National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

Anthony Mungall
Senior Manager
Systems & Outputs
Commonwealth House
32 Albion Street
Glasgow
G1 1LH

Hêdd Roberts
Director of Regulation, NGET
National Grid
hedd.roberts@nationalgrid.com
www.nationalgrid.com

28 February 2022

Dear Anthony,

National Grid Electricity Transmission (NGET): Response to Ofgem's Consultation on RIIO-ET1 Closeout Methodologies

We welcome the opportunity to respond to the consultation on RIIO-T1 Closeout Methodologies issued on 31st January 2022. This letter summarises our key concerns, and we have provided a more detailed response to the specific consultation questions in the appendix attached.

Retrospectively changing the RIIO-T1 Framework

One of the main principles of the RIIO Framework is to ensure Transmission Owners are funded for efficient spend incurred, therefore, providing stability and certainty of funding to enable Transmission Owners to make efficient and effective investment decisions to provide a safe and secure transmission network.

Some of the proposed methodologies for closing out RIIO-T1 are moving away from this principle by proposing to change the established rules of the RIIO-T1 framework that have been operating over the 8-year price control period and on which investment decisions have been based.

In particular, the proposed approach to use a RIIO-T2 mechanism to closeout the RIIO-T1 price control for 'cross over projects without a volume driver' creates a level of regulatory risk and uncertainty in funding of RIIO-T1 efficient spend which does not align with the principles of the RIIO Framework. The Price Control Deliverable (PCD) process was introduced for Wider Works baseline projects in RIIO-T2 but was intentionally not applied to generation and demand connection projects because the agreed Uncertainty Mechanism volume driver will automatically adjust allowances depending on the outputs ultimately delivered.
The retrospective application of the PCD process for connection projects within the RIIO-T1 closeout process is inconsistent with, and effectively re-opens an element of the RIIO-T2 price control for NGET, i.e. connection outputs in the baseline will become PCDs.

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The proposed approach seeks to replace a funding reconciliation process which is already in place, and therefore, is unnecessary and increases regulatory uncertainty and risk.

Changing a funding framework retrospectively decreases confidence in making investment decisions over the price control period by providing no stability and certainty in the funding mechanisms used for these decisions. This increases regulatory risk and uncertainty and NGET does not agree with this approach.

Potential for RIIO-T1 closeout decision to span multiple price control periods

A number of the approaches proposed by Ofgem introduce a RIIO-T1 closeout process which could span many future price controls. We consider it poor regulatory practice to implement a process where a price control is not fully closed out at the end of the period. This is a departure from all previous price controls and creates additional regulatory risk and uncertainty for Licensees and customers.

Delaying the closeout of a price control increases the complexity of the required analysis and introduces additional challenges and difficulty in its practical application, as the settlement will incorporate multiple price control financial parameters and licence conditions. For example, if a customer finally terminates in RIIO-T3, then RIIO-T1 spend will be recovered in RIIO-T3. This means future price control arrangements will need to retain arrangements for legacy price controls, and will also need to account for different incentive and capitalisation rates to ensure that no gain or loss arises because of the timing of the ultimate closeout. It should be noted that NGET has minimal influence over when a customer terminates and therefore, potentially, the closeout of RIIO-T1 has an infinite timeline with increasing complexity over time.

It is NGET’s view that this level of complexity is unnecessary as Ofgem are already in a position to assess efficient spend in RIIO-T1 and agree the funding position based on information submitted as part of RIIO-T1 closeout. The assessment of efficient spend in RIIO-T1 will not change regardless of when the customer terminates, i.e. in RIIO-T2, RIIO-T3 or beyond, as there will be no additional information available. By adopting NGET’s recommended approach, not only is the closeout process simplified, but costs to consumers reduced by avoiding additional financing costs that would arise from delaying the decision to fund efficient investment.

Inconsistent or incomplete methodologies

As mentioned above, the RIIO-T2 price control provides PCDs for Wider Works and not for generation and demand connection projects; the Final Determinations were accepted on that basis. The methodology for closing out RIIO-T1 ‘Crossover projects without a volume driver’ introduces an inconsistent approach to the regulatory framework within RIIO-T2, providing PCDs for connection schemes and projects funded through the uncertainty mechanism where this does not feature in the RIIO-T2 framework. The justification or need for this approach is unclear. Furthermore, if a PCD

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clawback were enacted through the proposed mechanism, the RIIO-T2 licence would need to ensure that the existing uncertainty mechanism did not also operate to clawback the funding position, i.e. a double clawback.

The proposed approach for 'Terminations yet to happen' also introduces an inconsistency in application across price control periods. The proposed RIIO-T1 closeout methodology clearly outlines that Termination Claims to be settled during the RIIO-T1 closeout process will be assessed against expenditure within the RIIO-T1 period and does not include expenditure in prior periods. As highlighted above, the proposed approach would require that the termination process in RIIO-T2 and future price control periods would need to capture expenditure incurred in <u>all</u> prior price control periods due to the proposed treatment of 'Terminations yet to happen'.

Furthermore, the proposed methodology has not fully captured the funding position for sole-use enabling works which form part of the 'Crossover Volume Driver Projects' category. This was included in our initial RIIO-T1 closeout submission in July 2021 and NGET has subsequently engaged with Ofgem to discuss further.

Financial treatment of RIIO-T1 terminations

When a project terminates, the costs are no longer capitalisable meaning there is a change in accounting treatment of associated costs from capex to opex.Therefore, as a result of the RIIO-T1 terminations, NGET has expensed 100% of the cost in its Profit & Loss statement. The capitalisation rates within the PCFM do not take into account the risk of termination and the associated accounting risk. To align with the financial accounting treatment and cost profile, NGET proposes the agreed allowance adjustments for terminations are treated as 100% 'fast' money.

Phasing of closeout adjustment

All of the items which require closing out have built up over the RIIO-T1 8-year period due to either: a lack of method through which to true up values (e.g. excluded services allowances and income recieved); or due to an existing mechanism not being utilisied within the period (e.g. TPG and TPD). NGET therefore disagrees with Ofgem's proposed approach to phase the closeout impact over the remaining three years of RIIO-T2 (2023/24 – 2025/26). Instead, it is proportionate to phase the adjustment over the same time period in which they have built up. NGET therefore proposes the adjustment is phased over the remaining three years of RIIO-T2 and all five years of RIIO-T3. Whilst this would mean the adjustment would span into RIIO-T3, a future price control, the adjustment would apply to the full discrete period, thus avoiding any differences to legacy treatment within a price control period .

