Consultation

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Consultation on the closeout methodologies for RIIO-ET1

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Contact	Anthony Mungall
Team:	RIIO Electricity Transmission
Telephone	0141 331 6010
Email:	anthony.mungall@ofgem.gov.uk

We are consulting on methodologies to close out elements of the price control for electricity transmission (RIIO-ET1), which started on 1 April 2013 and ended on 31 March 2021. This document outlines the scope and purpose of the consultation, sets out proposals for dealing with relevant elements and explains how you can get involved.

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

The RIIO-ET1 price control ran from 1 April 2013 until 31 March 2021 (an eight year period). It included several areas which, due to their uncertain nature, could only be settled once all costs and/or outputs are known or can be forecast with sufficient accuracy. This means that some elements of the price control need to be subject to "closeout" once the price control has ended and all the relevant information is available (eg actual costs incurred or outputs delivered).

We have based the proposed RIIO-ET1 closeout methodologies on the approach and principles we set out in the RIIO-T1 Strategy Decision, RIIO-T1 Final Proposals for Scottish Power (SPT) and Scottish Hydro Electric Transmission (SHET), RIIO-T1 Final Proposals for National Grid Electricity Transmission (NGET), relevant supplementary documents, and Price Control Financial Handbook. We have also considered elements of the RIIO-ET2 Final Determinations where appropriate.

We have not included the closeout of Network Output Measures (NOMs) – a RIIO-1 mechanism of allowances and incentives relating to the management of network assets – within the scope of this consultation exercise; NOMs closeout will be consulted upon separately due to the specificity of the mechanism and its cross-sector scope.

We have engaged with the Electricity Transmission Owners (ETOs) to inform our thinking in each subject area. A final version of the proposed methodologies, subject to responses received through wider consultation, will be included in the RIIO-ET2 Price Control Financial Handbook.

We are also proposing an approach to clarify funding for specific projects where the delivery of outputs is expected in RIIO-ET2 or beyond and for which the RIIO-ET1 price control provided no allowances for spend incurred in the RIIO-ET1 period.

We welcome views from stakeholders on our suggested approaches outlined in Chapters 2 to 15.

Related documents

RIIO-T1 Strategy Decision,
https://www.ofgem.gov.uk/publications/decision-strategy-next-transmission-price-control-riio-t1

RIIO-T1 Final Proposals for Scottish Power (SPT) and Scottish Hydro Electric Transmission (SHET)
https://www.ofgem.gov.uk/publications/riio-t1-final-proposals-sp-transmission-ltd-and-scottish-hydro-electric-transmission-ltd

RIIO-T1 Final Proposals for National Grid Electricity Transmission (NGET)
https://www.ofgem.gov.uk/publications/riio-t1-final-proposals-national-grid-electricity-transmission-and-national-grid-gas-overview

Supplementary documents to the RIIO-T1 Final Proposals
https://www.ofgem.gov.uk/sites/default/files/docs/2012/12/4_riiot1_fp_finance_dec12.pdf

RIIO-ET1 Price Control Financial Handbook
https://www.ofgem.gov.uk/sites/default/files/docs/2017/08/et1_handbook_-_v2.0.pdf

RIIO-2 Final Determinations Transmission and Gas Distribution Network Companies
www.ofgem.gov.uk/publications/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator

1. Introduction

What are we consulting on?

1.1. We are consulting on

- a methodology to close out elements of the price control for electricity transmission (RIIO-ET1), which started on 1 April 2013 and ended on 31 March 2021, and

- an approach to confirm funding for specific projects where delivery of outputs is expected in RIIO-ET2 or beyond and for which the RIIO-ET1 price control provided no allowances for spend incurred in the RIIO-ET1 period.

1.2. This document outlines the scope and purpose of the consultation, sets out proposals for dealing with relevant elements and explains how you can get involved.

1.3. The RIIO-ET1 price control includes several areas of allowed expenditure that require information on the actual efficient costs incurred, revenue received and/or the output delivered before they can be settled (or "closed out"). These are compared with the allowed costs, revenues and/or outputs targets that were incorporated in the modelling of Final Proposals, and the differences will be input to the closeout methodologies to determine the value of any adjustment required.

1.4. We are proposing methodologies to close out elements of the RIIO-ET1 price control across three broad areas:

1) The calculation of financial adjustments for ETOs'. See chapter 2.

2) Adjustments to RIIO-ET1 allowances that can be calculated using existing RIIO-1 electricity transmission licence (the T1 Licence) definitions and price control algebra but where final assessment of the relevant information (eg actual expenditure incurred) is required to calculate those adjustments. This includes the following cost areas:

- the true-up of forecast and actual revenues received from connecting customers for their connection. See chapter 3.

- recovery of efficiently incurred Load Related capital expenditure (LR capex) on investments expected to deliver wider transmission transfer capability uplift but which are no longer required during the RIIO-ET1 period. This is represented by the TPWW[1] term within the T1 Licence of NGET. See chapter 4.

- recovery of efficiently incurred LR capex on investments for terminated connection works net of settlement of termination payment from users during the RIIO-ET1 period. This is represented by the terms TPG, TPRG, TPD and TPRD within the T1 Licence of NGET. See chapter 5.

- settlement of fixed 'use it or lose it' allowances to deliver engineering activities preparatory to the construction of specific infrastructure projects within the T1 Licence. See chapter 6.

- adjustments to fund the LR capex incurred across the RIIO-ET1 and RIIO-ET2 price control periods for delivery of outputs in the first two years of RIIO-ET2 ("T1+2")[2], where a funding provision is made in a volume driver mechanism within the T1 Licence. See chapter 7.

- adjustments of funding for projects to enhance the physical security at sites across NGET's transmission network to reflect actual outputs within the RIIO-ET1 price control period. See chapter 10

- the implementation of a 'clawback' of allowed expenditure through the operation of the SPT's generation connection volume driver mechanism within the T1 Licence.[3] See chapter 11.

3) allowances where either the cost/allowance definition or licence algebra has not yet been set. Specific areas include:

[1] Special Condition (SpC) 6J: Allowed Expenditure for Incremental Wider Works, paragraph 14.
[2] For brevity we reference the T1+2 period when referring to the duration of the volume driver mechanisms under the T1 licence but recognise that NGET's undergrounding mechanism applies up to 31 March 2024.
[3] The clawback is in relation to transmission infrastructure works associated with Sole-use Generation Connections (BSUE term) and the Threshold Capacity in table 1 of SpC 6F of SPT's T1 Licence.

- approach to confirm our funding decision for the LR capex incurred in the delivery of outputs in RIIO-ET2 or beyond and for which the RIIO-ET1 price control provided no allowances for spend incurred in the RIIO-ET1 period. See chapter 8 (NGET) and chapter 9 (SHET).

- the treatment of financial proceeds from the disposal of assets by ETOs. See chapter 12.

- implementing appropriate financial adjustments associated with the delivery of the joint venture Western High Voltage Direct Current (WHVDC[4]) project in the RIIO-ET1 period. See Chapter 13.

- adjusting allowed expenditure for costs incurred by SHET in the last year of RIIO-ET1 on projects under the Visual Impact of Scottish Transmission Assets (VISTA) policy initiative. See chapter 14.

- adjustments to the funding arrangements under the Network Innovation Allowance (NIA) mechanism. See chapter 15.

1.5. We have based our proposed methodologies on the approach and principles set out in the Related Documents list, where applicable.

1.6. We have worked with the ETOs to develop the proposed methodologies and are now consulting more widely with all stakeholders. Following a decision on these methodologies, we will engage with the companies to implement the methodologies and then consult on any required modifications to the RIIO-2 electricity transmission licence ("the T2 Licence") and licence instruments.

[4] SpC 6I: Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure. Table 1 includes the WHVDC joint venture output (SPT and NGET).

Overview of closeout scope

1.7. Closeout includes:

- mechanisms that true up and reconcile actual payment received from customers for connections services;
- output mechanisms which enable us to recover funds from ETOs if they have not delivered the relevant outputs (except for works terminated due to external changes) and to provide allowances for works not already funded; and
- settlement against 'use it or lose it' allowances.

1.8. The majority of the closeout areas are related to expenditure and funding associated with a category of investment which is driven by customer activity, ie by connection of generation or demand, referred to as LR capex.

1.9. Output delivery in many LR capex areas is heavily influenced by the scale of change in customer-driven activity which is beyond the direct control of each licensee (e.g. size and design of connection required). As a result, funding in these LR capex areas was linked to the operation of specific uncertainty mechanisms. These mechanisms link the level of funding to the actual volume of network services provided over the price control by a licensee to ensure that consumers only pay for the actual output delivered. The total allowance is adjusted if the actual volume of output delivered is different from the delivery forecast in the original RIIO-ET1 funding (also referred to as the 'baseline').

1.10. Table 1 on the next page provides a description of the areas of the RIIO-ET1 price control that require a methodology or approach for closeout.

Table 1: Areas for closeout

Area	Description	ETO	Chapter
Sole Use Entry and Exit Connections	A "true-up" to match payments received by each of the ETOs across RIIO-ET1 and the assumptions taken when establishing the baseline allowance at the start of the price control period.	All	3
Directly Allowed Revenue Terms (DARTS)	A true-up to reconcile the difference between the actual income received by each of the ETOs across RIIO-ET1 and the assumptions taken when establishing the total allowed revenue to be recovered from annual charges at the start of the price control period.	All	3
Transmission Provisions Wider Works (TPWW) claims	An adjustment to NGET's TPWW licence term to recover costs efficiently incurred in boundary capacity projects, which are no longer required due to a change of external conditions.	NGET	4
Treatment of land costs associated with the North London Reinforcement Project	Return to consumers any financial gains that NGET has derived from land ownership in relation to the North London Reinforcement project (whether through leasing out or sales).	NGET	4
Customer terminated projects	Adjustment to recover costs efficiently incurred on investments for terminated connection works net of settlement of the termination payments received from users within the RIIO-ET1 price control period.	NGET	5
Preconstruction project spend	An adjustment to reflect the difference between the actual costs incurred in delivering and fixed allowances initially associated with the delivery (or non-delivery) of RIIO-ET1 pre-construction activities related to 'named' outputs specified in the T1 Licence.	All	6
'Crossover' volume driver projects	An adjustment to the funding for connection projects whose output delivery is expected in the first two years of T2 and where an automatic trigger exists to adjust allowances through an extension of the T1 volume driver. This applies to generation connection projects (NGET and SHET), demand	NGET & SHET	7

	connection projects (NGET only) and incremental wider works projects (NGET only). The closeout of this item may require an adjustment to the T2 baseline allowances and targets to avoid gap or duplication between T1 and T2 mechanisms.		
'Crossover' projects without a volume driver to fund costs incurred during the RIIO-ET1 period.	An approach to confirm the funding for crossover projects that are not subject to adjustment through the arrangements described in chapter 7 and where our T2 process has already assessed the need and total costs of the project.[5]	NGET & SHET	8 (NGET) 9 (SHET)
Enhanced Physical Site Security	An adjustment to allowances to reflect updated needs cases for the programme of work to enhance physical security at specific sites, as required by the UK government as part of the Physical Security Upgrade Programme (PSUP).	All	10
Generation connection volume driver 'clawback'.	The output delivered under SPT's T1 mechanism is significantly lower than the baseline threshold. A clawback of allowance is required to replicate the operation of the volume driver mechanism in the opposite direction. The closeout process will facilitate the adjustment through the PCFM.	SPT	11
Financial proceeds from the disposal of assets	An adjustment to net off any cash proceeds through assets disposal from additions to Regulated Asset Value (RAV) from the year in which they occur.	All	12
Western HVDC (WHVDC) link joint venture project	An adjustment to reprofile funding and to reflect the redress for the delay of delivery. The proposal is that any adjustment to the allowance resulting from the conclusion of the investigation will be reflected in the next AIP.	NGET & SPT	13
RIIO-ET1 Visual Impact of Scottish Transmission Assets (VISTA) policy	An adjustment to SHET's RIIO-ET1 allowed expenditure to fund the agreed costs it has incurred on the projects in 2020/21, in accordance with the published directions.	SHET	14

[5] The preconstruction costs associated with these investments will be allocated against existing RIIO-ET1 allowances.

Treatment of innovation allowances	An adjustment to reflect our decision to allow carry-over of any NIA funds unspent in 2020/21 into the first year of T2.	All	15

1.11. We propose to make any adjustments to ETOs' RIIO-ET1 allowances during financial year 2022/23.

Approach to RIIO-ET1 closeout

1.12. In areas where there is a lack of prescriptive description to the approach to be applied in closeout we have, where possible, looked to follow a set of overarching principles developed in accordance with the relevant price control documentation, the RIGs, and outputs from ongoing work. These principles include:

- We will ensure ETOs are not subject to double counting of adjustments.
- We will not apply hindsight in the ex-post assessment and will only base the assessment of the efficiency of ETOs' incurred expenditure in the context of the information that the ETOs had available, or should reasonably have had available, at the time of making their investment decisions during RIIO-ET1.
- We will seek to ensure that ETOs are kept whole for efficiently incurred expenditure that was outside of the original approved T2 allowances[6].

