance with SpC 3.1.6.

| | |
|---|---|
| Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it adjustment | |
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.2 in the ET, GT, and GD SpCs |
| Relevant licensees | All companies in ET, GT, and GD |

2.14 There are four reasons for amending this condition:

- to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants;

- to make the same changes to the licences of the non-appellants for the sake of administrative ease and clarity;
- to resolve an issue with the scope of the Re-opener that came to light when Re-opener applications were made in April 2021; and
- to implement our decision on the Re-opener applications made by Cadent, NGET, NGG, NGN, SGN, SPT and WWU in April 2021 by updating Appendices 1 and 2.⁶

2.15 The effect of the amended condition is the:

- provision of further specificity in relation to the time, manner and circumstance in which the self-modification power for the Re-opener can be used;
- allowing for the Re-opener to correct errors or make refinements. The text differentiates between changes to outputs set at Final Determinations and those set subsequently, which allows for the appropriate capitalisation rate to apply to each category of outputs; and
- updating of the document specified in Appendices 1 and 2 to refer to the latest confidential cyber resilience OT documents.

2.16 Changes have also been made to the sections that deal with the assessment of the Price Control Deliverable. These are addressed below.

| Cyber resilience information technology Re-opener and Price Control Deliverable | |
|---|---|
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.3 in the ET, GT, and GD SpCs |
| Relevant licensees | All companies in ET, GT, and GD |

2.17 There are four reasons for amending this condition:

- to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants, and following our consideration of what provisions are capable of containing a self-modification power;
- to make the same changes to the licences of the non-appellants for the sake of administrative ease and clarity;
- to resolve an issue with the scope of the Re-opener that came to light when Re-opener applications were made in April 2021; and

⁶ We have not issued yet our decision on NG Group's Cyber Resilience IT and SHET's Cyber Resilience OT Re-opener applications.

- to implement our decision on the Re-opener applications made by Cadent, NGN, SHET, SGN and WWU in April 2021 by updating Appendices 1 and 2.⁷

2.18 The effect of the amended condition is the:

- provision of further specificity in relation to the time, manner and circumstance in which the self-modification power for the Re-opener can be used;
- allowing for the Re-opener to correct errors or make refinements. The text differentiates between changes to outputs set at Final Determinations and those set subsequently, which allows for the appropriate capitalisation rate to apply to each category of outputs; and
- updating of the document specified in Appendices 1 and 2 to refer to the latest confidential cyber resilience IT documents.

2.19 Changes have also been made to the sections that deal with the assessment of the Price Control Deliverable. These are addressed below.

| Net Zero Re-opener | |
|-----------------------------|---|
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.6 in the ET, GT, and GD SpCs |
| Relevant licensees | All companies in ET, GT, and GD |

2.20 There are three reasons for amending this condition:

- to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants;
- to make the same changes to the licences of the non-appellants for the sake of administrative ease and clarity;
- in light of work to date on the Net Zero Re-opener, we have concluded that it would, in some cases, be more sensible for Price Control Deliverables to be specified within this condition instead of just amending those in other conditions.

2.21 The effect of the amended condition is the:

⁷ We have not issued yet our decision on NG Group's Cyber Resilience IT and SHET's Cyber Resilience OT Re-opener applications.

- provision of any changes under the Re-opener to be implemented by the statutory modification process; and
- inclusion of the option of the Re-opener being used to add Price Control Deliverables to this condition.

| Governance of Price Control Financial Instruments | |
|---|--|
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 8.1 in the ET, GT, and GD SpCs and 5.1 in the ESO SpCs |
| Relevant licensees | All companies |

2.22 There are two reasons for amending this condition:

- to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants; and
- to make the same changes to the licences of the non-appellants for the sake of administrative ease and clarity.

2.23 The effect of the amended condition is the provision of more specificity in relation to the time, manner and circumstance in which the self-modification power to amend the Price Control Financial Instruments can be used. We have also removed the significance test and for the ESO added a new defined term to Special Condition 1.1 to establish a Materiality Threshold, which is also discussed below.