Enacting close out in the RIIO-T2 licence

We agree that closeout of the RIIO-T1 price control requires measures beyond those currently included in Chapter 7 of the RIIO-T2 special conditions and the relevant parts of the RIIO-T2 price

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control financial instruments. These additional measures need to be enacted in the RIIO-T2 licence. We agree with the statement in the consultation paper that the closeout methodologies should be enacted in the RIIO-ET2 Price Control Financial Handbook (PCFH). The RIIO-ET2 PCFH should also be updated to cover proposed changes to how the ET1 Legacy PCFM will be developed. These changes to the RIIO-ET2 PCFH should be implemented through a statutory consultation, alongside any changes being made to the RIIO-T2 special conditions in relation to RIIO-T1 closeout.

More detailed and specific responses on this consultation can be found in the appendix below. In considering the proposals, NGET has sought to consider a pragmatic position for closeout. Agreement to particular proposals should not be taken as any broader acceptance of principles that Ofgem is following in its closeout approach.

If you would like to clarify anything in this response please do not hesitate to contact either myself, Michelle Clark (michelle.clark@nationalgrid.com), or Julie Hooper (julie.hooper@nationalgrid.com).

We hope that you find this response useful and constructive.

Yours sincerely

H Roberts

Hêdd Roberts
Director of Regulation, NGET
(by email)

nationalgrid

National Grid House
Warwick Technology Park
Gallows Hill, Warwick
CV34 6DA

APPENDIX

Chapter 2. Approach to financial modelling methodologies

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?

NGET agrees with the process to implement RIIO-T1 closeout methodologies via the Legacy PCFM for the majority of items listed within the consultation, with the exception of the Termination Provision Wider Works (TPWW) claims and Customer terminated projects (TPG/TPD) covered below.

Sequence for closeout

The steps listed in para 2.7 reflect NGET's expectation of the process, however NGET notes that updates to tax pool balances are listed within Figure 1, but not the steps. For clarity, the updates to the tax pool balance should also be included in step 7.

Step 4 states that the Revenue RRP provides the LMOD values in £m nominal, which is then input into the RIIO-ET2 PCFM. However, the Revenue RRP used in the November 2021 AIP does not include the functionality for the calculation of nominal LMOD values beyond 2022/23, and will therefore require updating. NGET would welcome sight of the intended revisions to the Revenue RRP from Ofgem.

Step 9 is misleading in that it implies changes to LRAV and LAR (which includes the LMOD term) would flow through ADJ. This is not correct as it is only changes to Calculated Revenue that impact ADJ. LAR forms part of Allowed Revenue but this falls outside of the Calculated Revenue term. As such any changes to previously set LAR values would affect Allowed Revenue and therefore would flow through K as an under- or over-recovery.

As with the standard AIP process, we expect that Ofgem will share iterations of the ET1 Legacy PCFM with NGET and would be grateful if Ofgem would confirm this approach.

Impact of closeout adjustments

NGET agrees with Ofgem's proposal to smooth the revenue impact of the closeout adjustments, which will be implemented as part of the November 2022 AIP, over a number of years. However, the items have built up over the full 8-year RIIO-T1 period and therefore it is proportionate to phase the impact over the same time frame. NGET proposes the revenue impact is phased equally over the remaining three years of RIIO-T2 and all five years of RIIO-T3. This would mean the adjustment would span into RIIO-T3, a future price control. However, the adjustment would apply to the full discrete period, thus avoiding any differences to legacy treatment within a price control period.

NGET agrees that one way to phase the adjustment is to amend the 'Revenue' tab of the ET1 Legacy PCFM (row 32 'recalculated base revenue deltas'). Ofgem has not stated the exact amendment required to the calculations and NGET would welcome discussion on this. Under NGET's proposal, row 32 of the'Revenue' tab would require extending for a further eight years. Alternatively, Ofgem could reflect the closeout adjustments within the ET1 Legacy PCFM as it currently stands and compare the resulting 2022/23 MOD value to the 2022/23 MOD value from the ET1 Legacy PCFM as calculated during the November 2021 AIP. The delta between the two 2022/23 LMODs is the adjustment which would require phasing over future years.

Confirmation on adjustments and price base

Throughout the consultation document Ofgem refers to adjustments required to specific rows within the ET1 Legacy PCFM. NGET agrees with the rows detailed, however it is not clear in the proposed methodologies that these are adjustments to be made to the existing values within the specified rows rather than replacements of existing values. Ofgem should explicitly state that the values are adjustments to existing values within the ET1 Legacy PCFM rather than an over-write. When

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referencing adjustments necessary, it should be noted that these values will require converting to 2009/10 price base before inputting to the PCFM.

Ahead of the final closeout submission due in April 2022, we request that Ofgem clarify the price base in which values should be submitted, and if the adjustment value required for the PCFM should be provided as well as the final position or whether Ofgem will calculate the adjustment.

Methodology for closeout of TPWW and TPG/TPD

NGET does not agree with Ofgem's proposal to input the RIIO-T1 Wider Works, Generation connection and Demand connection termination adjustments into the variant allowances of the ET1 Legacy PCFM.

Under Ofgem's proposed method, capitalisation rates would automatically apply to the termination amounts when input to variant allowances within the ET1 Legacy PCFM. When a project terminates, the costs are no longer capitalisable meaning there is a change in accounting treatment (IAS16) of associated costs from capex to opex. Therefore, as a result of the RIIO-T1 terminations, NGET has expensed 100% of the cost in its Profit & Loss statement. The capitalisation rates within the PCFM do not take into account the risk of termination and the associated accounting risk. To align with the financial accounting treatment and cost profile, NGET proposes the agreed allowance adjustments are treated as 100% 'fast' money. As such, there would be no 'slow' money impact and no associated LRAV adjustment. NGET welcomes discussion with Ofgem on how this approach could be appropriately calculated and implemented, noting that the RIIO-T1 sharing factor (46.89%) and Time Value of Money should be incorporated into the calculation

NGET and Ofgem have discussed the principle of changing the treatment of terminations in the RIIO-T2 licence to enable more timely recovery of such termination or 'abortive' costs. Discussions with Ofgem are ongoing; one potential option is to include the recovery mechanism in Other Revenue Allowances (Special Condition 5.1). The approach NGET has described above for the closeout of RIIO-T1 terminations reflects this principle, therefore seeking to provide consistency in treatments between price controls. NGET welcomes further discussion on the impact of potential changes to the RIIO-T2 licence on the proposed closeout methodology.