Performance assessment submission

1.13. ETOs will be required to submit a final 'performance assessment submission' to confirm the value of the closeout adjustment to be made and to provide further information to explain and justify their performance in each closeout area.

1.14. The submission will include the following information as a minimum:

[6] For the avoidance of doubt, this does not include where the Authority have previously issued a determination on the provision of funding.

- variance analysis to verify the difference between actual LR capex incurred, revenues and/or outputs and the assumptions taken as part of setting the RIIO-ET1 baseline.

- confirmation and explanation of any data quality issues over the RIIO-ET1 Price Control Period which have affected LR capex, revenue and/or outputs.

- detail of changes to activities relative to the activities that were detailed in the ETO's RIIO-ET1 business plan submission (that was used as the basis of setting the RIIO-ET1 baseline).

1.15. We expect to receive the final performance assessment submission from each ETO on or before 30 April 2022.

1.16. In addition, certain mechanisms will require bespoke submissions to enable our determination; these will be detailed in the relevant chapters.

Consultation stages

1.17. This consultation will open on 31 January 2022 and close on 28 February 2022. We will review and publish the responses 10 days after the consultation closes. We will endeavour to publish our decision by 31 March 2022.

How to respond

1.18. We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.

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

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

Your response, data and confidentiality

1.21. 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.

1.22. 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.

1.23. 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.

1.24. 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

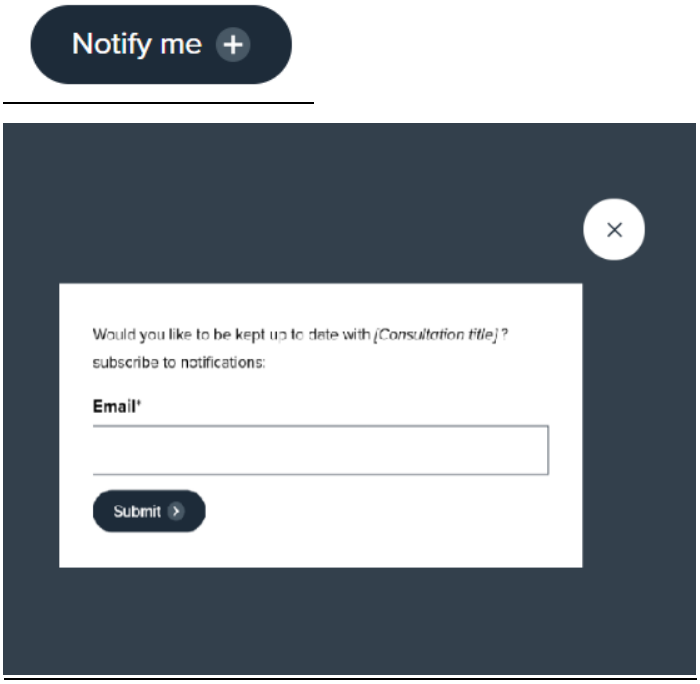
1.25. We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:

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. 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)

2. Approach to financial modelling methodologies

This section describes the process which the Authority proposes to follow in determining any revisions as a result of the RIIO-ET1 closeout to the licensees' RIIO-ET2 RAV balances and revenue for the ET2 Price Control Period.

This process applies to all the ETOs.

Background

2.1. To closeout TPCR4, the RIIO-ET1 model contained "legacy" adjustments to RAV (LRAV) and revenue (LAR) in the 2013/14 regulatory year. For NGET, the LAR value was spread over the 8 years of RIIO-ET1, while SHET and SPT had a one-off adjustment in 2013/14.

2.2. In contrast, the RIIO-ET1 licence introduced mechanisms that automatically true up revenue for outturn data on an annual basis. Therefore, the RIIO-ET2 Price Control Financial Model (PCFM) does not need the same catch-all legacy terms used for TPCR4 closeout. Instead, the LAR term is the sum of the pre-existing true-up mechanisms introduced in RIIO-ET1 (licence terms MOD, PT, TRU, for example).

2.3. Rather than make a one-off adjustment to RAV at the start of RIIO-ET2, we now import the final RIIO-ET1 values into the RIIO-ET2 PCFM; this reflects the historical adjustments more transparently. Accordingly, the LRAV term has been repurposed to refer to the "outturn" (or ex-post) RAV additions in RIIO-ET1, rather than a one-off adjustment.

2.4. The revenue adjustment (LAR) in RIIO-ET2 is the sum of existing true-up mechanisms, which have been extended into RIIO-ET2 to cover the closeout of RIIO-ET1.

2.5. One component of the LAR term is "MOD", which is calculated by the RIIO-ET1 PCFM on an annual basis. The MOD term calculates an appropriate revenue adjustment for a future year, given a set of changes in historical years. MOD has been calculated annually as part of the AIP during RIIO-1, and we continue to calculate it for the first two years of RIIO-2 (as it reflects changes on a two-year lagged basis).

2.6. In the typical RIIO-ET1 process, the MOD term only reflects changes to pre-defined "variable values", and other values remain fixed through the price control. However, for using this model in the context of RIIO-ET1 closeout, we propose to broaden the

scope of values which may be modified or add new calculations if required, and then extend the function of the MOD term to capture the effect of RIIO-ET1 closeout. We describe this closeout model as the ET1 Legacy PCFM.7

2.7. For illustration, Figure 1 is a sequence diagram, showing how the Legacy PCFM, the extended ET1 Revenue Regulatory Reporting Pack (Revenue RRP), and RIIO-ET2 PCFM interact and produce an allowed revenue value for the next regulatory year. Figure 1 should be read from top to bottom (the steps are numbered), while the arrows show where components come from and feed into. Each step is briefly summarised below.

1. Ofgem or the licensee will input changes to RIIO-1 values in the Legacy PCFM.

2. The Legacy PCFM is used to calculate legacy MOD (LMOD) value(s), which is then input into the Revenue RRP.

3. Inflation assumptions are input by the licensee into the Revenue RRP.

4. The Revenue RRP provides the LMOD value in £m nominal, which is then input RIIO-2 PCFM.

5. Other inputs to the Revenue RRP are filled in by the licensee.

6. The remaining legacy values are input into the RIIO-2 PCFM, completing the 'LAR' input block for the corresponding year.

7. Legacy RAV additions are input from the legacy PCFM into the RIIO-2 PCFM, after being converted to 18/19 prices.

8. The licensee updates all other variable values in the RIIO-2 PCFM.

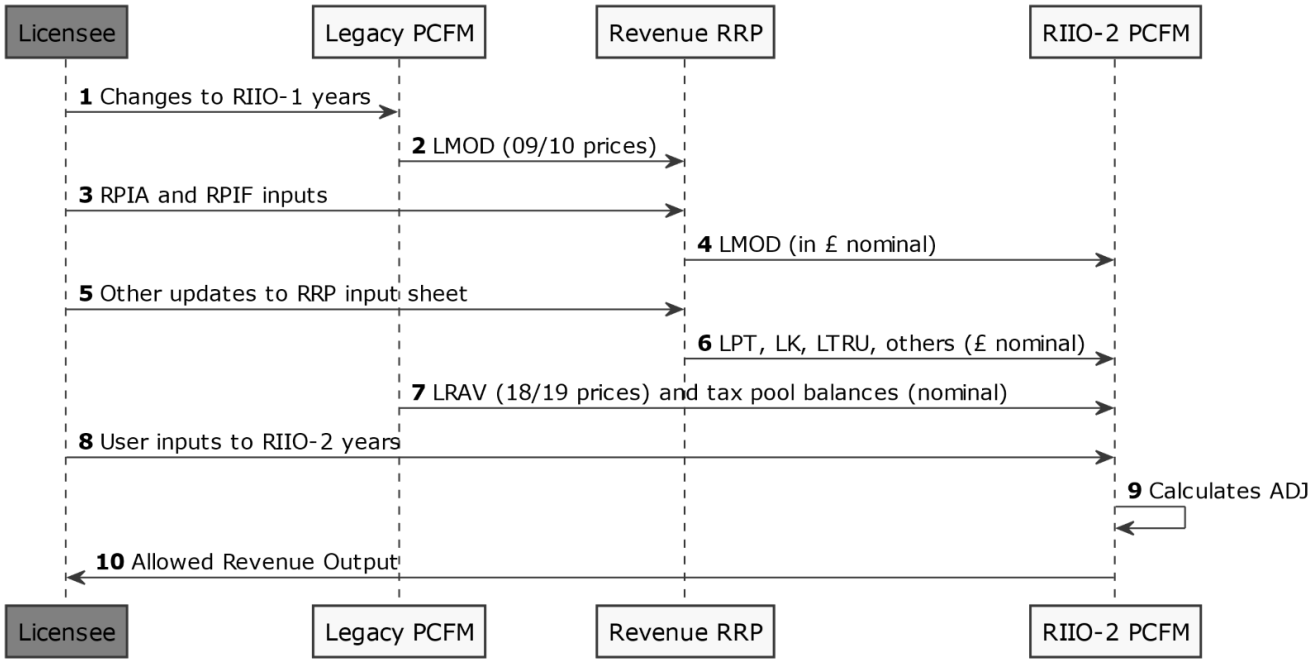
9. The RIIO-2 model calculates the ADJ term for the following year.

[7] The ET2 PCFM already contains starting values based on a provisional Legacy PCFM that was extended to produce MOD terms for the first two years of RIIO-2, and some provisional modifications have been made. The ET1 closeout process aims to finalise the ET1 Legacy PCFM.

10. The RIIO-2 model provides the licensee an Allowed Revenue value for the following year.

2.8. This process is set out in the Price Control Financial Handbook and the network licence special conditions.

Figure 1: Sequence Diagram of the RIIO-2 AIP with Legacy Adjustments



Proposed approach to closeout

2.9. We propose to implement RIIO-ET1 closeout methodologies via the Legacy PCFM by revising both variable ("blue box") and non-variable ("yellow box") values or modifying calculations as necessary. This provides the greatest transparency about the nature of the ex-post adjustment, a reliable way of calculating the appropriate true-up and provide a useful data source for the final RIIO-ET1 performance in the future.

2.10. We propose to implement the methodologies in the November 2022 AIP, though note that corrections can be made in subsequent AIPs if necessary.

2.11. We note that the Price Control Financial Handbook already posits adjusting the Legacy PCFM to accommodate closeout methodologies. For this reason, it may not be necessary to duplicate a consultation and the closeout decisions for the purposes of including methodologies in the handbook.

Phasing of the impact of closeout

2.12. In the current AIP process, the cumulative impact of all changes is included in the MOD value for the following year. However, we propose to smooth the impact of the November 2022 AIP legacy adjustments over the remaining three years of RIIO-ET2.

2.13. This would require modifications to the "Revenue" tab of Legacy PCFM, so that two thirds of "recalculated base revenue deltas" (see row 32) from the November 2022 AIP are reserved for future MOD values.

Question 1: Do you agree with the proposed process in determining any financial revisions for the RIIO-ET1 closeout, including the phasing of the impact?

Question 2: What are your views on what should, or should not, be finally incorporated into the financial handbook?

3. Adjustments to true-up with connection payments

This section explains our proposed methodology for closing out connection activity funded directly by the connecting customer.

This process applies to all the ETOs.

Background

3.1. The efficient expenditure for delivering local enabling works[8] is funded directly by the connecting customer. This is through payment either over an agreed period or over the life of the asset, in accordance with the relevant charging methodology (see section 14 of the Connection and Use of System Code[9]).

3.2. An offer of connection will typically identify two types of work:

- transmission connection assets, which are installed solely for and only capable of use by an individual user ('sole use'). These costs are recovered by ETOs through a combination of up-front capital contributions and annual connection charges; and

- transmission infrastructure assets that cannot be solely attributed to an individual user (and are potentially shared by more than one user). These costs are recovered by ETOs through transmission network use of system (TNUoS) charges after connection.

3.3. RIIO-ET1 baseline allowances were set on the assumption that each ETO would recover a certain amount through their customer connection activities between 1 April 2013 and 31 March 2021.

3.4. We note that Ofgem's FPs Finance Support document[10] made specific reference to sole use "exit connections" and briefly describes the process of true-up to be applied. The text is reproduced on the next page:

[8] These are the minimum transmission works that facilitate the connection of users seeking to export energy onto the onshore transmission system (entry) or take power from the onshore transmission system (exit).
[9] https://www.nationalgrideso.com/document/141131/download
[10] RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas - Finance Supporting Document (published 17 December 2012) – paras 2.17-2.21.

"*This will entail resetting allowances to mirror the actual net capex and to reflect the removal of actual excluded service income from total allowed revenue*."