| Evaluative PCDs | |
|-----------------------------|--|
| Type of change | Amendment to existing licence conditions |
| Relevant licence conditions | 3.2, 3.3, 3.4 and 9.3 in the ET, GT, and GD SpCs 3.9, 3.10, 3.14, 3.15, 3.17 (SPT and SHET), 3.18 (SPT and SHET), 3.20 (NGET), 3.21 (NGET), 3.27 (NGET) and 3.29 (SPT) in the ET SpCs 3.10, 3.11, 3.12, 3.13, 3.25 (NGN and WWU), 3.26 (Cadent), 3.27 (Cadent), 3.28 (Scotland), 3.29 (Southern), 3.30 (Scotland and Southern) and 3.31 (Scotland and Southern) in the GD SpCs 3.10, 3.11, 3.12, 3.13 and 3.16 in the GT SpCs |
| Relevant licensees | All companies in ET, GT, and GD |

2.24 There are two reasons for amending this condition:

- to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants, and following our consideration of what provisions are capable of containing a self-modification power; and

- to make the same changes to the licences of the non-appellants for the sake of administrative ease and clarity.

2.25 The effect of the amendments to Special Condition 9.3 (Price Control Deliverable assessment principles and reporting requirements) is the provision of more specificity in relation to the time, manner and circumstance in which the self-modification power to adjust allowances for Evaluative PCDs that have not been Fully Delivered will be used. In particular we have included detailed principles on how we will make any decision and the reporting requirements, which were previously only specified in the Price Control Deliverables Reporting Requirements and Methodology Document.

2.26 We have also amended all of the individual Evaluative PCDs to:

- make clear that any decisions made under these self-modification powers will be done in accordance with the principles set out in Special Condition 9.3; and
- specify further information that will be included in any direction adjusting allowances for Evaluative PCDs that have not been Fully Delivered, which was previously only specified in the Price Control Deliverables Reporting Requirements and Methodology Document.

2.27 We have also added to Special Condition 1.1 a number of defined terms previously only in the Price Control Deliverables Reporting Requirements and Methodology Document.

Reason and effect for changes to update references to Citizens Advice Scotland

| Update references to Citizens Advice Scotland | |
|---|--|
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | A1, A4, B1,C3, C10, C14 and E2 in SLCs (ET) 1,3,9,16 and 21 in SLCs (GT and GD) A3, A9, A11, A30, B12, D10 and D16 in the SSCs (GT and GD) |
| Relevant licensees | All companies in ET, GT, and GD |

2.28 The reason for these modifications is that the way advocacy and advice services are being delivered in Scotland was changed in 2020-21 and 2021-22. Functions previously performed by Citizens Advice Scotland are now being performed by a new body, Consumer Scotland.

2.29 The effect of these modifications is the updating of the licences to reflect the new approach to advocacy and advice in Scotland by amending references to Citizens

Advice Scotland. The modifications replace the references to Citizens Advice Scotland with references to Consumer Scotland or add references to Consumer Scotland depending on the context. A separate consultation is running in parallel to invite views on proposed changes to the principles to align them to these proposed licence modifications.

2.30 The amendments to these conditions are set out in the 'Citizens Advice Scotland' tab of the Issues Log published alongside this consultation.

Reason and effect for other changes to other Cross Sector Licence Conditions

| Non-operational IT Capex Re-opener | |
|------------------------------------|---|
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.7 in the ET, GT, and GD SpCs |
| Relevant licensees | All companies in ET, GT, and GD |

2.31 There are two reasons for amending this condition:

- to implement our decision on the Re-opener applications made by NGET and SGN; and
- because having considered the Re-opener applications⁸ submitted in April 2021, it has become apparent that some projects submitted under this Re-opener ought to be made a Price Control Deliverable, dependent on the specific nature of the investment proposed and the ability to measure the quantifiable outputs is appropriate.

2.32 The effect of the amended condition is the:

- specification of Price Control Deliverables for projects approved following the April 2021 Re-opener application window; and
- addition of the option of the Re-opener being used in the future to add Price Control Deliverables to this condition, enabling Licensees to be held to account for the deliverables associated with any increased funding.

⁸ [RIIO-2 Non-operational IT Capex Re-opener Consultation | Ofgem](#)

| Net Zero Pre-Construction and Small Net Zero Projects Re-opener | |
|---|---|
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.9 in the GT, and GD SpCs |
| Relevant licensees | All companies in GT and GD |