Enacting closeout in the RIIO-T2 licence

The consultation document states that the final closeout methodologies "will be included in the RIIO-ET2 Price Control Financial Handbook". We agree that this is the appropriate means to enact closeout in the RIIO-T2 licence. Ofgem would need to conduct a statutory licence consultation to implement these changes, along with the changes required to the special conditions of the RIIO-T2 licence which are identified below.

We note that the need to conduct a statutory consultation on the closeout methodologies means that any methodologies which Ofgem publishes before the end of the financial year will not necessarily be the final methodologies (as suggested in paragraph 16.2 of the consultation paper) – there will need to be further consultation.

In addition, we note that (in paragraph 2.6 of the consultation paper), Ofgem proposes to make changes to values other than "variable values" to the RIIO-ET1 price control financial model in developing the ET1 Legacy PCFM. There is no clear basis for Ofgem to do this under the current legacy arrangements under the RIIO-T2 licence, but the above statutory consultation on changes to the RIIO-ET2 PCFH can also address this issue.

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

Chapter 8 of the RIIO-ET2 PCFH partially accommodates reflecting the closeout decision via LRAV and LMOD. However, as noted above, we agree that it is appropriate that the final closeout methodologies are incorporated in Chapter 8.

Paragraphs 8.17-8.28 of the RIIO-ET2 PCFH should also be updated to make clear which changes to the RIIO ET-1 price control model are to be enacted in the Legacy PCFM to implement the closeout methodologies (noting that changes to "variable values" is already referred to). Ofgem has proposed changes to the following non variable 'yellow box' inputs - 'FP fixed input value': non variant allowance - load related capex, Excluded services revenue and RIIO post-vesting RAV disposals.

Paragraph 8.19 states that '*As with the RIIO-T1 process, a new MODt (e.g. MOD2021/22 and MOD2022/23) will be calculated and directed at each AIP, reflecting any changes related to the RIIO-T1 variable values or from the closeout process'*. This will also need to be updated to reflect that changes to non variable are required as well as variable values.

Paragraph 8.9 states that '*The Legacy PCFM variable values will be revised as necessary during the Price Control Period. However, it is expected that legacy adjustments will be completed through the Closeout of the RIIO-1 price control, as part of the first two AIPs during the RIIO-2 Price Control Period.'* This consultation proposes utilising MOD in 2023/24 onwards, therefore the reference to "the first two AIPs" in paragraph 8.9 and 'e.g. MOD2021/22 and MOD2022/23' in paragraph 8.19 should be updated.

In addition, paragraph 8.33 states '*By 31 October 2021, the Authority will derive finalised LRAVt values for the Regulatory Year 2020/21 for the licensee by inputting actual cost data submitted by 31 July 2021 into the ET1 PCFM and restating them to 2018/19 prices. There may also be subsequent updates to allowances or other RIIO-T1 inputs following the 31 July data submission which will be processed in the same way*.' NGET proposes that the date in this paragraph is amended so that revisions made to LRAVt as a result of the final Closeout decision are covered.

Please could Ofgem confirm that changes to the RIIO-ET2 PCFH to implement the closeout methodologies as above would be enacted through a statutory licence consultation carried out alongside the changes mentioned in paragraph 16.4 of the consultation paper,

Chapter 3. Adjustments to true-up with connection payments

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

NGET agrees with Ofgem's proposed methodology, however, we have noted an omission in relation to excluded services for T1+2 projects; please see response to Question 11.

NGET agrees with the proposed methodology set out in paragraph 3.8 . However, NGET notes that the DARTS term within the ET1 PCFM (referred to in step 4 of paragraph 3.8) consists of several items. As previously agreed with Ofgem, it is only the Post Vesting Connection element of this line that should be compared to actual income received.

When describing how the legacy PCFM should be updated in step 7, the methodology should be clear that the values to input into rows 84 ("Non-variant allowed load related capex expenditure") and 213 ("Excluded Services revenue") of the ET1 Legacy PCFM are adjustments to existing values in these rows, not replacements.

For the avoidance of doubt, the DARTs adjustment will not result in a LRAV adjustment as such revenues do not flow through totex, and thus there will only be an LMOD adjustment associated with this methodology.

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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?

NGET agrees with Ofgem's proposal to include a true-up adjustment to both sole use entry and sole use exit connections.

Chapter 4. Adjustments for terminated wider works projects

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

NGET agrees with the proposal for assessing TPWW costs however NGET does not agree with Ofgem's proposal to input the RIIO-T1 Wider Works termination adjustment into the variant allowances of the ET1 Legacy PCFM. Please see answer to consultation question 1.

Under Ofgem's proposed method, capitalisation rates would apply to the termination amounts when input to variant allowances within the ET1 Legacy PCFM.. When a project terminates, the costs are no longer capitalisable meaning there is a change in accounting treatment of associated costs from capex to opex. Therefore, as a result of the RIIO-T1 terminations, NGET has expensed 100% of the cost in its Profit & Loss statement. The capitalisation rates within the PCFM do not take into account the risk of termination and the associated accounting risk. To align with the financial accounting treatment and cost profile, NGET proposes the agreed allowance adjustments are treated as 100% 'fast' money. As such, there would be no 'slow' money impact and no associated LRAV adjustment. NGET welcomes discussion with Ofgem on how this approach could be appropriately calculated and implemented, noting that the RIIO-T1 sharing factor (46.89%) and Time Value of Money should be incorporated into the calculation.

Whilst NGET disagrees with Ofgem's methodology, we can confirm that Ofgem has referred to the appropriate non variant allowance line in the ET1 Legacy PCFM for such allowance adjustments to enact Ofgem's proposed method.

Paragraph 4.9, step 2 states,*'Establish the total income received against the projects noted in step 1, the effect of spend in the previous price control period and/or any prior funding (where applicable)*.' For clarity, NGET proposes that '*spend relating to a previous price control period*' is included in step 1, which refers to cost, rather than step 2 which refers to income and prior funding.

Under both NGET and Ofgem's proposed methodologies, we request that Ofgem clarify the phasing of values in paragraph 4.9, steps 3 and 4. It would be appropriate to reflect values in the revenue calculation in the year in which the expenditure was incurred. For pre RIIO-T1 expenditure, the appropriate TPCR4 Time Value of Money should be reflected (vanilla WACC of 4.75%-5.05%) within the adjustment calculation.

Paragraphs 4.13 – 4.16 relate to the treatment of *'terminations that are yet to happen.'* Whilst NGET understands the inclusion of this section in the methodology document for completeness, NGET does not have any wider works projects that meet this criterion. In any case, NGET does not agree with this approach; please see response to Question 7 for further details.