3.5. The FP documentation was silent on treatment of the sole use "entry connections" investment category.

3.6. Further discussion with the ETOs established an understanding that costs allowances and expenditure for sole use entry connections will be reviewed as part of closeout in RIIO-ET1 and similar adjustment to be made as for exit connections.

3.7. A process is required to ensure that any variance between the total payment received by each ETO across RIIO-ET1 and the assumptions taken to establish the RIIO-ET1 baseline are trued up. This true-up has two components:

- A true-up between the forecast customer connection contributions in the RIIO-ET1 settlement and the actual contributions received.

- A true-up between assumed annual connection charges and the actual connection income received.

Proposed methodology

3.8. We propose an adjustment calculation that involves the following steps.

1) Establish the original forecast profile of capital contributions (listed as negative expenditure) included in Baseline Load Related Allowance for the investment categories relevant to sole use entry and sole use exit connection activity categories.

2) Establish the actual profile of capital contributions received (listed as negative expenditure) against the investment categories noted in step 1.

3) Deduct each profile value in step 2 from the value in step 1 to determine the annual profile of the control period connection contributions true-up adjustment.

4) Establish the original forecast profile of income from connection charges (listed as a negative value of the 'DARTS'[11] term within the ET1 PCFM).

5) Establish the actual profile of connection charge income over the control period.

6) Deduct each profile value in step 5 from the value in step 4 to determine the annual profile of the control period connection charges true-up adjustment.

7) The profiles from steps 3 and 6 will be input to the ET1 Legacy PCFM.

    - Row 84, "Non-variant allowed load related capex expenditure" under the "Expenditure", for the customer contributions component.

    - Row 213, "Excluded services revenue" under the heading "Direct Allowed Revenue Terms (DARTs)", for the connection charges component.

Question 3: Do you agree with our proposed methodology for determining the connection activity adjustment?

Question 4: Do you agree with the proposal to apply a true-up adjustment to both sole use entry connections and sole use exit connections?

[11] Directly Allowed Revenue Term.

4. Adjustments for terminated wider works projects

This section explains our proposed methodology for closing out allowances for terminated wider works projects through the TPWW term in Special Condition (SpC) 6J of NGET's T1 licence.

This chapter applies to NGET only.

Background

4.1. Under the RIIO-ET1 framework, an explicit volume driver mechanism was established to provide funding to NGET to deliver electricity transmission projects that meet Network Development Policy (NDP) criteria12, strengthen specific network boundaries in England and Wales, and increase their transfer capability. The projects and associated outputs are referred to as Incremental Wider Works (IWW).

4.2. NGET could proceed with certain projects based on best information then available about the contracted generation background, demand changes forecast, and clusters of prospective transmission reinforcements to best meet consumers' long-term needs.

4.3. However, conditions could change leading to delay13 or disappearance of the needs case. In some cases it was no longer in the interests of existing and future consumers for an investment to proceed as completed infrastructure work could not be used subsequently to contribute to other outputs delivered by NGET within the RIIO-ET1 period. The RIIO-ET1 framework introduced a mechanism to allow NGET to recover the efficient construction costs incurred on such projects to that point14.

4.4. Transmission Provisions Wider Works (TPWW) is a term within SpC 6J of NGET's T1 Licence which allows the licensee to recover costs efficiently incurred in progressing construction activities in the delivery of an IWW output up to the point of the cancellation of the project, where conditions have changed and it is no longer aligned with consumers' needs to continue the project to completion. The licence definition is reproduced below.

[12] Required by Part B of SpC 6J of NGET's T1 Licence.
[13] In this context is until 31 March 2023.
[14] Pre-construction costs for IWW projects were separately provided in NGET's baseline allowances. Costs incurred on associated pre construction activity will be allocated against existing RIIO-ET1 allowances.

$TPWW_{t,n}$ *means the Allowed Expenditure (in 2009/10 prices) for total expenditure efficiently incurred by the licensee to progress an IWW Output determined by the licensee in accordance with its Policy in Part B of this condition, which is then not required in the original timescales in an application of the Policy by the licensee in Relevant Year t-2 and cannot be used subsequently to contribute to the other outputs Delivered by the licensee.*

4.5. As part of its ongoing monitoring of investment plans in accordance with its NDP, NGET has identified specific IWW projects that fall under the remit of this definition. Of these, one project was the subject of a decision in October 201815; the remaining project claims will be the subject of settlement through the closeout process.

Proposed methodology

4.6. Our proposed approach will be to assess each of these projects based on documentation to be submitted by NGET in support of its TPWW claims to evidence:

- the initial needs case to justify the start of the works
- the application of the NDP and how it indicates that the boundary transfer capability increase is no longer in the interest of existing and future consumers
- how the change to the needs case has been taken into consideration in a timely manner and works were concluded in line with the directions received from the System Operator
- the boundary transfer capability increase has not been realised in the original RIIO-ET1 timescales

15 https://www.ofgem.gov.uk/system/files/docs/2018/10/assessment_of_request_under_the_transmissionprovisions_for_wider_works_mechanism.pdf

- that the assets associated with above-mentioned projects are stranded and cannot be used subsequently to contribute to other outputs delivered by NGET in RIIO-ET1 or forecast to be delivered in RIIO-ET2 timescales (and which have not been funded through other mechanisms).

- the extent to which any development work, including surveys, ground works and local engagement, can be re-used or will need to be repeated / redone if the boundary transfer capability increase is required in the future, and

- the costs already incurred in RIIO-ET1 in relation to the construction activities of the project, and that these are economic and efficient.

4.7. The evaluation process will apply the cost assessment template established to support the review of NGET's 2017 TPWW claim (the North London Reinforcement Project methodology). The methodology, developed jointly between NGET and Ofgem, enables NGET to report the construction costs of each project and the effect of spend in the previous price control period and/or any prior funding (where applicable).

4.8. Closeout will entail verification of the non-reusable expenditure (ie the costs incurred cannot be used to deliver a different output) and establish the value of efficiently incurred expenditure on construction activity recoverable through the TPWW mechanism for each claim.

4.9. We propose an adjustment calculation that involves the following steps.

1) Establish the total expenditure incurred in progressing construction activities in the delivery of an IWW output up to the point of the cancellation of the project for the period between 1 April 2014 and 31 March 2021. NGET will source this information directly from its internal financial system.

2) Establish the total income received against the projects noted in step 1, the effect of spend in the previous price control period[16] and/or any prior funding[17] (where applicable).

3) Deduct the cumulative value of step 2 from the cumulative value in step 1 to determine the adjustment across the relevant period.

4) The result will be input to the ET1 Legacy PCFM as an adjustment to the relevant company input tab row 19, "Network development and wider works volume driver (NGET only)" under the heading PCFM Variable Values Table.

Other considerations

Previous TPWW decision

4.10. In 2017, NGET submitted a request to recover efficiently incurred construction costs in relation to North London Reinforcement Project under the TPWW mechanism within NGET's T1 Licence.

4.11. The outcome of our assessment of NGET's request was published in October 201818. This decision recognised that part of the project costs already funded related to the acquisition of land which was no longer required for meeting the current system need. We will review any financial gains that NGET has derived from land ownership subsequent to our 2018 decision (whether through leasing out or sales) and return this to consumers through an adjustment to the RAV. The methodology for this adjustment is separately discussed in chapter 12.

4.12. We require NGET to provide details on its future plans for this land.

[16] The total costs within the RIIO-ET1 business plan submission (both pre-RIIO and during RIIO) were used to create a unit cost allowance (UCA) for each system boundary. When an IWW output is not delivered the volume driver claws back an amount of allowed expenditure for the project by multiplying the size of the megawatt output by the applicable boundary UCA. The mechanism may clawback a value greater than the baseline allowance as a result of expenditure forecast to be incurred in the roll-over year in 2012/13.
[17] Closeout will exclude expenditure provided through the TPCR4 Work In Progress mechanism.
[18] See footnote 14.

Terminations that have yet to happen

4.13. There are a number of connection projects in RIIO-ET1, in relation to which NGET has incurred costs and which do not deliver an output in RIIO-ET1, where the customer has stopped connection activity (or NGET has intelligence that activity will stop) but where there has been no termination of the contractual relationship between NGET and the customer.

4.14. We do not propose that these costs are considered as part of the RIIO-ET1 closeout process because the termination of the need is not yet confirmed within the context of the RIIO-ET1 period and there is no mechanism to fund such costs through the T1 price control framework.

4.15. We expect the termination of these projects to be counted as a shortfall of T2 outputs, and efficiently incurred costs to the point of cancellation will be subject to assessment under the TPWW mechanism within the T2 Licence.

4.16. The TPWW term within SpC 3.3019 of the T2 Licence allows NGET to recover costs efficiently incurred in progressing construction activities in the delivery of a cancelled boundary transfer capability investments, where conditions have changed and it is no longer aligned with consumers' needs.

Question 5: Do you agree with our proposal for assessing TPWW costs?

Question 6: What revisions may be necessary to the T2 Licence to accommodate the assessment and recovery of all efficiently incurred costs to the point of cancellation through the TPWW mechanism?

[19] TPWW is set out and derived in accordance with Part C of SpC 3.30 Wider Works volume driver of NGET's T2 Licence.

5. Adjustments for terminated connection projects

This section explains our proposed methodology for closing out RIIO-ET1 allowances for terminated connection projects, taking into account NGET's total income from termination receipts received directly from customers within the RIIO-ET1 period.

This chapter applies to NGET only.

Background

5.1. Users of the transmission system can terminate their bilateral agreements (or agree a capacity reduction) prior to commencing use of the requested connection.

5.2. It is difficult to identify which projects will ultimately terminate (or reduce capacity) and when this might occur. There was no ex-ante or baseline allowance set in RIIO-ET1 for terminations/reductions.

5.3. The nature of the calculation of generation termination liabilities (Cancellation Charges) is defined in the Connection and Use of System Code (CUSC). The methodology is generic and may not reflect the actual costs incurred to meet a customer's desired connection date. In addition, receipts are calculated depending on the type of liability the customer has selected, either 'fixed' (based on a forecast of spend) or 'actual' (based on the final cost). Hence, there is a potential for expenditure to either exceed or fall short of the customers' termination liabilities.

5.4. In the event a customer terminates their connection agreement with the System Operator prior to commencing use of the connection, the RIIO-ET1 framework introduced mechanisms for NGET to recover deficit or return excess of termination payment in comparison to costs efficiently incurred on such projects.

5.5. The provisions of the SpC 6F of NGET's T1 Licence[20] ensure that the costs efficiently incurred in progressing construction activities in the delivery of a user terminated generation connection works (licence term TPG) and the income from termination receipts received from user terminated generation connections (licence term TPRG) during the RIIO-ET1 period are reported. Similar provisions exist in SpC 6L of NGET's

[20] Paragraph 8 in Part A of SpC 6F of NGET's T1 Licence paragraph 8 in Part A of SpC 6L of NGET's T1 Licence.

T1 Licence relevant to the reporting of user termination of demand bilateral connection agreements within the RIIO-ET1 period21.

5.6. The relevant licence definitions are reproduced below.

TPG means the total expenditure efficiently incurred by the licensee … in respect of Generation Connections where the users reduce TEC or developer capacity (as defined in the CUSC) or terminate the relevant bilateral agreements in year n prior to commencing use of the Generation Connection.

TPRG means an amount equal to the actual income from termination receipts received, in the form of revenues or capital contributions…

TPD means the total expenditure … efficiently incurred by the licensee in respect Demand Works where the users terminate the relevant bilateral agreements … prior to commencing use of the demand connection.

TPRD means an amount equal to the termination receipts received, in the form of revenues or capital contributions…

Proposed methodology

5.7. We propose to assess the relevant terms based on documentation to be submitted by NGET in support of its claims to evidence:

- the costs incurred in RIIO-ET1 in relation to all projects where the users have terminated generation and demand bilateral agreements.[22] The data will be derived from NGET's financial system SAP for each project and reflect only RIIO-ET1 costs (and confirming any other costs prior to RIIO-ET1 that NGET considers have received funding from previous price controls).

[21] Paragraph 8 in Part A of SpC 6L of NGET's T1 Licence.
[22] This table will not include projects which have terminated since April 2019 when National Grid ESO and National Grid ET became legally separate entities within the National Grid Group.

- that these costs are economic and efficient, including where costs have been recovered through drawing down of security.

- the income received by NGET from termination payments for all projects where the users have terminated generation and demand bilateral agreements. The income data will be taken from customer invoices paid by the customer. The submission will identify specific invoices which remain unpaid by the customer.

- that the assets associated with the above-mentioned project cannot be used subsequently to contribute to other projects or outputs delivered by NGET, or where NGET can recover costs through subsequent sale or scrappage.

5.8. We will seek a level of cost explanation and justification from NGET that is proportionate to material claims only. NGET will therefore provide an Engineering Justification Paper for each scheme as part of our RIIO-T1 close-out submission where the costs incurred are equal to or greater than £1m (2009/10 prices).