- 2.33 The reason for amending this condition is because having considered the existing guidance document for this Re-opener and applications submitted in 2021, we believe that Ofgem ought to be able to set and hold licensees to account for conditions that need to be met in relation to a project funded under this Re-opener.
- 2.34 The effect of the amendments is the clarification that directions made under this Re-opener may include conditions with which licensees have to comply and that any adjustments to allowances as a result of failure to comply with these funding conditions will be made under the statutory modification procedure.
- 2.35 We are also consulting on amending the associated Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document. The reasons for this are to provide:
- guidance on the process for setting funding conditions, which may be required to hold network companies to account when delivering projects funded under this Re-opener; and
 - guidance to network companies on our expectations about contributions to the costs of a project. This is to ensure network companies are clear that we expect them to consider contributions when developing their Re-opener proposals.
- 2.36 The proposed amended text of the Net Zero Pre-construction Work and Small Net Zero Projects Re-opener Governance Document can be found published as a subsidiary document to this consultation. We propose that if we implement these changes they will come into effect by February 2022.

| Cost recovery principles | |
|-----------------------------|---|
| Type of change | Amendment to existing licence conditions |
| Relevant licence conditions | A4 in SLCs (ET and ESO) A3 in the SSCs (GT and GD) 3.2 in ESO SpCs 6.1 in GD and GT SpCs |
| Relevant licensees | All companies |

- 2.37 The reason for amending these conditions is that Ofgem consulted on and then decided to make minor changes⁹ to the licence fee cost recovery principles (“the principles”) earlier this year, including in relation to the returning of surpluses to licence fee payers. Consultation responses noted that some licence conditions may need to be updated to align with the new principles. We agree.
- 2.38 Following the consultation, we invited licensees to join us on a call on 19 May 2021 to discuss drafting changes. We then followed up by email to seek views on our proposed changes. We received five responses, which we have considered. The drafting changes set out in this current consultation take these responses into account.
- 2.39 A separate consultation is running in parallel to invite views on proposed changes to the RIGs to align them to these proposed licence modifications.
- 2.40 The effect of the amended conditions is the alignment of the licence conditions with the amended principles.
- 2.41 The amendments to these conditions are set out in the ‘Cost recovery principles’ tab of the Issues Log published alongside this consultation.

⁹ [Licence fee decision 2021-22 | Ofgem](#)

3. Proposed Changes to the Electricity Transmission Licence Conditions

Section summary

This chapter explains the proposed modifications to the Electricity Transmission (ET) Licence Conditions, why we are proposing these changes and their effect.

Reason and effect for changes to self-modification powers

| | |
|---|---|
| Large onshore transmission investment Re-opener | |
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.13 of the ET SpCs |
| Relevant licensees | All companies in the ET sector |

3.1 There are two reasons for amending this condition:

- to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants; and
- to make the same changes to the licences of the non-appellants for the sake of administrative ease and clarity.

3.2 The effect of the amended condition is to:

- provide for any changes at the Project Assessment Decision (previously Project Assessment Direction) stage to be made under the statutory modification process; and
- provide further specificity in relation to the time, manner and circumstance of the self-modification procedure that applies to Cost and Output Adjusting Events.

3.3 We have consequently amended the definition of Project Assessment Direction in Special Condition 1.1.

3.4 There is also a snagging change to the Cost and Output Adjusting Events provisions in this condition, which is addressed above.

| Medium Sized Investment Projects Re-opener and Price Control Deliverable | |
|--|---|
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.14 of the ET SpCs |
| Relevant licensees | All companies in the ET sector |

3.5 There are three reasons for amending this condition:

- to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants;
- to make the same changes to the licences of the non-appellant for the sake of administrative ease and clarity; and
- in relation to NGET, because further engagement has led us to conclude that it would be more appropriate to have two application windows for activities in paragraph 3.14.6(I).

3.6 The effect of the amended condition is to:

- provide for any changes under this Re-opener to be made under the statutory modification process;
- improve the definition of those activities within the scope of Part C, including the use of a new defined term 'SF6 Intervention Plan, which we have added to Special Condition 1.1;
- provide greater specificity on what information the licensee must provide in a Re-opener application; and
- in relation to NGET, the provision of a second application window for activities in paragraph 3.14.6(I).

3.7 Changes have also been made to the sections that deal with the assessment of the Price Control Deliverable. These are addressed above.

3.8 There are also some snagging changes to Part C of this condition, which are addressed above.

| | |
|-----------------------------|---|
| Access Reform Re-opener | |
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.16 of the ET SpCs |
| Relevant licensees | All companies in the ET sector |

3.9 There are two reasons for amending this condition:

- to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellants; and
- to make the same changes to the licences of the non-appellant for the sake of administrative ease and clarity.