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?

Part C of Special Condition 3.30 of NGET's current RIIO-T2 licence sets out how TPWW is derived and refers to *'expenditure efficiently incurred'* but does not clearly define that this expenditure includes pre-construction spend in the RIIO-T2 period. Pre-construction is funded differently in RIIO-T2 (via a combination of project-specific baseline funding and volume drivers that include the full project cost) than it was in RIIO-T1 (where pre-construction spend was excluded from TPWW because it was

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funded elsewhere) and this could lead to confusion for TPWW assessment during RIIO-T2. This should be clarified in the Licence to avoid any future ambiguity in claim submissions in RIIO-T2.

In relation to projects which have not yet terminated, the RIIO-T2 Licence also needs to be clear that recoverable costs associated to terminated projects in RIIO-T2 includes costs regardless of timescale, i.e. includes costs incurred in a previous price control, as these have not been recovered through the RIIO-T1 mechanism. The Licence wording for TPWW under Special Condition 3.30.10 states that TPWW adjustments will only apply in relation to Regulatory Years but it is not clear which price control periods this special condition relates to (i.e. the regulatory years where expenditure occurred or the years in which funding will be provided):

'Regulatory Year	*means a period of twelve months commencing on 1 April at 05:00 and ending on the following 1 April immediately before 05:00. The first such Regulatory Year (t=1) commences on 1 April 2021 at 05:00 hours.'*

'Special Condition 3.30.10: The direction will set out the value of the TPWWt term and the Regulatory Years to which that adjustment relates.'

Special Condition 3.30.10 should be changed to explicitly state that TPWW adjustments in RIIO-T2 will provide funding for all efficient expenditure incurred from the period commencing 1st April 2013 i.e. start of RIIO-T1.

Under the current RIIO-T2 licence, TPWW forms part of the Wider Works Volume driver calculation (Special Condition 3.30.3) which falls within Totex Allowances. This means capitalisation rates are applied within the PCFM. NGET does not regard this treatment appropriate as it does not allow for timely recovery of costs and asset write offs which at the point of termination have had a direct impact on the Profit and Loss statement. (Please also see answers to consultation questions 1 and 5.)

NGET and Ofgem have discussed the principle of changing the treatment in the RIIO-T2 licence to enable more timely recovery of such termination or 'abortive' costs. Discussions with Ofgem are ongoing; one potential option is to include the recovery mechanism in Other Revenue Allowances (Special Condition 5.1). The outcome of these discussions will influence the treatment of terminations in the RIIO-T2 period and thus the answer to this question. NGET welcomes further discussion on the impact of changes to the RIIO-T2 licence on the proposed closeout methodology.

Chapter 5. Adjustments for terminated connection projects

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

Terminations received

NGET agrees with the approach for the treatment of terminated costs and receipts subject to some amendments.

The threshold for Engineering Justification Papers (EJPs) in paragraph 5.8 has reduced to £1m which differs from discussions held in bi-lateral meetings in April 2021 where Ofgem indicated that justification would be proportionate to materiality. A subsequent email from Ofgem dated 23-04-2021 confirmed that the level of justification provided in EJPs would not be required for schemes <£2m.

A further meeting was held on 11th February 2022 with Ofgem where the materiality threshold was discussed and it was agreed that the materiality would be based on the net claim position (e.g. TPG-TPRG) and level of justification would be more proportionate to claim value. Claims towards the £1m/£2m level would not require a full EJP but should capture the high-level information surrounding the claim.

The methodology document should be updated to reflect these discussions and provide clarity on requirements.

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From a financial modelling perspective:

NGET agrees with Ofgem's proposal that the adjustment required is the net position of total expenditure incurred and income received for terminated generation and demand connection projects (paragraph 5.9). However, NGET does not agree with Ofgem's proposal to input the RIIO-T1 generation and demand connection termination adjustments into the variant allowances of the ET1 Legacy PCFM. Please see answer to consultation question 1.

Under Ofgem's proposed method, capitalisation rates would apply to the termination amounts when input to variant allowances within the ET1 Legacy PCFM. When a project terminates, the costs are no longer capitalisable meaning there is a change in accounting treatment (IAS16) of associated costs from capex to opex. Therefore, as a result of the RIIO-T1 terminations, NGET has expensed 100% of the cost in its Profit & Loss statement. The capitalisation rates within the PCFM do not take into account the risk of termination and the associated accounting risk. To align with the financial accounting treatment and cost profile, NGET proposes the agreed allowance adjustments are treated as 100% 'fast' money. As nothing would flow through 'slow' money there would be no associated LRAV adjustment. NGET welcomes discussion with Ofgem on how this could be appropriately calculated and implemented, noting that the RIIO-T1 sharing factor (46.89%) and Time Value of Money should be incorporated into the calculation.

Whilst NGET disagrees with Ofgem's methodology, the non variant allowance line in the ET1 Legacy PCFM referred to is the appropriate line for such allowance adjustments to enact Ofgem's proposed method.

Under both NGET and Ofgem's proposed methodologies, we request that Ofgem clarify the phasing of values in paragraph 5.9, steps 3 and 4. It would be appropriate to reflect values in the revenue calculation in the year in which the expenditure was incurred.

'Terminations yet to happen'

NGET does not agree with the approach outlined in the methodology document for 'Terminations yet to happen.'

The RIIO-T1 costs have been incurred efficiently and, regardless of whether the customers eventually terminate or connect, the RIIO framework should provide timely funding for these costs.

Whilst we acknowledge use of TPG when the projects eventually terminate in theory provides funding in line with the principle of funding efficient investment, arrangements that could lead to funding long after the time at which the investment was made deviates away from the established principle. This leaves Licensees carrying the risk of unfunded investment for potentially multiple price control periods. Given the increased volume of connection applications NGET is seeing and expects to continue growing as we approach the net zero target in 2050, the level of uncertainty around connections that TOs need to manage will continue to increase over time. Should funding not be provided for efficiently incurred investments until well after the associated price control period, this could lead to TOs carrying large levels of unfunded investment in future years.

Delaying the funding of these costs also introduces process and regulatory risk as settlement of RIIO-T1 costs could span multiple price control periods. This will lead to the requirement for licence terms to be retained to deal with legacy issues and it could be viewed that the RIIO-T1 closeout mechanism hasn't closed out the entirety of RIIO-T1. Furthermore, spend on these projects will be treated as RIIO-T1 overspend with the RIIO-T1 TIM rate, with the RIIO-T1 fast-slow split applicable. If allowances were provided in RIIO-T3, then further adjustments would be needed to ensure that the prevailing factors at the time did not result in an inappropriate gain / loss.