5.9. We propose an adjustment calculation that involves the following steps.

1. Establish the total expenditure incurred where the users have reduced capacity or terminated generation bilateral agreements (TPG) or users have terminated demand bilateral agreements (TPD) for the period between 1 April 2014 and 31 March 2019[23]. NGET will source this information directly from its internal financial system.

2. Establish the total income received against the projects noted in step 1 (TPRG and TPRD). NGET will source this information from customer invoices paid by the customer for the relevant year that the customer is charged.

3. Deduct the cumulative value of income in step 2 from the cumulative value in step 1 to determine the true-up adjustment across the relevant period.

[23] In April 2019, National Grid ESO and National Grid ET became legally separate entities within the National Grid Group. National Grid ET will seek the full cost of projects which terminated since April 2019 from National Grid ESO.

4. The result will be input to the ET1 Legacy PCFM as adjustments to the relevant company input tab:

   - row 23, "Generation connections volume driver" under the heading "PCFM Variable Values Table" in respect of Generation Connections.

   - row 21, "Demand related infrastructure volume driver" under the heading "PCFM Variable Values Table" in respect of Demand works.

Other considerations

Terminations that have yet to happen

5.10. We are aware that there are a number of customer projects in England and Wales against which NGET has incurred cost but that are not currently expected by NGET to result in a completed connection (or output delivery) despite the customer still being contracted.

5.11. We note NGET's preference for the expenditure incurred during RIIO-ET1 against such schemes to be treated as part of the TPG/TPD mechanisms (in regulatory reporting year 2020/21) on the basis that it is effectively a termination that has not yet been received by the System Operator.

5.12. We understand that a driver of NGET's proposed approach reflects a general concern that the TPG/TPRG and TPD/TPRD24 terms as defined in the current T2 Licence only apply to each regulatory year in the RIIO-ET2 price control period (the first of which commences on 1st April 2021) and does not apply to costs incurred in the T1 period.

5.13. As noted in the discussion on the TPWW licence term (see paragraph 4.13-16), we do not propose that these costs are considered as part of the RIIO-ET1 closeout process because the termination of the need is not yet confirmed within the context of the RIIO-ET1 period and there is no mechanism to fund such costs through the T1 price control framework.

[24] The terms TPG/TPRG and TPD/TPRD are set out and derived in accordance with Part A of SpC 3.11 Generation Connections volume driver and Part A of SpC 3.12 Demand Connections volume driver. The terms are set out and derived in accordance with paragraph 3.11.4 and 3.12.4 of NGET's T2 Licence, respectively.

5.14. We expect the termination of these projects to be counted as a shortfall of T2 outputs, and efficiently incurred costs to the point of termination will be subject to assessment under the relevant TPD/TPG mechanism within the T2 Licence.

Question 7: Do you agree with our proposed methodology for treatment of terminated costs and receipts associated with user terminated generation and demand connections?

Question 8: What revisions may be necessary to the T2 Licence to accommodate the assessment and recovery of all efficiently incurred costs associated with user terminated generation and demand connections through the TPG/TPD mechanisms?

6. Settlement of allowances for pre-construction works

This section explains our proposed approach for closing out baseline allowances associated with the delivery of specified pre-construction activity under SpC 3L of the T1 Licence.

This chapter applies to all ETOs.

Background

6.1. The RIIO-ET1 settlement contained a 'use it or lose it' ex-ante allowance for each ETO to progress pre-construction engineering works where these are preparatory for Strategic Wider Works projects.25 These pre-construction works are referred to as Pre-Engineering Outputs ('PE Outputs') under SpC 3L of the T1 Licence.

6.2. Under the provisions of Part C(i) of SC 3L of the T1 Licence, an ETO can raise a request to amend the details of the PE Outputs prescribed in the licence through an output substitution (OS) request.

6.3. We received two OS requests, one from each of SHET and NGET during RIIO-ET1. When we receive a request we determine whether the proposed substitution is consistent with the licence requirements and whether it is justified as being economic and efficient, and then the modification to be made to the licence, including the allocation of the allowed baseline expenditure. Our decision on each OS request is available from the Ofgem website.26

6.4. Paragraph 17 of SpC 3L provides that the Authority may adjust baseline expenditure, in the event that the licensee does not deliver or only partially delivers a PE Output on or before 31 March 2021.

[25] SC 3L: Pre-construction Engineering Outputs for prospective Strategic Wider Works, paragraph 17.
[26] 2018 decisions: https://www.ofgem.gov.uk/publications/direction-modify-national-grid-electricity-transmissions-electricity-transmission-licence & https://www.ofgem.gov.uk/publications/direction-modify-she-transmissions-electricity-transmission-licence. 2021 decisions: https://www.ofgem.gov.uk/publications/decision-riio-t1-pre-construction-engineering-outputs-substitution-request-national-grid-electricity-transmission-plc & https://www.ofgem.gov.uk/publications/decision-riio-t1-pre-construction-engineering-outputs-substitution-request-scottish-hydro-electric-transmission-plc

Proposed methodology

6.5. We propose to assess the relevant terms based on documentation to be submitted by the ETOs in support of its claims to evidence:

- the costs incurred in RIIO-ET1 in relation to all PE Outputs set out in Part A of SpC 3L by the end of the RIIO-ET1 price control period (reflecting the impacts of any agreed PE Output Substitutions), and that these are economic and efficient. The data will be derived from ETO's internal financial system for each project and reflect only pre-construction costs incurred within the RIIO-ET1 period.

- the pre-construction engineering works associated with the above-mentioned PE Outputs that have been:

    - completed and delivered on or before 31 March 2021,

    - partially delivered by 31 March 2021, or

    - not delivered by 31 March 2021.

- that the activities associated with above-mentioned projects cannot be used subsequently to contribute to other pre-construction outputs forecast to be delivered in RIIO-ET2 timescales (and which have been funded through other mechanisms).

6.6. Based on the information and justification provided by the ETOs submission, we propose an adjustment calculation that involves the following steps.

1) Establish the total allowed expenditure associated with the PE Outputs that are confirmed by the ETO to have been partially delivered or not delivered.

2) Establish the total allowed expenditure associated with the PE Outputs that are confirmed by the ETO to have been delivered by 31 March 2021.

3) Deduct the cumulative value of allowed expenditure in step 1 from the total value of allowed expenditure in step 2 to determine the adjustment across the RIIO-ET1 period.

4) This will be input to the ET1 Legacy PCFM as an adjustment to the relevant company input tab row 84, "Non-variant allowed load related capex expenditure" under the heading "Expenditure".

Question 9: What are your views on our proposed methodology to assessing PE outputs?

7. Adjustments for crossover volume driver projects

This section explains our proposed methodology for closing out allowances associated with the delivery of outputs in the first two years of RIIO-ET2 where funding provision is made in related RIIO-ET1 volume driver mechanisms.

This chapter applies to NGET and SHET only.

Background

7.1. The RIIO-ET1 framework contained load related uncertainty mechanisms that included an automatic trigger to adjust allowances through an extension of the volume drivers into the first two years of the RIIO-ET2 period. This period is referred to as "T1+2"[27] and relevant "crossover" projects. This includes:

- *Generation connection works,* for NGET and SHET.
    - For NGET, it provides profiled allowances for new connected capacity (MW) and reinforcement to existing local infrastructure (circuit kilometres constructed using new overhead lines) in the four years preceding the output delivery.
    - For SHET, it provides profiled combined allowances for sole use infrastructure capacity (MW) and shared use infrastructure capacity (MVA) in the four years preceding the output delivery.[28]
- *Demand connection works* for NGET only. The mechanism provides profiled allowances for new assets installed (number of supergrid transformers) and reinforcement to existing local infrastructure (circuit kilometres constructed using new overhead lines) in the four years preceding the output delivery.
- *System reinforcement works* (also referred to as Incremental Wider Works or IWW) that deliver an increase in the capability of specific transmission boundaries[29] for NGET only.
- *installation of underground cables* for planning purposes, for NGET only.

[27] For brevity we reference the T1+2 period when referring to the duration of the volume driver mechanisms under the T1 licence but recognise that NGET's undergrounding mechanism applies up to 31 March 2024.
[28] SPT's generation connections volume driver mechanism only adjusted allowances for outputs delivered up to 31 March 2021, so there is no closeout adjustment required.
[29] Table 1 of SpC 6J lists 15 transmission boundaries across England and Wales.

7.2. There are other company-specific features in RIIO-ET1 framework that need to be reflected in the closeout in relation to relevant crossover projects.

NGET

7.3. Ofgem's Final Proposals for the RIIO-ET1 price control contained a specific requirement that NGET provide a forecast of the expenditure expected to be incurred for outputs expected to be delivered in T1+230. This was discharged as part of NGET's regulatory reporting submission in July 2017 (RR2017).31

7.4. An allowance based on the forecast information was calculated and enabled NGET to progress delivery of these outputs based on the agreed unit cost rates. An apportionment to derive annual allowed expenditure was applied using the construction spend profile that is part of the volume drivers.32

7.5. Throughout the remainder of the RIIO-ET1 period, changing customer requirements and delivery plan updates have led to a revised view of these projects. These will need to be trued up against the actual or best available forecast output delivery in T1+2 for each of the mechanisms detailed above, where necessary.

7.6. The RIIO-ET2 framework follows the same general framework to facilitate automatic allowance adjustments within the volume driver mechanism as applied in RIIO-ET1 but includes a broader set of unit rates. The T2 mechanisms automatically adjust when the actual delivery is different from the agreed baseline profile. These profiles are currently based on the forecast information provided by NGET as part of the RIIO-ET2 Business Plan.

7.7. In the case of new generation or demand connections, the RIIO-ET2 baseline profile position was established across a range of metrics, including the physical output capacity (MW or MVA) expected to be delivered between 1 April 2021 and 31 March 2023 and the number of connection projects delivered across the T2 period. These baseline profiles may need to be revised to align with the latest position of T1+2

[30] RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas – Cost assessment and Uncertainty Supporting Document (published 17 December 2012) – paras 4.107, 4.113 and 4.128.
[31] In accordance with paragraph 10 of SpC 6F (generation) & SpC 6L (demand), and paragraph 16 SpC 6J (incremental wider works), NGET provided a forecast based on its Network Development Policy.
[32] The profiles for each mechanism applicable to NGET can be found in 'RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas - Cost assessment and uncertainty' Supporting Document (published 17 December 2012) – Table 4.17 (Generation), Table 4.18 (Demand) and Table 4.21 (IWW).

delivery and as a result of the closeout decision within the T2 volume driver mechanism.

7.8. In addition, RIIO-ET2 may have made allowances for projects that now have delivered or are expected to deliver outputs falling into the categories as set out in paragraph 7.1 in T1+2. The ET1 closeout will include adjustments to remove any double funding.

SHET

7.9. As noted above, SHET has only one volume driver mechanism providing allowances for outputs delivered in the T1+2 period. This applies to two types of new generation connection. The first is where a connection provides assets or reinforcements which are shared by users of the transmission network and is measured by the increase in megavolt amperes (MVA). The second is where the connection is for a single generator and is measured by the amount of new generation capacity in megawatts (MW).

7.10. Ofgem's Final Proposals for the RIIO-ET1 price control33 did not contain any within period forecast requirements for the volume driver mechanism. A total allowance will be derived from SHET's generation connection volume driver based on its actual or best available forecast output delivery in T1+2.

7.11. The RIIO-ET2 framework follows a similar structure to RIIO-ET1 with only one customer-led volume driver mechanism applicable to new generation connections. The T2 mechanism follows the same common design across all three ETOs using a consistent approach in the level of disaggregation applied to the volume driver, but providing unit rates for different activities specific to each company.

7.12. The mechanism also includes baseline profiles which are currently based on the forecast information provided by SHET as part of the original Business Plan. Similar to NGET (see paragraph 7.7 above), the T2 baseline profiles may need to be revised to align with the latest position of T1+2 delivery and as a result of the closeout decision within the T2 volume driver mechanism.

[33] RIIO-T1: Final Proposals for SP Transmission and Scottish Hydro Electric Transmission (published 23 April 2012). SHET's proposals were subject to "fast-tracking" based on our assessment of the quality of the plans.

7.13. The ET1 closeout may also include adjustments to remove any double funding associated with outputs falling into the categories as set out in paragraph 7.1 in T1+2.

Proposed methodology – true up against previous NGET forecast of output delivery expectations in T1+2

7.14. We propose the following assessment and adjustment as RIIO-ET1 close-out to true up NGET's allowances against the latest view of projects delivering outputs in T1+2 timescales:

- Where projects were forecast in NGET's RR2017 to deliver output in T1+2 (and thus receiving funding already) but will no longer do so, the amount of revenue already received will be returned to consumers[34]

- For those projects that were forecast in NGET's RR2017 to deliver output in T1+2 and either have already delivered or are still expected to do so:

    - Where the project is being delivered in line with the forecast capacity and timing, NGET will keep the allowances on the basis of its RR2017 forecast under the T1 volume driver during the T1+2 period. If there is also RIIO-ET2 funding provided for the same project, the T1+2 allowance will be offset by anyT2 allowances given for that same project.