3.10 The effect of the amended condition is to provide for any changes under this Re-opener to be made under the statutory modification process. We have also amended the structure to bring it in line with other conditions being amended following the CMA's Order in relation to joined ground D 'licence modification process'.

| | |
|-----------------------------|---|
| Subsea Cable Re-opener | |
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.29 of the ET SpCs |
| Relevant licensees | SHET |

3.11 The reason for amending this condition is to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellant.

3.12 The effect of the amended condition is to provide more specificity in relation to the time, manner and circumstance in which the self-modification power for the Re-opener can be used.

| | |
|---|---|
| Uncertain Non-Load Related Projects Re-opener and Price Control Deliverable | |
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 3.30 of the ET SpCs |
| Relevant licensees | SPT |

3.13 The reason for amending this condition is to make the necessary drafting modifications following the CMA's Order in relation to joined ground D 'licence modification process' of the Energy Licence Modification Appeals 2021 in relation to the appellant.

3.14 The effect of the amended condition provides further specificity in relation to the time, manner and circumstance in which the self-modification power for the Re-opener can be used.

Reason and effect for changes to other Electricity Transmission Licence Conditions

| | |
|-------------------------------------|---|
| RIIO-2 network innovation allowance | |
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 5.2 of the ET SpCs |
| Relevant licensees | NGET |

- 3.15 The reason for amending this condition is to prevent this condition from potentially limiting NGET's use of the Deeside Centre For Innovation (DCI) within its Network Innovation Allowance. The DCI is a testing facility developed as part of the Off-grid Substation Environment for the Acceleration of Innovation Technologies (OSEAIT) Network Innovation Competition (NIC) project¹⁰. On 22 October 2021 we issued our decision on the DCI's operation beyond the OSEAIT NIC Project, allowing for the DCI to continue to be owned and managed by NGET¹¹. Given NGET's ownership of the DCI, all spend associated with the DCI might be considered 'internal resources' for the purpose of this condition.
- 3.16 The effect of the amended condition is that the costs of operating the DCI, other than the associated NGET salary costs, are not considered internal resources for the purposes of this condition. This is consistent with the RIIO-2 NIA Governance Document¹², which in paragraph 4.8 examples salaries as an internal resource for the purposes of the relevant licence conditions.

¹⁰ [NIC OSEAIT Future Business Model Authority Decision | Ofgem](#)

¹¹ Our decision on the future operation of the DCI can be found on our website: <https://www.ofgem.gov.uk/publications/nic-oseait-future-business-model-authority-decision>

¹² [RIIO-2 NIA Governance Document | Ofgem](#)

4. Proposed Changes to the Gas Transmission Licence Conditions

Section summary

This chapter explains the changes to the GT licence conditions, why we are making those changes, and their effect.

Reasons and effect for changes to Gas Transmission Licence Conditions

| Capacity Constraint Management incentive | |
|--|---|
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 5.5 in NGG's SpCs |
| Relevant licensees | NGG |

- 4.1 The reason for amending this condition is because the recent modifications to Special Condition 5.5¹³ has led to an unintended consequence related to the calculation of NGG's revenue associated with accelerated release of non-obligated capacity (RAREnCA term). NGG is allowed to retain 100% of this revenue, but this has been inadvertently affected through changes to licence algebra in Part C of this condition, and needs to be corrected.
- 4.2 The effect of this amendment is adding a multiplication factor of 0.14 to the RAREnCA term in Part C of Special Condition 5.5, which will preserve any revenue associated with RAREnCA for NGG and ensure the Capacity Constraint Management incentive works as intended in the accurate calculation of NGG's performance. Minor clarificatory changes to the language in Part C of Special Condition 5.5 have also been made to make the function of this incentive clearer within the licence.

| NTS shortfall contribution obligations | |
|--|---|
| Type of change | Amendment to existing licence condition |
| Relevant licence conditions | 9.15 in NGG's SpCs |
| Relevant licensees | NGG |

¹³ Modification of National Grid Gas Plc (NGG) Gas Transporter Licence to change Part C of Special Condition 5.5, published 12 October 2021. <https://www.ofgem.gov.uk/publications/modification-national-grid-gas-plc-ngg-gas-transporter-licence-change-part-c-special-condition-55>.