In addition, funding this spend in future price control periods will lead to a future customer base paying: (a) a higher proportion of historic spend unnecessarily; and (b) additional costs for financing spend that has not been allowed for many years.

Given this, RIIO-T1 spend should be dealt with now rather than *'n'* years after the event.

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It should also be noted that the only difference between this group of customers and those referred to in *'Crossover Projects without a Volume Driver'* is whether they were included in a forecast at a given point in time (i.e. when the RIIO-T2 BPDT was submitted) but the proposed approaches to the funding arrangements are not consistent. At the time of investment, progressing with both sets of investments was the right thing to do based on the information available at the time and stopping investment where the need has changed (as opposed to continuing to invest to deliver an output earlier than needed) is in consumers' interest. Irrespective of whether the customer eventually connects, the efficient spend in RIIO-T1 should be funded in a timely manner.

Of course, in the unlikely event that the projects highlighted as terminations yet to happen do connect, NGET only expects to be funded once. Should funding for these projects be provided as part of RIIO-T1 closeout as we have suggested, we would expect sufficient licence mechanisms to be put in place to ensure any future funding reflects the post RIIO-T1 investment.

Paragraph 5.14 states that *'We expect the termination of these projects to be counted as a shortfall of T2 outputs…..'* These projects are not part of the RIIO-T2 baseline and therefore they do not produce an output in RIIO-T2. It is unclear, therefore, how funding through a RIIO-T2 shortfall would work in practice. As detailed above, it is NGETs view that this expenditure should be funded through the RIIO-T1 closeout process but if Ofgem is to continue with the proposed approach then the process for how this mechanism would operate needs to be set out.

Paragraph 5.14 also states that *'efficiently incurred costs to the point of termination will be subject to assessment under the relevant TPD/TPG mechanism within the T2 licence'*. As highlighted previously, NGET does not agree with this proposed approach, however if Ofgem proceeds with implementing this, it is important to recognise that the termination could occur in price control periods beyond RIIO-T2. Therefore, this statement is not correct and needs further clarification.

Paragraph 5.7 states that costs in RIIO-T1 should be included in TPG claims and paragraph 5.9 confirms the dates for assessment as expenditure incurred between 1st April 2014 and 31st March 2019. The proposed methodology of claiming RIIO-T1 expenditure in future price control periods is therefore inconsistent with the methodology proposed for TPG/TPD in RIIO-T1. This only becomes an issue if Ofgem does not agree with NGET's alternative proposal for 'terminations yet to happen'; if this is the case, then the document should be expanded to provide explanation as to the differing approaches and provide clarity over the periods feeding into each calculation in the relevant licences including some simple worked examples.

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?

To implement NGET's proposal of funding the RIIO-T1 efficient spend through the closeout process, the only changes required to the RIIO-T2 licence would be for the implementation of the resulting funding. Details on the financial implementation approach are provided at the end of this question response.

If Ofgem were to continue with the approach proposed in the consultation paper, the current RIIO-T2 licence would need to be developed to provide clarity over the time periods of spend that a TPG and TPD claim can be raised for. The current licence does not make it clear that costs in prior price control periods can be included in the claim.

The definition of TPG is provided under Special Condition 3.11.3 and is as follows (similar wording for the definition of the TPD term exists under Special Condition 3.12.4):

'TPG_t means the total expenditure efficiently incurred in the Regulatory Year by the licensee in respect of Generation Connections where the Users reduce Generation Connection Capacity or terminate the relevant bi-lateral agreements prior to commencing use of the Generation Connection;'

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The definition of the term "Regulatory Year" restricts TPG and TPD claims as only applicable for costs incurred from the start of RIIO-T2:

'Regulatory Year *means a period of twelve months commencing on 1 April at 05:00 and ending on the following 1 April immediately before 05:00. The first such Regulatory Year (t=1) commences on 1 April 2021 at 05:00 hours.'*

As the term "Regulatory Year" is used throughout the Transmission Licence, the most appropriate way of removing these restrictions is to edit the definitions of TPG and TPD referenced above. The cleanest solution would be to introduce a new defined term that replaces "Regulatory Year" in the TPG and TPD definitions, with a similar wording to "Regulatory Year", but with the first year commencing on 1st April 2013.

Under the current RIIO-T2 licence, recovery of terminated connection projects (licence terms TPG/TPRG and TPD/TPRD) are part of the volume driver calculations within Special Condition 3.11 and 3.12 which form part of Totex Allowances. This means capitalisation rates are applied within the PCFM. NGET does not regard this treatment as appropriate because it does not allow for timely recovery of costs and asset writes offs which at the point of termination have had a direct impact on the Profit and Loss statement. (Please also see answers to consultation questions 1, 5 and 7).

NGET and Ofgem have discussed the principle of changing the treatment in the RIIO-T2 licence to enable more timely recovery of such termination or 'abortive' costs. Discussions with Ofgem are ongoing; one potential option is to include the recovery mechanism in Other Revenue Allowances (Special Condition 5.1). The outcome of these discussions will influence the treatment of terminations in the RIIO-T2 period and thus the answer to this question. NGET welcomes further discussion on the impact of changes to the RIIO-T2 licence on the proposed closeout methodology.

<u>Chapter 6. Settlement of allowances for pre-construction works</u>

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

NGET agrees with the proposed methodology for assessing PE outputs.

It is noted that paragraph 6.5 of the consultation paper states that the assessment will be performed against the outputs specified in Part A of Special Condition 3L of the RIIO-T1 licence (reflecting the impacts of any agreed PE output substitutions). Therefore, it is NGET's understanding that assessment will be against the post-substitution request allowances.

In the event that an assessment results in an adjustment to allowances, NGET agrees with the approach to amend the ET1 Legacy PCFM as set out in paragraph 6.6 and that the adjustment should be made to the existing values in row 84, "non variant allowed load related capital expenditure". NGET seeks confirmation from Ofgem via an update to the closeout methodology that the value calculated in step 3 will be an adjustment to the values already in row 84, not a replacement of existing values.

<u>Chapter 7. Adjustments for crossover volume driver projects</u>

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

NGET agrees with the approach outlined in the methodology document for assessing crossover projects but to avoid any ambiguity the document should be expanded to provide more detail and clarity on the application of the approach.