    - Where the actual or best available forecast of the project delivery is not in line with NGET's RR2017 forecast capacity and/or timing, the difference between the prior allowance and the revised allowances due under the T1 volume driver during the T1+2 period. This amount may be zero for those projects that have either completed during the T1 period or whose outputs will be delayed beyond T1+2. Again, the resultant sum will be offset as appropriate by any T2 allowances given for that same project.

    - Where projects were not included in the RR2017 forecast but either have delivered or are expected to deliver outputs in T1+2, the allowance due is as

[34] The value of any allowance received to date will be subject to 'claw back' based on the unit rates set within the T1 Licence.

under the T1 volume driver, which will be offset as appropriate by any T2 allowances given for that same project.

7.15. Adjustments will be made to the NGET input tab of the ET1 Legacy PCFM for the following variable values:

- IWW in row 19, "Network development and wider works volume driver (NGET only)" under the heading "PCFM Variable Values Table".
- DRI row 21, "Demand related infrastructure volume driver" under the heading "PCFM Variable Values Table".
- GCE in row 23, "Generation connections volume driver" under the heading "PCFM Variable Values Table".

Proposed methodology – true up for latest generation connection output delivery expectations of SHET in T1+2

7.16. During each reporting year, an allowance provision is estimated under SHET's generation volume driver to reflect the forecast output delivery schedule in the T1+2 period. This calculation applies the agreed unit cost rates and an apportionment using a construction profile to phase the funding provision.

7.17. Throughout the RIIO-ET1 period, changing customer requirements and delivery plan updates have led to a revised view of these projects and it is proposed as part of RIIO-ET1 close-out to reconcile allowances against the latest view of projects delivering outputs in T1+2 timescales.

7.18. Projects that meet the delivery criteria of a crossover project and which are eligible to receive funding determined by the volume driver unit rates set within the T1 Licence will be remunerated accordingly. We will make appropriate adjustments to the level of funding applicable to the RIIO-ET1 and RIIO-ET2 component to facilitate this approach and to avoid double funding projects that are already included in RIIO-ET2 baseline. Closeout will confirm:

- projects that commenced in T1 but have not yet delivered outputs:
    - Where the project is being delivered during the T1+2 period, the allowances due under the T1 generation connection volume driver during the T1+2

period will be calculated. This allowance will be netted off as appropriate by any T2 allowances given for that same project.

- Where the project is not scheduled to be completed within the T1+2 period, the T1 volume driver will not apply[35].

- projects that were scheduled to be delivered in the T1+2 period but have delivered by the end of T1. In this case the allowance due under the T1 volume driver will be offset as appropriate by any T2 allowances given for that same project.

7.19. Adjustments will be made to the SHET input tab of the ET1 Legacy PCFM for the variable value GCE in row 23, "Generation connections volume driver" under the heading "PCFM Variable Values Table".

Common input requirements for proposed T1+2 true up methodologies

7.20. We will require evidence for all claimed crossover projects (NGET and SHET) on anticipated delivery dates and costs to establish the basis and veracity of the forecast outturn position provided for each scheme. This will require explanation of:

- the latest information on expenditure, volume delivery and completion of each crossover investment under each of the relevant volume driver mechanisms and calculation of the project allowance for each investment based on the unit rates and construction profile set out in the T1 Licence.

- financial or cost benefit analyses where appropriate to demonstrate that the output solutions delivered (or are continuing to deliver) align with the needs of consumers; and

- any other relevant evidence from (or in relation to) the licensee's decision-making process.

[35] The value of any allowance received to date will be subject to 'clawback' based on the unit rates set within the T1 Licence.

Other considerations

7.21. We recognise a possibility that there may be movement between the point of our closeout decision and the end of the T1+2 period - measured in terms of volume delivered and the timing of delivery within the T1+2 period. Our proposals on these movements are set out below.

Post closeout movements in connection output delivery date: NGET and SHET

7.22. It is possible that a project identified by a licensee in the final data submission for closeout may not outturn in the timescale expected.

7.23. An illustrative example is set out below to highlight the intended process for such movements.

Example: A generation connection project experiences movement in delivery date between a closeout decision and 31 March 2023.

- As part of the data submission for closeout an ETO confirms its expectation that a generation connection project will deliver 100MW in year one of RIIO-ET2. An annual allowance profile is determined by the applicable T1 volume driver using the relevant construction profile. The hypothetical allowance profile is highlighted in table 2

Table 2: example crossover project allowance profile

RIIO-ET1	RIIO-ET1	RIIO-ET1	RIIO-ET2
2018/19	2019/20	2020/21	2021/22
£3m	£3m	£3m	£3m

- Closeout will address the gap in any baseline funding directed as part of our RIIO-ET2 Final Determinations provided for the project in comparison to the intended outcome.[36] In this example, if a value of £2m was directed as part of the FD an additional allowance of +£1m will be added to the RIIO-ET2 baseline funding as a result of the closeout decision (the difference between £3m funding provision

[36] Assuming that the actual and forecast expenditure is assessed to be economic and efficient and the output volume delivery and timing can be verified.

through the T1 volume driver mechanism in financial year 2021/22 and £2m baseline funding provision in RIIO-ET2).

- If between the closeout decision and 31 March 2023 the project outturns differently than anticipated – output volume of 100MW is delivered in year two of RIIO-ET2 – we propose adjustment to reflect the incremental movement based on the applicable unit rates set out in the T2 volume driver. We do not propose to apply T1 unit rates.

7.24. The above process also applies to individual connection projects that are anticipated at the time of closeout to be delivered within T1+2 timescales and where actual delivery is earlier than expected (ie movement in delivery from 2022/23 to 2021/22).

7.25. The "Non-variant allowed load related capex expenditure" will be adjusted in the relevant company input tabs after consultation.

7.26. Based on our current understanding of the projects, the expectation is that, given the short timescale between a closeout decision and 31 March 2023, projects will outturn on the intended outcome provided by a licensee and the potential delta in the allowance for schemes subject to movement to be low in materiality (the T2 unit rate element will be applicable to derive relatively small amounts of allowance adjustment relative to the T1 unit rate)37.

7.27. We consider the approach to be proportionate and note that the complexity of accommodating the alternative approach (applying the T1 unit rate to schemes that experience a movement in delivery timescales) outweighs the improvements in precise reconciliation.

7.28. For the avoidance of doubt, projects not submitted by a licensee for assessment as part of closeout (ie outputs expected to be delivered beyond T1+2 timescales) that subsequently advance and deliver on or before 31 March 2023 will not be subject to funding determined by the application of the T1 unit rate. In these instances the T2

[37] Updates to this information and further justification on possible movements will be provided through the annual T2 reporting process.

unit rate will remain applicable and funding provision will be addressed through the T2 volume driver.

Post closeout movements in connection output delivery volume: NGET and SHET

7.29. It is possible that a project identified by a licensee in the final data submission for closeout may not deliver the electrical output volume anticipated.

7.30. The illustrative example set out above (closeout assessment based on the expectation that a connection project will deliver 100MW during 2021/2238) is repeated to highlight the intended process for such a movement.

- The output delivery information provided as part of an ETOs closeout submission may identify changes to the baseline profile of output delivery within the explicit T2 Licence[39] to reflect the actual and expected output delivery information in the T1+2 period. Using SHET's T2 Licence to illustrate, the term licence BGC (SpC 3.11) is currently set at zero output volume in each year across the RIIO-ET2 period. In the example above, the expectation of a 100MW in year one of RIIO-ET2 will identify the RIIO-ET2 baseline and result in a positive adjustment to the existing T2 baseline output profile as a result of the closeout decision (value of BGC would be changed from 0MW to 100MW in 2021/22).

- If between the closeout decision and 31 March 2023 the project outturns differently than anticipated – a reduced output volume capacity of 90MW is delivered in regulatory year 2021/22 – we propose adjustment to reflect the incremental movement based on the applicable unit rates set out in the T2 volume driver. We do not propose to apply T1 unit rates.

- The following adjustments will be made:

[38] As above, it is assumed that the T2 baseline capacity profile (licence term BGC in special condition 3.11) is originally zero and will be adjusted to 100MW in year one of RIIO-ET2 as a result of the closeout decision.
[39] For generation connection projects, the BGC licence term included in appendix 2 of special condition 3.11 of NGET's T2 Licence and appendix 3 of special condition 3.11 of SHET's T2 Licence. For demand connection projects, the BDC licence term included in appendix 2 of special condition 3.12 of NGET's T2 Licence.

- Actual delivery in 2021/22 of 90MW will result in a clawback determined by the physical capacity unit rates set out in the T2 Licence for each MW below the baseline for that financial year (in this example 100MW).

- Actual delivery in 2022/23 of 0MW will result in no additional RIIO-ET2 funding determined by the applicable unit rates set out in the T2 Licence (no MW delivery above the baseline in the relevant financial year, which in this example is 0MW).

7.31. The above process also applies to individual connection projects that are anticipated at the time of closeout to deliver an output volume within T1+2 timescales and where actual output volume delivery is more than expected (ie movement in delivery from 90MW to 100MW).

7.32. For NGET, adjustments resulting from the closeout decision will apply to the T2 baseline capacity profile represented by licence term BGC in SpC 3.11 (generation connections) and licence term BDC in SpC 3.12 (demand connections) of the T2 Licence.

7.33. . The following AIP process will then confirm the updated variable values (GCE and DRI, where applicable) incorporating the zero, positive or negative effect of the RIIO-ET1 closeout adjustment to baseline capacity profiles.

7.34. As noted in paragraph 7.27 above, the expectation is that, given the short timescale between a closeout decision and 31 March 2023, projects will outturn on the intended outcome provided by a licensee and the potential delta in the allowance for schemes subject to post closeout movements in output volume delivery to be low in materiality.

7.35. We consider the approach to be proportionate and note that the complexity of accommodating the alternative approach (applying the T1 unit rate to schemes that move) outweighs the improvements in precise reconciliation.

Post closeout movements in IWW output delivery: NGET only

7.36. Closeout will confirm the IWW projects that have delivered a boundary reinforcement uplift during the T1+1 reporting year (1 April 2021 to 31 March 2022) or NGET expects to complete construction and deliver on or before the end of the T1+2 period (1 April 2022 to 31 March 2023).

7.37. We recognise a possibility that there may be movement between the point of our closeout decision and the end of the T1+2 period. It is possible that a project identified by a licensee in the final data submission for closeout may not outturn in the manner expected. For example, deliver in timescales beyond 31 March 2023 or deliver an output that is materially different (in terms of boundary capability uplift delivered) from the volume identified by NGET as part of closeout.

7.38. To manage this risk and to protect consumers, we propose to approve the individual projects identified through the closeout process delivering outputs in the T1+2 period in full and to attach the allowance determined through application of the T1 unit rates to a RIIO-ET2 Price Control Deliverable (PCD).

7.39. The PCDs will be added the individual projects to the list of IWW projects NGET expect to deliver outputs during RIIO-ET2 under special condition 3.9 of NGET's T2 licence. The PCD will reference the individual boundaries, the level of uplift forecast (in MW) across each boundary and the timescales for output delivery. There are no specific named assets envisaged within the PCD for the T1+2 project deliverables.

7.40. The PCD will adjust funding if the proposed volume of work does not materialise. For example, in the unlikely event that a project identified in closeout as delivering an output in T1+2 timescales is then subject to changes that delay delivery beyond 31 March 2023, NGET will be subject to clawback of the full allowance. Furthermore, if the volume of delivery is subject to post-closeout change (and delivery timescales remain unchanged), the PCD will allow further assessment to ensure that NGET is remunerated through the T1 volume driver mechanism for the efficient costs it has incurred in delivering the actual output.

Post closeout movements in the applicable unit rate: SHET only

7.41. For SHET, a specific feature of the T1 volume driver mechanism is the ability for a generation project to switch between typical and atypical categories and be subject to a different applicable unit rate under the T1 Licence.40

[40] The T1 mechanism of SHET determined an average unit cost to fund additional projects delivered above the baseline threshold for "typical" projects. Some schemes were excluded to reflect the level of uncertainty and very high unit costs, defined as "Atypical". A variation to both the sole-use and shared-use mechanism was introduced for schemes brought forward during the T1 period with a forecast unit cost greater than £150k/MW for sole-use and

7.42. We note that the projects identified through closeout by SHET will be at an advanced stage of delivery and the risk of a project switching between a decision on RIIO-ET1 closeout and 31 March 2023 should be minimal.

7.43. In the unlikely event that a connection project experiences a change between the closeout decision and 31 March 2023 that results in the application of a different unit rate under SHET's T1 Licence, the effect of which produces a change to the funding profile that formed the basis of our assessment at closeout41, we propose to review as part of the AIP and implement a true-up to adjust allowances and volumes accordingly.