- 4.3 The reason for amending this condition is to insert text relating to the calculation of the licensee's recovered revenue following a shortfall direction from the Secretary of State. This text existed in the RIIO-1 condition but was omitted in error from the RIIO-2 condition. Some minor typographical errors have also been corrected.
- 4.4 The effect of this amendment clarifies that revenue attributable to compliance by the licensee with a shortfall direction from the Secretary of State will not count towards the calculation of the licensee's recovered revenue.

5. Proposed Changes to the Electricity System Operator Licence Conditions

Section summary

This chapter explains the changes to the Electricity System Operator (ESO) licence conditions, why we are making those changes and their effect.

Reason and effect for Materiality Threshold modification

| | |
|-----------------------------|---------------------------------|
| Materiality Threshold | |
| Type of change | Amendments to existing drafting |
| Relevant licence conditions | 1.1 part B |
| Relevant licensees | ESO |

- 5.1 The reason for amending this condition is to include a Materiality Threshold in the ESO's special licence conditions. This threshold is required for the AIP re-publication process as well as for the newly drafted governance condition (see paragraph 2.15 and 2.15 of this document).
- 5.2 The effect of the amended condition is the inclusion of a Materiality Threshold in the Interpretation and definitions section of the special conditions.

6. Proposed Changes to the Price Control Financial Handbook

Section summary

This chapter explains the changes to the Price Control Financial Handbook (the handbook), why we are making those changes and their effect.

Reason and effect for changes to the handbook

| | |
|-----------------------------|---------------------------------|
| PCFM re-publication process | |
| Type of change | Amendments to existing drafting |
| Relevant handbook section | 2.62 – 2.70 |
| Relevant licensees | All companies |

- 6.1 The reason for these modifications is to provide additional clarity around the PCFM re-publication process and to make clear which components of Allowed Revenue are within its scope. As well as this we are proposing to modify the notification deadline from 10 January to 05 January in the ESO, ET2 and GD2 sector handbooks. This will allow us sufficient time to review the notifications received and provide the requisite 14-day notice period to licensees before a re-publication of the PCFM in time for charge setting, which takes place at the end of January¹⁴.
- 6.2 The effect of these modifications is to improve the clarity of the re-publication process for all sectors and to bring forward the notification deadline for the ET2, GD2 and ESO sector handbooks.

| | |
|----------------------------|---------------------------------|
| Related document hierarchy | |
| Type of change | Amendments to existing drafting |
| Relevant handbook section | Related documents |
| Relevant licensees | All companies in ET, GT, and GD |

- 6.3 The handbooks contain a document hierarchy, which sets out the order of precedence that applies to the various documents that form our price controls. The reason for this amendment is to reflect the proposal to make the NARM Handbook and Network Asset

¹⁴ The notification cut-off date applies to any licensee that requests a re-publication of the PCFM before they set tariffs at the end of January. Bringing the date forward from 10 to 05 January accommodates the 14-day notice period required prior to a re-publication as well as giving us sufficient time to review the request. Note, this does not apply to the GT sector as the charging timeline differs for GT and so the date will remain 10 January in the GT2 handbook.

Risk Workbook licence instruments, giving them greater status than our Associated. This is set out further above.

- 6.4 The effect of these modifications is the inclusion the NARM Handbook and Network Asset Risk Workbook within the document hierarchy included at the beginning of the handbooks at the relevant place to reflect the status of being a licence instrument.

| Annual Iteration Process - timeline | |
|-------------------------------------|-------------------------------------|
| Type of change | Amendments to existing drafting |
| Relevant handbook section | 2.51 – 2.55 and table 2.1 |
| Relevant licensees | All companies in ET, GT, GD and ESO |

- 6.5 The handbooks set out the timing and the process for the Annual Iteration Process (AIP) including the deadlines by which the Authority will modify the PCFM in time for a given AIP. This is known as the functional change cut-off date and applies to the PCFM and the PCFM Guidance, which is part of the RIGs guidance, and by extension will also apply to the RIGs regulatory reporting templates that will be required for an AIP. We propose to modify the functional change cut-off date from 01 May in each remaining year of the price control to 01 June.
- 6.6 The reason for this modification is to provide ourselves and licensees with an additional month to put into place these new templates and the associated guidance as well as making any required PCFM modifications in time for the 2022 AIP. Delaying the cut-off date will bring the timetable for 2022 and beyond in line with the timetable that was used in 2021.
- 6.7 Accordingly, we also propose to delay the AIP first dry run submission date to give an extra month to licensees to populate the PCFM.
- 6.8 The effect of these modifications delays the PCFM functional cut-off date and the date of the first dry run submission by one month.