It is NGET's understanding that the proposed approach would operate as detailed below:

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Demand & Generation

		T1+2 Outputs in BPDT? YES	T1+2 Outputs in BPDT? NO
T1 +2 Outputs in T1 Closeout?	YES	Updated Baseline Allowances aligning to T1 mechanism Updated Baseline Outputs aligning to T1 Closeout forecast	New Baseline Allowances aligning to T1 mechanism New Baseline Outputs aligning to T1 Closeout forecast
T1 +2 Outputs in T1 Closeout?	NO	Baseline Allowances removed	No Updates required

Incremental Wider Works

		T1+2 Outputs in BPDT? YES	T1+2 Outputs in BPDT? NO
T1 +2 Outputs in T1 Closeout?	YES	Updated PCDs aligning to T1 mechanism Allowances	New PCDs aligning to T1 mechanism Allowances and T1 Closeout Outputs
T1 +2 Outputs in T1 Closeout?	NO	PCDs, and associated allowances, removed	No Updates required

<u>Requirement for Cost Benefit Analyses</u>

Paragraph 7.20 requests that cost benefit analyses (CBA) where appropriate are provided to demonstrate the output solutions delivered align with the needs of the consumer. The purpose of this is not clear. For generation and demand connections, the scope of works has been agreed, signed onto through a bi-lateral agreement and is subject to a licence obligation to deliver a connection. Even in the absence of assets subject to connection charges, the customer is incentivised to ensure the lowest cost solution is agreed, as their pre-commissioning termination liability will be based on the cost of the chosen solution.

For wider works, a CBA is undertaken by the Electricity System Operator (ESO). Whilst more targeted ESO assessments can be undertaken (e.g. Holistic Network Design), outputs are predominantly driven by the Network Options Assessment (ESO NOA) process, in which different network and non-network solutions are assessed against expected constraint costs under different Future Energy Scenarios. The results of this assessment are published annually by the ESO[1]. As such the solution has been independently assessed to be the least cost option for consumers.

[1] https://www.nationalgrideso.com/research-publications/network-options-assessment-noa

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Furthermore, requesting a CBA distinguishes closeout crossover projects from other projects operating under the same mechanism, i.e. funded through the Uncertainty Mechanism. NGET does not consider the RIIO-T1 closeout process to be an opportunity to review historic investment decisions and therefore request that this requirement is removed from the methodology document as it duplicates analysis and does not add any value for customers and consumers. Similarly, the reference to decision-making documents is vague and appears to us to be unnecessary, so should also be removed from the methodology document.

Excluded Services

NGET also notes that the Excluded Services provision for crossover volume driver projects has not been captured in the methodology.

Specifically, under RIIO-T1, the volume driven Uncertainty Mechanisms for generation (Special Condition 6F of the RIIO-T1 licence) and demand (Special Condition 6L of RIIO-T1 Licence) were calibrated based on cost data that only included costs under the “Local Enabling Entry” and “Local Enabling Exit” categories. The funding derived by each mechanism therefore relates to the local enabling works only, with sole-use enabling works funded via the trued-up Excluded Services Allowance. This can be observed in our RIIO-T1 Business Plan submission. For demand, this is described in the “Local demand related Infrastructure analysis” section of our RIIO-T1 ‘Managing Risk and Uncertainty’ annex. For generation, no costs for sole-use investments were anticipated, and none were included in the scheme listing to determine the volume driver.

However, in contrast under RIIO-T2, the volume driver arrangements for entry (Special Condition 3.11 of RIIO-T2 Licence) and exit (Special Condition 3.12 of RIIO-T2 Licence) were calibrated based on an extended scope of costs data that also included costs under the “Entry Sole-use” and “Exit Sole-Use” categories (as described in paragraph 4.13 of the ET Annex[2] of Ofgem’s RIIO-T2 Final Determinations). As such, the RIIO-T2 funding from 2023/24 onwards that will be derived by each mechanism relates to both the sole-use and local enabling works.

Therefore, solely applying the volume driven RIIO-T1 mechanisms will result in unfunded sole-use investments in RIIO-T1+2. This was highlighted in our initial submission in July 2021, and had also been discussed with Ofgem in our preceding bi-lateral meetings. We also note subsequent correspondence with Ofgem in which this is recognised as a potential issue to be considered at closeout. We therefore propose that funding is provided for these costs, through a baseline adjustment reflecting the expected costs in RIIO-T1+2 as part of the RIIO-T1 closeout, consistent with the treatment for other RIIO-T1+2 allowances, and as proposed in our July 2021 submission.

In addition, we recognise that a number of sole-use investments which we now expect to be delivered in RIIO-T1+2, already have funding in the RIIO-T2 baseline. For these projects we would propose the baseline is updated to reflect the closeout position, similar to the Generation and Demand volume drivers, as follows:

[2] https://www.ofgem.gov.uk/sites/default/files/docs/2021/02/final_determinations_et_annex_revised.pdf

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Sole-Use Entry and Exit

		T1+2 Outputs in BPDT?	
		YES	NO
T1 +2 Outputs in T1 Closeout?	YES	Updated Baseline Allowances aligning to T1 mechanism Updated Baseline Outputs aligning to T1 Closeout forecast	New Baseline Allowances aligning to T1 mechanism New Baseline Outputs aligning to T1 Closeout forecast
	NO	Baseline Allowances removed	No Updates required

The methodology document should be updated to include the excluded services provision for crossover volume driver projects, as outlined above.

Application of proposed methodology

NGET agrees with the approach outlined by Ofgem in paragraph 7.14, however Ofgem has not specified how the revised view of allowances will be calculated. For example, will the Uncertainty Mechanism Workbook submitted annually alongside RRP be the basis for calculating an updated view? Any RIIO-T2 allowances will then need to be offset against this. It is not clear whether it is these values that Ofgem intends to input into the ET1 Legacy PCFM, thus replacing existing allowances, or whether Ofgem is proposing an adjustment to the existing values in the ET1 Legacy PCFM. If it is the latter, then Ofgem will need to compare the revised view of allowances to the respective volume driver allowances in the RIIO-ET1 Legacy PCFM as it was in the November 2021 Annual Iteration Process.

NGET agrees with the row references within the ET1 Legacy PCFM as specified by Ofgem as the appropriate place for the adjustments.

Paragraph 7.7 includes the opportunity to adjust baseline profile position for any new generation or demand connections. Clearly a statutory licence modification consultation will be required to enact any adjustment to these RIIO-T2 baseline profiles.

NGET agrees that any updates would be reflected in BGC, Appendix 2 of Special Condition 3.11 for generation connections and BDC, Appendix 2 of Special Condition 3.12 for demand connections. NGET would also expect an update to the volume driver allowances within the blue box inputs of the ET2 PCFM during the Annual Iteration process.