7.44. We envisage a regulatory reporting process where each individual T1+2 connection project output is identified to ensure any changes are separately tracked and managed through the first two years of the RIIO-ET2 period. The allowance update and associated true-up for such schemes will be facilitated through the "blue box" functionality installed within the PCFM.

7.45. The baseline volume profile (licence term BGC) in appendix 3 of SpC 3.11 of the T2 Licence will then be updated as necessary to reflect the amount of outturn delivery in year one or year two of RIIO-ET2. The following AIP process will then confirm the updated variable values (term GCE) incorporating the zero, positive or negative effect of the RIIO-ET1 closeout adjustment to baseline capacity profiles.

Treatment of connection number and linear elements between price control periods: NGET

7.46. We note that under the T1 volume driver mechanisms applicable to new connection projects under NGET's T1 Licence automatic adjustments were triggered based on the over/under delivery against T1 baseline targets in two areas: delivery of the output (£/MW or £/supergrid transformer) and an element reflecting the need to reinforce the existing local infrastructure (measured in £/circuit kilometres of new overhead line constructed).

£166k/MVA for shared-use (unit rate values stated in 2009/10 price base).

[41] For example, a sole-use generation connection project considered in the RIIO-ET1 closeout assessment that subsequently reports an outturn cost that (i) exceeds £150k per megawatt (movement from typical to Atypical category) or (ii) is below £150k per megawatt (movement from Atypical to typical category). The logic is equally applicable to potential movements between the conclusion of closeout and 31 March 2023 in shared-use generation connection projects.

7.47. The T2 volume driver mechanisms applicable to new connection projects follow the same general framework to facilitate automatic allowance adjustments but includes a broader set of unit rates, including the delivery of the physical output, the delivery of works to reconductor existing local overhead (OHL) infrastructure and the delivery of underground cabling works.

7.48. To align with the basis of our deliberations in terms of the output delivered (see paragraphs 7.30 and 7.36) we propose to make similar adjustments to reflect updated information on the connection projects delivered, measured in the number of connections expected in 2021/22 and 2022/23 as a result of the closeout decision. This adjustment will apply to the T2 baseline profile represented by licence term BGCON in SpC 3.11 and licence term BDCON in SpC 3.12 of NGET's T2 Licence.

7.49. We do not propose adjustment against any other linear element within the T2 volume driver mechanism applicable to new generation or demand connection activity (ie OHL reconductoring activity42 or cabling works).

Treatment of connection number and linear elements between price control periods: SHET

7.50. The T1 connection volume driver is rooted in the delivery of physical output (£/MW or £/MVA). Delivery of capacity over/under the T1 baseline target triggers automatic adjustments which are based purely on the delivery of the physical output.

7.51. The T2 connection volume driver follows the same general framework to facilitate automatic allowance adjustments but includes a broader set of unit rates, including the delivery of the physical output, the delivery of works to reinforce existing local OHL infrastructure (new build and reconductoring43) and the delivery of underground cabling works.44

7.52. To align with the basis of our deliberations in terms of the physical output delivered (see paragraphs 7.30 and to 7.36) we propose to make similar adjustments against the number of connection projects delivered in 2021/22 and 2022/23 as a result of the

[42] RIIO-2 Final Determinations - NGET Annex (published 3 February 2020) – para 4.5 explains that there is no unit rate to fund the construction and delivery of new OHL build solutions in NGET's licence area.
[43] The parameter of SHET's T2 volume driver mechanism for new generation connections includes separate unit rates to fund the construction and delivery of new OHL build solutions and OHL reconductoring solutions.
[44] RIIO-2 Final Determinations - SHET Annex (published 3 February 2020) – para 4.5 explains that there is no unit rates to fund the construction and delivery of new demand connections in SHET's licence area.

closeout decision. This adjustment will apply to the T2 baseline profile represented by licence term BGCON in SpC 3.11 of SHET's T2 Licence.

7.53. We do not propose adjustment against any linear elements within the T2 volume driver mechanism applicable to new generation connection activity (ie new build OHL, OHL reconductoring activity or new cabling works).

Question 11: What are your views on our proposed approach to assessing crossover projects?

Question 12: What are your views on our proposed approach to dealing with post closeout changes that occur between finalisation of RIIO-ET1 closeout and 31st March 2023 crossover projects on the following basis:

- **T1 volume driver for switching between typical and atypical categories (SHET only)?**
- **Adjustments for IWW output delivery (NGET only)?**
- **T2 Volume Driver profile adjustments for Physical Output delivery and number of connections (SHET and NGET)?**

8. Approach for crossover projects without volume driver: NGET

This section explains our proposed approach for load related projects where the delivery of outputs is expected in RIIO-ET2 and beyond and for which the RIIO-ET1 price control provided no allowances for spend incurred in the RIIO-ET1 period.

This chapter applies to NGET only.

Background

8.1. In our RIIO-ET2 Final Determinations (FD), we stated our decision[45] that for load related (LR) projects which span RIIO-ET1 and RIIO-ET2 we will carry out the true-up of the RIIO-ET1 funding as part of the RIIO-ET1 closeout. The previous chapter set out our proposed methodology to close out the funding for LR "crossover" projects to which RIIO-ET1 volume drivers apply. This chapter deals with specific crossover LR projects identified by NGET[46] that are not subject to adjustment through the arrangements described in chapter 7 and gives further detail on the nature of the true-up envisaged.

8.2. Forecast expenditure information was provided by NGET for each crossover LR project through the original RIIO-ET2 Business Plan submission. This included forecast information for the remaining RIIO-ET1 period (2019/20 and 2020/21) and expenditure expected to be incurred in progressing the delivery of outputs across the RIIO-ET2 period and beyond. The information was subjected to our engineering and cost assessment process[47].

8.3. Based on our assessment of that information, in our FD we set baseline funding for the RIIO-ET2 period and set Price Control Deliverables (PCDs). Two PCDs were set for projects delivering boundary transfer capability increases within RIIO-ET2[48] and a third PCD was set for works associated with the connection of a large power station[49]. The PCDs contain a summary of the agreed outputs to be delivered and the required

[45] RIIO-2 Final Determinations – ET annex (published 3 February 2021) – paragraph 3.32.
[46] Applicable to twenty four individual scheme references.
[47] RIIO-2 Draft Determinations – ET annex (published 9 July 2020) – pages 50-63.
[48] Included in special condition 3.9 (Wider Works Price Control Deliverable) of NGET's T2 Licence.
[49] See special condition 3.20 (Generation related infrastructure Price Control Deliverable) of NGET's T2 Licence.

delivery date. The associated allowances for each PCD represents only the expected expenditure in the RIIO-ET2 period and not any expenditure on the RIIO-ET1 period.

8.4. In our RIIO-ET2 FDs, we stated our decision to apply a further positive allowance adjustment to reflect the expenditure to be incurred in the RIIO-ET1 period and to provide full project funding for the efficient forecast expenditure for the LR crossover projects identified by NGET. We said this was a provisional figure and would be reviewed at a later date. The value of the adjustment was £87m (2018/19 price base). The provisional funding was included within the RIIO-ET2 baseline allowance[50] by 'netting off' against a negative adjustment applied to non-load related capex work that spans work in RIIO-ET1 and RIIO-ET2 (see Special Condition 3.38 of NGET's T2 Licence). The value of the negative adjustment was based on our calculation of excess non-load related capex allowance in RIIO-ET1 (£-166m in 2018/19 price base)[51].

8.5. In our initial engagement with NGET their initial preference was for the RIIO-ET1 closeout process to take account of the level of finalised actual costs incurred in the period RIIO-ET1 period. For example, where the aggregate value of actual expenditure incurred across the identified crossover projects in RIIO-ET1 is different to the value of the provisional allowance, NGET proposed reconciliation to the RIIO-ET2 baseline funding position through adjustment to the provisional allowance value (£87m) through the RIIO-ET1 closeout process. The proposed movement in allowances for actual expenditure in the RIIO-ET1 period would be included as a legacy adjustment in the first year of the RIIO-ET2 period.

8.6. We considered the above approach, including the bespoke nature of the projects, the implications of the current form of the PCDs set for RIIO-ET2 and the need for a process to facilitate the adjustment for potential non-delivery or de-scoping of these projects. We now consider that it is unnecessary to have a mechanistic reconciliation of the allowance profile in T1 or T2 periods. Instead, we propose to have a RIIO-ET2 PCD for each crossover project with the full RIIO-ET1 and RIIO-ET2 allowance, reflecting our assessment of the total efficient costs for the project and the anticipated output delivery timescale. This approach would involve modifying the three existing PCDs and introducing new PCDs to capture the remaining crossover projects.

[50] RIIO-2 Final Determinations – NGET annex (published 3 February 2021) – paragraphs 3.35- 3.36. See also page 38, Table 7 and footnote of the same document.
[51] RIIO-2 Final Determinations – NGET annex (published 3 February 2021) – paragraphs 3.72- 3.74.

8.7. This would require a separate licence modification process, including a statutory consultation. We envisage proposing the following changes in that consultation:

- IWW projects will be added to special condition 3.9. The PCD will specify the individual boundaries, the level of uplift required (in MW) across each boundary and the required delivery date.

- Generation connection projects will be added to special condition 3.20. The PCD will specify the level of uplift required (in MW or MVA) and the required delivery date.

- Demand projects will be added under a new special condition for Demand related infrastructure. The PCD will specify the level of demand connection capacity (in MW or MVA) and the required delivery date.

8.8. The rationale for the proposed approach for the applicable crossover projects is set out below.

- The substance of the project funding directed as part of the FDs, reflecting our assessment of the total efficient cost for each crossover project, is not subject to change.

- The nature of our T2 funding decision means that the timing of spend associated with each crossover project is not pertinent to our deliberations to closeout RIIO-ET1. Our key consideration remains whether each of the original crossover LR projects (upon which the provisional allowance was based) will progress and complete as expected and will deliver the outputs anticipated. This means that successfully delivered projects will receive funding for the agreed total efficient costs for these projects, regardless of what is actually spent in T1 or T2.

- We remain of the opinion that the failure to deliver an agreed project that is part of the T2 baseline should be subject to an adjustment reflecting our assessment of the total efficient cost for each crossover project if it is not cancelled, or subject to

delay or material changes in scope. Our existing PCD methodology[52] is apt to deliver this.

8.9. The proposed approach seeks to protect consumers from potential reductions in scope or cancellations in the identified crossover projects (and exposure to the associated redundant spend in the RIIO-ET1 period in particular) and to clarify our intention to clawback the appropriate funding in those instances.

8.10. We propose to make any adjustments only in respect of the original crossover LR projects identified by NGET used to determine the provisional allowance value.

8.11. We will also need to make adjustment to special condition 3.38 of NGET's T2 Licence to adjust the value of the offset allowance, as the £87m will be provided by the PCDs and their associated allowances.

8.12. Special condition 3.38 could be modified to be the sum of T1OA and a reduction term (eg T1OR), that would be directed to clawback £87m in the event of non-delivery across all of the projects.

Proposed approach

8.13. As part of the closeout process we would request information from NGET to enable us to determine the required modifications to the RIIO-ET2 licence to amend the existing PCDs and set the new PCDs for the crossover projects.

8.14. We would require documentation to be submitted by NGET to evidence:

- the revised forecast output delivery dates for each of the above mentioned projects, and explanation that the information is based on accurate and reliable evidence; and

[52] This methodology is current set out in the Price Control Deliverable Reporting Requirements and Methodology Document and we have a closed statutory consultation on lifting up the principles to Special Condition 9.3.

- any assumptions or sensitivity analysis applied by NGET in determining the revised delivery date forecast and/or evidence on relevant factors that may have a bearing on the delivery date and the outputs expected to be delivered.

8.15. No change to the ET1 Legacy PCFM would be required, we would use the PCD methodology to clawback the allowance if a project is not Fully Delivered by modifying RIIO-2 totex allowances.

Question 13: Do you agree with our proposed approach?

9. Approach for crossover projects without volume driver: SHET

This section explains our proposed approach for LR projects where the delivery of outputs is expected in RIIO-ET2 or beyond and for which the RIIO-ET1 price control provided no allowances for spend incurred in the RIIO-ET1 period.

This chapter applies to SHET only.

Background

9.1. In our RIIO-ET2 Final Determinations, we stated our decision[53] that for load related (LR) projects which span RIIO-ET1 and RIIO-ET2 we will carry out the true-up of the RIIO-ET1 funding as part of the RIIO-ET1 closeout. The previous chapter set out our proposed methodology to close out the funding for LR projects to which RIIO-ET1 volume drivers apply. This chapter deals with crossover LR projects identified by SHET that are not subject to adjustment through the arrangements described in chapter 7 and gives further detail on the nature of the true-up envisaged.