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:

- **Adjustments for IWW output delivery (NGET only)?**
- **T2 Volume Driver profile adjustments for Physical Output delivery and number of connections (SHET and NGET)?**

NGET agrees with the proposed approach for dealing with post closeout changes, however, the approach Ofgem has set out for 'post closeout movements in output delivery date' does not include the timings of when NGET can expect such adjustments to be consulted on and reflected in the ET2 PCFM. Given this will require a change to yellow box inputs ('non Variant Allowed load related capex

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expenditure'), as noted above this will need to be set out in the statutory consultation on changes to the RIIO-ET2 PCFH.

Chapter 8. Approach for crossover projects without volume driver: NGET

Question 13: Do you agree with our proposed approach?

NGET does not agree with some elements of the proposed approach for crossover projects without a volume driver.

In the RIIO-T1 Final Proposals, Ofgem recognised the need to provide funding for investment made in RIIO-T1 to support outputs delivered in RIIO-T2:

> *"3.60. We consider it necessary to ensure that NGET has the right incentives to efficiently deliver customer driven outputs if needed. In light of this we propose to include an additional funding mechanism for expenditure incurred by NGET in the second half of RIIO-T1 for outputs it intends to deliver in RIIO-2."*

Such arrangements are put in place to ensure that efficiently incurred costs can be recovered and is consistent with long-established regulatory principles to fund efficiently incurred investments.

The mechanism in question provided funding for those outputs delivered in the first two years of RIIO-T2 (RIIO-T1+2). However, as time progressed, it became apparent that a notable amount of investment in RIIO-T1 was to support outputs beyond RIIO-T1+2. As a result, Ofgem provided £87m of funding for this investment as part of its RIIO-T2 Final Determinations, with an indication that this figure would be subject to a true-up as part of the RIIO-T1 closeout. However, in the proposed methodology, no reconciliation of the list of projects or their value has been proposed.

As part of our initial RIIO-T1 closeout submission, we submitted final cost information for all investments in RIIO-T1 supporting outputs beyond RIIO-T1+2. In this we highlighted that, due to programme changes on a major project, some of the spend included in the initial submission was now expected in RIIO-T2, and that a consequence of reconciling only the RIIO-T1 portion of this would result in a significant funding gap against no overall change in spend. Not reconciling these amounts as part of the RIIO-T1 closeout removes this gap, without Ofgem having to re-open the RIIO-T2 baseline. We therefore support this aspect of the closeout methodology.

<u>Bramford Stage 2</u>

However, there is one investment (the Bramford Stage 2 works supporting the new Bramford-Twinstead overhead line) for which we included costs in our RIIO-T2 submission and received funding in the RIIO-T2 baseline that remains unfunded in RIIO-T1.

This did not form part of the £87m of RIIO-T2 funding as, at the time, we expected this to form part of a future TPWW claim (this was highlighted in the narrative in our RIIO-T1 RRP submissions, and is separate to the claim submitted relating to the cancellation of the originally planned Bramford-Twinstead works). However, due to the numerous continuing drivers (in RIIO-T2 and beyond), we now do not consider that the investment lies within the scope of the TPWW provisions. As such we included a request for this to be funded alongside the projects subject to the £87m provisional funding in our RIIO-T1 closeout submission within RRP21.

We note that, as a consequence of the proposed methodology to not true-up the £87m funding as part of RIIO-T1 closeout, the RIIO-T1 investment towards Bramford Stage 2 will remain unfunded. The proposed methodology does not provide any justification for this position, overlooks information provided in our closeout submission, and is a significant departure from the established regulatory principle that efficient investment should be funded.

NGET's view is that the arrangements described in the RIIO-T2 Final Determinations allow for this investment to be suitably included within Ofgem's closeout of RIIO-T1, and therefore NGET does not

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agree with this aspect of the proposed closeout approach. A true-up which can only reduce allowances is effectively a ratchet mechanism and not a true-up, as described in the RIIO-T2 Final Determinations.

As RIIO-T2 baseline funding has been provided for the outputs that these works support, we believe that sufficient justification of the need for these works have been provided. As such, we do not believe leaving the RIIO-T1 element of the investment unfunded is appropriate.

Therefore, whilst in general we agree with the proposed approach, we propose that an adjustment is made to reflect the unfunded investment on Bramford Stage 2. For consistency of treatment, this adjustment could be aligned to the value included in the RIIO-T2 Business Plan Submission.

<u>Price Control Deliverables</u>

We note that in lieu of reconciling the funding for RIIO-T1 investment supporting post-RIIO-T1+2 outputs, Ofgem has proposed to use Price Control Deliverables as a means to subsequently adjust funding. Whilst we acknowledge Ofgem's desire to adjust the allowances should outputs not be delivered or be delayed, the proposed approach introduces the use of a RIIO-T2 mechanism (PCDs) to a RIIO-T1 framework. NGET does not agree with this approach.

The use of PCDs for generation and demand connections was limited to a single project within the RIIO-T2 Final Determinations (due to the need for new overhead line). Those without PCDs included a number of those delivering beyond T1+2 with spend in RIIO-T1 (for which part of the original £87m funding relates) and the Final Determinations were accepted on this basis. Despite initial discussions with Ofgem, it is still not clear what the need or justification is for this change in approach for projects that are part of RIIO-T1 closeout.

We consider the most appropriate way to adjust the allowance provided to account for any delay or non-delivery of outputs beyond baseline assumptions is to use the existing agreed RIIO-T2 price control uncertainty mechanisms for the investment types concerned. To convert previously agreed (RIIO-T1 and RIIO-T2) outputs to PCDs effectively re-opens and undermines the RIIO-T2 price control framework that was established through extensive review and consultation with TOs, customers, and stakeholders. We believe each of the existing RIIO-T2 mechanisms will act to reduce allowances should the outputs for the projects concerned not be delivered or delayed, as follows:

	Baseline Delivery Scenario	
Investment Type in RIIO-T2 Final Determination	**Outputs included in Pre-RIIO-T2+2 baseline (post-T1 closeout)**	**Outputs expected post-RIIO-T2+2 at T1 closeout)**
Generation and Demand (no-existing PCD)	Automatic adjustment of allowances via volume driven RIIO-T2 Uncertainty Mechanism	Allowances for total investment to date assessed at RIIO-T2 closeout as part of bridging arrangements
Generation and Demand (existing PCD)	Project allowances adjusted via PCD mechanism	
Incremental Wider Works (all have existing PCD)	Project allowances adjusted via PCD mechanism	Allowances for total investment to date assessed at RIIO-T2 closeout as part of bridging arrangements
LOTI	Total project allowances set by LOTI process	

As highlighted above, at RIIO-T2 Final Determinations, only one generation connection investment was subject to a PCD. This project was considered exceptional due to the requirement to install a new overhead line. We do not believe these exceptional circumstances apply to other projects. Therefore,

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under our proposals, this project would remain subject to a PCD, as would the wider works outputs with expected outputs in RIIO-T2.

Funding for the remaining baseline generation projects to be delivered in RIIO-T2 (and the subsequent two years, RIIO-T2+2) are subject to the generation (or demand) volume driver. As the volume driver is reflective of the full cost of a typical project (regardless of timing of investment), failure to deliver the capacity associated with a baseline project would result in the uncertainty mechanism automatically rephasing, reducing or removing funding depending on if an output is delayed or not delivered. As this adjustment reflects the full value of a typical project, it would act to remove both the RIIO-T1 and RIIO-T2 elements of funding.

Funding for the remaining projects with outputs beyond RIIO-T2+2 is subject to a bridging fund to be trued-up at the end of RIIO-T2 (or cost assessment if subject to the LOTI arrangements). We see no reason why the RIIO-T1 element of the investment could not also be reviewed as part of these.

Under the route proposed in the consultation, should a baseline output be delayed into RIIO-T3 or beyond, this will lead to a need for investments to be assessed more than 10 years after initial investment. This assessment will require retention of both project records and a detailed understanding of the prevailing market arrangements by both Ofgem and TOs.

It is our view that introducing PCDs for projects already established as part of the RIIO-T2 baseline will introduce significant and unnecessary administration to manage, with no notable justification, given the existing mechanisms would function appropriately. The RIIO-T1 closeout should not be used to convert agreed RIIO-T2 baseline outputs into PCDs. To do so changes the deal that was agreed to and has neither been justified nor trailed in the RIIO-T2 Final Determination.

Regardless of the approach used to adjust funding, the allowances provided for efficient costs incurred in RIIO-T1 should not be affected. Should such arrangements remove allowances relating to RIIO-T1 for non-delivery of outputs resulting from changing customer needs (e.g. via a termination of a connection agreement), the current licence wording concerning the TPWW, TPD and TPG mechanisms would require updating to ensure efficient RIIO-T1 spend relating customer driven cancellations remains funded. Please see our response to question 8 for further detail.

Under all circumstances, we would expect the efficient spend in RIIO-T1 to be funded regardless of if / when the output is ultimately delivered. Not following this long-established principle would be a significant departure from regulatory precedent and introduce new regulatory risk.

Chapter 10. Adjustments for Enhanced Physical Site Security Costs

Question 14: Do you agree with our proposed approach to adjusting PSUP allowances at RIIO-ET1 closeout?

NGET agrees with the proposed approach subject to the methodology document being expanded to reflect the following points.

It is NGET's understanding following a bi-lateral meeting held with Ofgem in Mar-2021, that adjustments will happen when the needs case is no longer there or output delivery is no longer planned / has not happened. A clawback or true-up would not be enacted when the delivery timeline has slipped into RIIO-T2 resulting from impacts of the Covid-19 pandemic.

Paragraph 10.15, third bullet, states that *'Ofgem will assess the information and make the relevant changes*'. This statement does not detail the principles Ofgem will employ in assessing the information and should be expanded to provide clarity over process.

Paragraphs 10.10 and 10.15 refer to a methodology that '*facilitates critical evaluation of the report mentioned …..by the end of the calendar year.*' We believe to fit in with the timescales outlined in Chapter 1, paragraph 1.11 where Ofgem propose to make any adjustments to RIIO-T1 allowances resulting from the RIIO-T1 closeout process during financial year 2022/23, it would need to feed into

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the AIP process in November-2022 and therefore this evaluation should take place prior to the calendar year end and in advance of any Final Decision on the direction of RIIO-T1 closeout.

In the event that an assessment results in an adjustment to allowances, NGET agrees with Ofgem's proposal set out in paragraph 10.16 to reflect this in the ET1 Legacy PCFM and that the adjustment should be made to the existing values in row 14, "Uncertain costs – enhanced security". NGET requests that Ofgem confirms this is an adjustment to the values already in row 14, not a replacement of existing values.

Chapter 12. Adjustments for asset and related Land Disposals

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

NGET agrees with the methodology and approach set out in chapter 12 to closeout the impact of RIIO-T1 Disposals.

As reported in the annual Cost & Outputs RRP submissions, NGET has sold assets, land and property over the course of RIIO-T1. The details are reported for the relevant Reporting Year in each annual submission in table 1.6 and it is this data NGET intends to use for calculating the adjustment. The adjustment is to be made net of tax paid. The appropriate tax rate is the actual tax rate in the relevant year of disposal and we request that Ofgem confirms this in the closeout methodology.

NGET agrees with Ofgem's proposal to enter the value in row 238 of the company input tab of the ET1 Legacy PCFM. However, it should be clearly stated that the adjustment value is to be entered row 238 as a negative value.

Chapter 13. Adjustments for WHVDC project

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

NGET agrees that there are no further adjustments required to allowances relating to the construction and commissioning of the WHVDC project.

Chapter 15. Treatment of innovation allowances

Question 19: Do you agree with our proposals?

NGET agrees with Ofgem's proposals for treatment of innovation allowances, and notes that it is consistent with the RIIO-T2 licence Special Condition 5.3.

In paragraph 15.4, Ofgem has proposed that costs will be reported 'within year 1 of RIIO-ET2 annual reporting'. This implies CNIA will be reported prior to 1 April 2022, however NGET understands this will be reported in the RIIO-T2 RRP (due in July 2022) and subsequently input to the RIIO-ET2 PCFM via the Annual Iteration Process (August 2022) and therefore contribute to Allowed Revenue. NGET proposes the methodology wording is adjusted to reflect the correct timelines.

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GENERAL FEEDBACK

Question 1: Do you have any comments about the overall process of this consultation?

NGET has welcomed the bi-lateral meetings that have taken place since March 2021 to discuss RIIO-T1 closeout and provide clarity over process and scope. The process, however, has been delayed from the initial timescales discussed and this delay has not always been communicated in a timely manner, leading to uncertainty and difficulties with resource and financial planning.

The publication of the RIIO-T1 closeout methodology now coincides with developing a new RRP reporting framework for RIIO-T2 and consequently provides additional resource planning challenges. Earlier notification of the proposed timeline changes would have helped licensees to identify these challenges and implement mitigating actions to alleviate.