9.2. Forecast expenditure information was provided by SHET on the total cost profile for each project was provided through the original RIIO-ET2 Business Plan submission. This included forecast information for the remaining RIIO-ET1 period (2019/20 and 2020/21) and expenditure expected to be incurred in progressing the delivery of outputs across the RIIO-ET2 period. The information was subjected to our engineering and cost assessment process[54].

9.3. Based on our assessment of that information, in our FD we set funding in two parts.

- The RIIO-ET1 component of each project was provided ex-ante funding (£46m in 2018/19 price base). At SHET's request, the funding was not included in the first year of RIIO-ET2 (2021/22) but moved into the final year of RIIO-ET1 (2020/21). This was implemented through the ET1 Legacy PCFM for the November AIP process (2021).

[53] RIIO-2 Final Determinations – ET annex (published 3 February 2021) – paragraph 3.32.
[54] See footnote 47.

- The expected expenditure in the RIIO-ET2 period was used to set Price Control Deliverables (PCDs). One PCDs was set for a project delivering boundary transfer capability increases within RIIO-ET2[55] and three PCDs were set for a range of works associated with shared infrastructure works[56]. The PCDs contain a summary of the agreed outputs to be delivered and the required delivery date. The associated allowances for each PCD represents only the expected expenditure in the RIIO-ET2 period and not any expenditure on the RIIO-ET1 period.

9.4. In our initial engagement with SHET their initial preference was for the RIIO-ET1 closeout process to take account of the level and profiling of finalised actual costs incurred in the period RIIO-ET1 period. For example, a project with a total funding provision of £10m, based on an expenditure profile of £2m in T1 and £8m in T2, that actually incur an efficient cost of £3m in T1, will be subject to a reprofiling of its funding to reflect the efficient outturn position in T1 (£3m) and the remaining total allowance proportion in T2 (£7m). The movement in allowances for actual expenditure in the RIIO-ET1 period was proposed by SHET to be included as a legacy adjustment in the first year of the RIIO-ET2 period.

9.5. We considered the above approach, including the bespoke nature of the projects, the implications of the current form of the PCDs set for RIIO-ET2 and the need for a process to facilitate the adjustment for potential non-delivery or de-scoping of these projects. We now consider that it is unnecessary to have a mechanistic reconciliation of the allowance profile in T1 or T2 periods. Instead, we propose to have a RIIO-ET2 PCD for each crossover project with the full RIIO-ET1 and RIIO-ET2 allowance, reflecting our assessment of the total efficient costs for the project and the anticipated output delivery timescale. This approach would involve modifying the existing PCDs.

9.6. This would require a separate licence modification process, including a statutory consultation. We envisage proposing the following changes in that consultation:

- One IWW project (East Coast 275kV Upgrade) will be modified within special condition 3.9 to reflect our assessment of the total efficient costs for the project.

[55] Included in special condition 3.9 (Wider Works Price Control Deliverable) of SHET's T2 Licence.
[56] Included in special condition 3.17 (Shared schemes Price Control Deliverable) of SHET's T2 Licence.

The PCD will replicate the current descriptive detail and the required output delivery date.

- Three shared schemes (Kinardochy, North east 400kV Upgrade and Tealing 275kV Busbar) will be modified within special condition 3.17 to reflect our assessment of the total efficient costs for the project. The PCD will replicate the current descriptive detail and the required output delivery date.

9.7. The rationale for the proposed approach for the applicable crossover projects is set out below.

- The substance of the project funding directed as part of the FDs, reflecting our assessment of the total efficient cost for each crossover project, is not subject to change.

- The nature of our funding decision means that the timing of spend associated with each crossover project is not pertinent to our deliberations to closeout RIIO-ET1. While the expenditure profile for each project may change relative to the forecast profile upon which our funding decision was made, our key consideration remains whether each of the above-mentioned crossover projects will meet the output delivery expectations prescribed by the relevant PCD. This means that successfully delivered projects will receive funding for the agreed total efficient costs for these projects, regardless of what is actually spent in T1 or T2.

- Notwithstanding the fact that SHET is already in receipt of an aggregate level of funding (£46m) for the RIIO-ET1 component for all identified crossover schemes, we remain of the opinion that the failure to deliver an agreed PCD (ie in terms of delivery timescale and output that is materially within scope) should be subject to a clawback adjustment reflecting our assessment of the total efficient cost for each crossover project.

9.8. To facilitate the proposed approach, and to remove ambiguity on implications for potential for non-delivery of a PCD within the RIIO-ET2 framework, we propose to re-establish the PCD relevant to each crossover project to include the T1 profile, not just the T2 component, and to reflect the total efficient project cost of each project. The PCDs will be added to the individual projects within NGET's T2 Licence after consultation on the related licence modifications.

9.9. The proposed approach seeks to protect consumers from potential reductions in scope or cancellations in the identified crossover projects (and exposure to the associated redundant spend in the RIIO-ET1 period in particular) and to clarify our intention to clawback the appropriate funding in those instances.

9.10. As noted in paragraph 9.3, adjustments relating to the above-mentioned projects have been made in the 2021 Annual Iteration Process. There are no further adjustments required; however, we propose to document the changes in the 'WWE' term from the 2019 PCFM as part of a closeout workbook.

Proposed approach

9.11. The closeout process would consider all changes to the timing and scope of output delivery associated with the five original crossover projects and use this to inform our view of the adjustments necessary to the PCDs.

9.12. We would require documentation to be submitted by SHET to evidence:

- the revised forecast output delivery dates for each of the above mentioned projects, and confirmation that the information is based on accurate and reliable evidence; and

- any assumptions or sensitivity analysis applied by SHET in determining the revised delivery date forecast and/or evidence on relevant factors that may have a bearing on the delivery date and the outputs expected to be delivered.

9.13. No change to the ET1 Legacy PCFM would be required, we would use the PCD methodology to clawback the total allowance (including T1 allowances) if a project is not Fully Delivered by modifying RIIO-2 totex allowances.[57]

Question 14: Do you agree with our proposed approach?

[57] For example, if £1m was granted as T1 allowances for a project that was not delivered, the final PCD totex adjustment in RIIO-2 would start with a corresponding adjustment of -£1m in 2021/22 (the first year of RIIO-ET2, assuming price bases are the same).

10. Adjustments for Enhanced Physical Site Security Costs

This section explains our proposed methodology for adjusting allowances related to the Physical Security Upgrade Programme (PSUP).

This chapter applies to all ETOs.

Background

10.1. As part of the UK government's PSUP programme, networks are required to implement physical security enhancements at sites listed as Critical National Infrastructure (CNI). BEIS determines which sites require upgrades, and the design specification at each site is meets the requirements of the Centre for the Protection of National Infrastructure (CPNI).

10.2. Network companies were provided with baseline funding for known PSUP projects, and there were re-openers in 2015 and 2018 to adjust allowances further, if necessary[58].

10.3. By a decision of 28 September 2018 on NGET's application for an increase in its baseline allowance, we linked the increase in funding to the delivery of clear outputs and reserved the right to recover any allowances in the context of RIIO-ET1 closeout if the outputs in question were not delivered. In response to NGET's proposal that its allowances be adjusted up or down at closeout, Ofgem decided that RIIO-ET1 closeout would cater only for downward adjustments.

Proposed approach

Clawback Principles

10.4. We intend to claw back all unused allowances for projects that were no longer required due to changes to the CNI list and to clawback allowances for outputs not delivered.

10.5. Where networks have incurred costs on projects where the needs case later fell away, we intend to provide an allowance for all efficiently incurred costs.

[58] The ability to amend allowances for the Physical Security Upgrade Programme (PSUP) is provided under SpC 6H of the T1 Licence.

10.6. Where an allowance was provided in RIIO-ET1, for a PSUP project that has been delivered, any over- or under-spend will be subject to the Totex Incentive Mechanism (TIM).

Clawback methodology

10.7. Network companies will provide Ofgem with a complete list of PSUP projects that they have been funded for and confirm whether the projects in question have been completed, partially completed, or cancelled.

10.8. Networks are to state the total allowance they are requesting and to provide any evidence that their costs have been efficiently incurred, as appropriate.

10.9. For PSUP projects that ETOs have been funded for but were only partially delivered, ETOs are to detail why the project was not delivered and provide evidence that costs have been efficiently incurred, as appropriate.

10.10. We propose a methodology which

- requires that each ETO submit a report on any difference between actual costs and outputs for PSUP projects that they have received baseline funding for.
- facilitates critical evaluation of the report mentioned in the first bullet by the end of the calendar year.
- will set out the outcome of our assessment and return any unspent allowance to consumers.

Other considerations

10.11. We recognise that the needs case for PSUP investments is determined by BEIS and that networks may have incurred costs during ET1 that they have not received an allowance for. We also recognise that changes to the CNI list may have resulted in networks receiving allowances for PSUP projects that did not get delivered in ET1.

10.12. A process is therefore required to adjust funding for projects to enhance the physical security at sites across NGET's transmission network to reflect actual outputs within the RIIO-ET1 period.

10.13. For PSUP projects that networks have not been funded for, networks are to provide details of the installation, including (but not limited to):

- Perimeter length
- Number of cameras installed
- Number of security lights installed
- Number of security gates installed

10.14. ETOs are to provide Ofgem with a complete list of PSUP projects that they have undertaken but not been funded for, and to state whether they have been completed or partially completed.

10.15. We propose a methodology which:

- requires that each ETO submit a report on any difference between actual costs and outputs for PSUP projects that they have received baseline funding for.
- facilitates critical evaluation of the report mentioned in the first bullet by the end of the calendar year.
- Ofgem will assess the information and make the relevant adjustments.

10.16. The adjustment will be input to the ET1 Legacy PCFM in the relevant company input tab row 14, "Uncertain costs - enhanced security" under the heading PCFM Variable Values Table.

Question 12: Do you agree with our proposed approach to adjusting PSUP allowances at RIIO-ET1 closeout?

11. Adjustment for SPT's Connection Volume Driver Clawback

This section explains our proposed methodology for implementing a 'clawback' of RIIO-ET1 baseline allowance through the operation of the SPT's sole-use generation connection volume driver mechanism within the T1 Licence.

This chapter applies to SPT only.

Background

11.1. RIIO-ET1 arrangements included a volume driver funding mechanism for SPT which provides additional funding for the connection of generation stations and the associated increase in connected capacity to SPT's network, measured by the increase in megawatt. This investment category was referred to as "sole use infrastructure".59

11.2. RIIO-ET1 provided SPT with a baseline allowance for works to connect new generation stations with an associated level of generation capacity (2503MW) .

11.3. If requests for generation connections exceed the specified baseline level, SPT's funding will be automatically adjust the baseline allowance based on the application of an agreed unit cost rate in the T1 Licence. Conversely, if the total capacity of generation connected to SPT's transmission network is less than the baseline level , revenues would be subject a negative adjustment (or 'clawed back') per MW shortfall based on the same unit cost rate.

11.4. The output delivered by SPT under the RIIO-1 mechanism is to be significantly lower than the baseline threshold output threshold due to the reduction in the number and size of customer connections observed across the period. A clawback of allowance is required to implement the operation of the volume driver mechanism in the reducing direction. The closeout process will facilitate the clawback adjustment through the PCFM.

[59] A separate volume driver mechanism was designed to provide funding to SPT for transmission infrastructure works associated with the connection of multiple new or additional generating stations, referred to as 'shared use infrastructure' and measured in the resultant increase in network capability or megavolt ampere. The revenue associated with both categories of infrastructure asset (sole and shared use) is included in the calculation of Allowed Revenue and recovered from users of the NETS through TNUoS charges.

Proposed approach

11.5. As part of the closeout process for RIIO-ET1 we will:

- verify the assets delivered in the sole-use infrastructure category that contribute to the 2503MW output threshold, delivered between 1 April 2013 and 31 March 2021.
- verify the finalised actual costs incurred in the delivery of those assets and validate the MW delivery against the threshold capacity in the T1 Licence.
- verify the calculation method applied to determine the value of the clawback to be authorised through the closeout process.
- Adjustments to allowances for RIIO-ET1 will be implemented in the ET1 Legacy PCFM for the subsequent AIP process

11.6. Adjustment will be made to the ET1 Legacy PCFM in STP's input tab, row 23, "Generation connections volume driver" under the heading PCFM Variable Values Table.

Question 15: Do you agree with our proposed methodology?

12. Adjustments for asset and related Land Disposals

This section explains our proposed approach for closing out the impact of asset and associated land disposals.

This chapter applies to all ETOs.

Background

12.1. Where network assets are no longer required, ETOs may dispose of such assets or relinquish operational control of them, subject to the consent of stakeholders (eg. landowners). Some of these transactions may include the disposal of land.

12.2. When assets are disposed of, cash proceeds are expected to be netted off calculated additions to Regulated Asset Value (RAV) from the year in which the proceeds occur.

12.3. Consumers should benefit when assets are disposed of by ETOs.

Proposed approach

12.4. For asset and related land disposed of in RIIO-ET1, we propose that RAV is adjusted to reflect the net sale proceeds. The proposed methodology would entail netting off the proceeds of disposals from RAV additions, with tax implications also considered. The proposed formula for this true-up is:

$$\text{true-up value} = (\text{proceeds of disposal} - \text{costs of disposal}) \times (1 - \text{tax rate})$$

12.5. Any disposals will be included within the year the disposal took place, thus considering the time value of money.

12.6. We propose to remove any residual asset value from the RAV. For example, if an asset has a residual value of 10 in the RAV, and it is sold for 12, NGET would keep the 10 to make good their original investment, and the remaining 2 would offset their allowed return in that year.

Other considerations

12.7. As noted in chapter 4, part of our published decision in relation to the North London Reinforcement Project under the TPWW mechanism recognised that land costs associated with the project are currently included in the regulatory asset base. At the time of our decision, the land purchase was not required for meeting the current system need.

12.8. The decision for the TPWW cost claim of this project noted that we will identify any financial gains that NGET derive from land ownership associated with this project (whether through leasing out or sales) and return this value to consumers. We propose that any value identified through the closeout process will be returned to consumers through the proposed formula above.

12.9. The true up value will be entered in relevant company input tab of the ET1 Legacy PCFM row 238, "RIIO post-vesting RAV disposals", under the heading "RAV and assets"

Question 16: Do you agree with our proposed approach for disposals?

13. Adjustments for WHVDC project

This section explains our proposed approach for closing out allowances associated with the delivery of the WHVDC project.

This chapter applies to NGET and SPT only.

Background

13.1. The Western high-voltage direct current (WHVDC) link is a project that transports electricity via a subsea cable between the west coast of Scotland and Wales. The project was a joint venture between NGET and SPT to transmit more electricity between Hunterston in Scotland and Deeside in Wales.

13.2. The allowed expenditure, output deliverable and delivery date for the WHVDC project were set out in special licence condition 6I60 within the T1 Licence of SPT and NGET.

13.3. At the original funding decision, the WHVDC link was due to be delivered in 2016/17. In setting the RIIO-ET1 price control, we did not specify any penalties to apply in case of late delivery of the WHVDC link. We said that we would review deviations from the agreed completion timescales to determine whether those deviations constituted a contravention of SpC 6I61.

13.4. During the RIIO-ET1 Mid Period Review, as NGET and SPT were already indicating a likely delay of the delivery of WHVDC link, we decided to delay allowances related to the WHVDC link to ensure that the licensees do not benefit financially from a delay.62

13.5. In January 2020 we launched an investigation63 into the performance of NGET and SPT in delivering the subsea cable component of the WHVDC link. This has resulted in the licensees agreeing to pay a redress64 package of £158 million for the delay.

[60] SpC 6I. Specification of Baseline Wider Works Outputs and Strategic Wider Works Outputs and Assessment of Allowed Expenditure
[61] See page 10 of the WHVDC funding decision published on 27 July 2012: https://www.ofgem.gov.uk/publications/decision-funding-arrangements-western-high-voltage-direct-current-link-western-bootstrap
[62] https://www.ofgem.gov.uk/system/files/docs/2017/07/mpr_parallel_work_decision-v3.pdf
[63] https://www.ofgem.gov.uk/publications/investigation-national-grid-electricity-transmission-plc-and-sp-transmission-plc-and-their-compliance-obligations-relating-western-hvdc-subsea-link
[64] https://www.ofgem.gov.uk/publications/ps158-million-redress-two-year-delay-major-western-link-subsea-cable

Proposed approach

13.6. The outcome of the investigation has meant that all adjustments relating to the WHVDC project, including rephasing allowances, have been made in the 2021 Annual Iteration Process.

13.7. There are no further adjustments required relating to WHVDC; however, we propose to document the changes from the 2019 PCFM as part of a closeout workbook. Specifically, we will record the adjustments to:

- Baseline strategic wider works outputs (WWE)
- Legacy price control adjustments to allowed revenue (LAR)
- Adjustment to legacy price control adjustments to RAV (LRAV)

Question 17: Do you agree there are no further adjustments required relating to the WHVDC project?

14. Adjustments for SHET's VISTA allowance

This section explains our methodology for adjusting allowed expenditure in RIIO-ET1 for costs incurred by SHET on projects under SpC 6G of the T1 Licence.

This chapter applies to SHET only.

Background

14.1. RIIO-ET1 included provisions for the ETOs request funding for works to assess and mitigate the visual impact of existing electricity infrastructure on national parks and National Scenic Areas within the SHET network area. For the Scottish ETOs, this is known as VISTA (Visual Impact of Scottish Transmission Assets).

14.2. We approved[65] funding for SHET to deliver three projects (Sloy, Glen Falloch and Killin) to reduce the impact of its electricity transmission infrastructure on the visual amenity of the Loch Lomond and the Trossachs National Park. These projects are expected to be completed within the RIIO-ET2 price control period (ie. after 31 March 2021).

14.3. A methodology is required to adjust allowed expenditure on approved projects in RIIO-ET1.

14.4. SHET has explained that progress has been delayed in some instances, with failure to deliver during the RIIO-ET1 price control period attributable to delays associated with the COVID-19 pandemic. In these cases, SHET has confirmed that costs have been incurred within the first year of the RIIO-ET2 price control period.

14.5. SHET has incurred costs in RIIO-ET1 across all projects that is below the allowance provision in RIIO-ET1 and is forecasting a spend in RIIO-ET2 greater than the RIIO-ET2 allowance provision.

[65] https://www.ofgem.gov.uk/sites/default/files/docs/2020/07/1_decision_assessmentletterglenfallochsloy.pdf and https://www.ofgem.gov.uk/publications/direction-new-enhancing-pre-existing-infrastructure-projects-she-transmissions-electricity-transmission-licence

14.6. SHET proposes that outperformance in the RIIO-ET1 period is balanced against projected underperformance in the RIIO-ET2 period and the result reflected in the RIIO-ET1 closeout assessment.

14.7. We note that the scope of the RIIO-ET1 closeout (and what is permissible in the context of closeout) is determined by the TI Licence which does not accommodate the balancing exercise proposed by SHET.

14.8. The parameters of the T1 Licence dictate that delayed projects would be the subject of a downward adjustment in respect of costs incurred in the RIIO-ET1 period and projects scheduled for delivery in RIIO-ET2 are out of scope of RIIO- ET1 closeout.

Proposed methodology

14.9. We propose to deal with the three VISTA projects to be completed in RIIO-ET2 as part of the closeout process for RIIO-ET1:

- We will adjust SHET's RIIO-ET1 allowance for costs it has incurred in the last year of the RIIO-ET1 price control period; and

- Adjustments to allowances will be implemented in the in the ET1 Legacy PCFM for the subsequent AIP process.

14.10. The adjustment will be made in the SHET input tab of the ET1 Legacy PCFM to row 20, "Enhancements to pre-existing infrastructure" under the heading "PCFM Variable Values Table".

Question 18: Do you agree with our proposed approach?

15. Treatment of innovation allowances

This section explains our proposed approach for closing out Network Innovation Allowance mechanism.

This chapter applies to all ETOs.

Background

15.1. The RIIO-ET1 innovation stimulus included the Network Innovation Allowance (NIA): an annual allowance that each of the RIIO network licensees received throughout RIIO-1 to fund smaller scale innovative projects as part of their price control settlement. Network companies report their spending on innovation funded by the NIA.

15.2. To prevent a "cliff edge", beyond which NIA funding is unavailable, potentially resulting in downturn in innovative activity towards the end of RIIO-ET1 to the detriment of consumers, we have decided that it is necessary to adjust the end date for spending RIIO-ET1 allowances to allow carry over of any unspent allowance in the final year of RIIO-ET1 into the first year of RIIO-ET2.

15.3. As decided in RIIO-2 Final Determinations66, we are enabling network companies and the ESO to carry forward unspent 2020/21 NIA allowances into 2021/22 (the 'carry-over Network Innovation Allowance', the CNIA67). This allows licence holders to carry any unspent 2020-2021 RIIO-ET1 NIA allowance over into the first year of RIIO-ET2 in 2021/2022, to spend on projects that had already been started by 31 March 2021.68

Proposed approach

15.4. Within year 1 of RIIO-ET2 annual reporting, we propose that network companies and the ESO will be required to report any costs efficiently incurred against their CNIA. Companies would then be able to recover those efficient costs (provided spending is less than the cap calculated according to the RIIO-ET1 NIA licence condition69).

[66] RIIO-2 Final Determinations – Core Document, paragraphs 8.81-8.85.
[67] SpC 5.3 (Carry-over Network Innovation Allowance) of the T2 Licence.
[68] Version 4 of the RIIO-ET1 Electricity NIA Governance was published in March 2021, available here: https://www.ofgem.gov.uk/publications/riio-1-nia-guidance-documents-revision-additional-requirements-riio-2-cnia-0
[69] provided the spend is less than the cap calculated according to SpC 3H of the Electricity Transmission Licence as

Other considerations

15.5. We do not propose to do anything with regard in the RIIO-ET1 closeout process for projects under the other RIIO-ET1 innovation stimulus (Network Innovation Competition, or NIC). Individual NIC projects in RIIO-ET1 were funded with provision of upfront ringfenced innovation funding distributed by the ESO. Any unspent funds on individual projects will be recovered after individual projects close down (which could be as late as 2025) via the NIC Funding Mechanism as set out in the NIC licence condition70 and NIC Governance Document71.

15.6. We also do not propose to do anything with regard to the closeout of the Innovation Rollout Mechanism. SPT was awarded £24.28m (2009/10 prices) to deploy a new type of conductor on parts of network to increase capacity in 2015, however this funding was added to SPT's totex and no closeout is necessary with regard to this.

Question 19: Do you agree with our proposals?

was in force until 31 March 2021.
[70] SpC 3I of the Electricity Transmission Licence.
[71] Available from the Ofgem website: https://www.ofgem.gov.uk/publications/version-30-network-innovation-competition-governance-documents

16. Next steps

16.1. We welcome your responses to this consultation, both generally, and in particular on the specific questions in Chapters 2 to 15. Please send your response to: Anthony.mungall@ofgem.gov.uk. The deadline for response is 28 February 2022.

16.2. We will review all responses to the consultation, requesting further evidence if necessary. Based on the information received we will update the proposed methodologies, where appropriate. We expect to publish the finalised methodologies before the end of the financial year.

16.3. When implementing the methodologies, we will assess the evidence and explanation provided, requesting further evidence if necessary, and determine the value of any adjustment that should be made. We expect to publish our final determination on closeout in summer 2022.

16.4. We expect to follow this with a statutory consultation on any required modifications to the RIIO-ET2 Licence.

16.5. We will make any adjustments to ETOs' RIIO-ET1 allowances as part of the 2022 Annual Iteration Process.

Appendices

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Appendix 1 - Consultation Questions

Question 1: Do you agree with the proposed process in determining any financial revisions for the RIIO-ET1 closeout, including the phasing of the impact?

Question 2: What are your views on what should, or should not, be finally incorporated into the financial handbook?

Question 3: Do you agree with our proposed methodology for determining the connection activity adjustment?

Question 4: Do you agree with the proposal to apply a true-up adjustment to both sole use entry connections and sole use exit connections?

Question 5: Do you agree with our proposal for assessing TPWW costs?

Question 6: What revisions may be necessary to the T2 Licence to accommodate the assessment and recovery of all efficiently incurred costs to the point of cancellation through the TPWW mechanism?

Question 7: Do you agree with our proposed methodology for treatment of terminated costs and receipts associated with user terminated generation and demand connections?

Question 8: What revisions may be necessary to the T2 Licence to accommodate the assessment and recovery of all efficiently incurred costs associated with user terminated generation and demand connections through the TPG/TPD mechanisms?

Question 9: What are your views on our proposed methodology to assessing PE outputs?

Question 10: What are your views on our proposed approach to assessing crossover projects?

Question 11: What are your views on our proposed approach to assessing crossover projects?

Question 12: What are your views on our proposed approach to dealing with post closeout changes that occur between finalisation of RIIO-ET1 closeout and 31st March 2023 crossover projects on the following basis:

- **T1 volume driver for switching between typical and atypical categories (SHET only)?**
- **Adjustments for IWW output delivery (NGET only)?**
- **T2 Volume Driver profile adjustments for Physical Output delivery and number of connections (NGET and SHET)?**

Question 13: Do you agree with our proposed approach?

Question 14: Do you agree with our proposed approach?

Question 15: Do you agree with our proposed methodology?

Question 16: Do you agree with our proposed approach for disposals?

Question 17: Do you agree there are no further adjustments required relating to the WHVDC project?

Question 18: Do you agree with our proposed approach?

Question 19: Do you agree with our proposals?

Appendix 2 – 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.

3. With whom we will be sharing your personal data

No external agencies.

4. 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 consultation is closed.

5. 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.

6. 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".

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

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

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