

Consultation

Statutory Consultation to modify the RIIO-2 Price Control Financial Instruments and Licence conditions to implement the closeout of RIIO-1

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Executive Summary

This statutory consultation covers a series of proposed modifications to the RIIO-2 Price Control Financial Handbook (handbook), Price Control Financial Model (PCFM) and Special Licence conditions for Gas Transmission (GT), Gas Distribution (GD) and Electricity Transmission (ET). These proposed modifications will enable the implementation of our closeout methodology decisions:

- Decision on the closeout methodologies for RIIO-GD1¹
- Decision on the closeout methodologies for RIIO-ET1²
- Decision on the closeout methodologies for RIIO-GT1³
- Decision on the RIIO-1 close out methodologies for the Electricity System Operator⁴

Accommodating the future closeout of the RIIO-1 price control

These changes affect all network companies in the GT, GD, and ET sectors as well as the ESO. They span the following licence instruments:

Relevant licensees	National Grid Electricity Transmission Plc SP Transmission Limited Scottish Hydro Electric Transmission Plc
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Notice reference	Schedule 3 (Part A) SpC 7.3 and 7.12 Schedule 3 RIIO-ET2 Price Control Financial Handbook Part A of Schedule 5 RIIO-ET2 Price Control Financial Model
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Relevant licensees	Cadent Gas Limited Northern Gas Networks Limited Scotland Gas Networks plc
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¹ Ofgem, "[Decision on the closeout methodologies for RIIO-GD1](#)", 14 April 2022.

² Ofgem, "[Decision on the closeout methodologies for RIIO-ET1](#)", 24 May 2022.

³ Ofgem, "[Decision on the closeout methodologies for RIIO-GT1](#)", 14 April 2022.

⁴ Ofgem, "[Decision on the RIIO-1 close out methodologies for the Electricity System Operator](#)", 6 April 2022.

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Southern Gas Networks plc
Wales & West Utilities Limited

Notice reference Schedule 2 (Part A) SpC 7.3 and 7.14
Schedule 2 RIIO-GD2 Price Control Financial Handbook
Part A of Schedule 5 RIIO-GD2 Price Control Financial Model

Relevant licensee National Grid Gas plc

Notice reference Schedule 1 (Part A) SpC 7.3, 7.9, 7.11 and 7.17
Schedule 1 (Part B) RIIO-GT2 Price Control Financial Handbook
Part A of Schedule 5 RIIO-GT2 Price Control Financial Model

Relevant licensee National Grid Electricity System Operator

Notice reference Schedule 4 (Part A) SpC 4.8 & 7.12
Schedule 4 (Part B) ESO Price Control Financial Handbook
Part A of Schedule 5 ESO Price Control Financial Model

Reason The reason for this suite of changes is to provide a vehicle for the financial effect of closeout of the RIIO-1 price control in the RIIO-2 licence conditions.

Effect The changes to the special conditions set out how a closeout adjustment will affect revenue in RIIO-2.
The changes to the handbook add the necessary licensee inputs to table 3.1 and set out a process by which COA and LRAV values (referenced in the special conditions) are determined and directed by the Authority.
The changes to the PCFM allow it to accept the necessary

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closeout inputs and perform the calculation of LMOD as set out in the revised special conditions.

Phasing the closeout adjustment

In our closeout decisions, we said we would consider the phasing of the adjustment based on the materiality of the closeout estimates submitted by network companies and that we would propose our position in this consultation. Our starting assumption is to phase the closeout adjustment over the final three years of RIIO-2.

Since then, we have examined the estimated closeout adjustments that have been submitted by companies, based on our closeout methodology decisions. These values are provisional and are subject to a final direction, following assessment by Ofgem. At this stage, we have used the estimated values to understand roughly the order of magnitude of closeout adjustment for each sector and we have based our proposed method for phasing the financial impact of the closeout adjustment on this.

Our proposal for the ESO and NGGT

We propose to reflect the impact of the closeout adjustment in a single year's revenue for the ESO and NGGT.

The reasons for proposing a short time period for the NGGT and ESO closeout adjustment are:

- For the ESO the magnitude is relatively immaterial, estimated to be about £0.1m;
- For NGGT, it accelerates an expected return of revenue to customers and is also relatively small compared to typical MOD values during RIIO-1; and
- NGGT and the ESO models are standalone as opposed to grouped with multiple licensees which simplifies implementation.

Our proposal for GDNs and TOs

We propose to phase the impact of the closeout adjustment over the final three-years of RIIO-2 for GDNs and TOs, because:

- Doing so finalises closeout within RIIO-2;
- The three-year phasing means the adjustment is relatively modest compared to typical RIIO-1 MOD values;
- Additional delay in returning funds is not in consumers interest at this time, where any return should be accelerated if possible;
- It is consistent with the approach in previous price controls; and
- maintains the approach signalled early in the process.

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Adding a calculation of the TRU term to the RIIO-2 PCFM to close out the Revenue Regulatory Reporting Packs

Relevant licensees National Grid Electricity Transmission Plc
SP Transmission Limited
Scottish Hydro Electric Transmission Plc

Notice reference Schedule 3 (Part A) SpC 7.5
Schedule 3 (Part B) RIIO-ET2 Price Control Financial Handbook
Part B of Schedule 5 RIIO-ET2 Price Control Financial Model

Relevant licensees Cadent Gas Limited
Northern Gas Networks Limited
Scotland Gas Networks plc
Southern Gas Networks plc
Wales & West Utilities Limited

Notice reference Schedule 2 (Part A) SpC 7.5
Schedule 2 (Part B) RIIO-GD2 Price Control Financial Handbook
Part B of Schedule 5 RIIO-GD2 Price Control Financial Model

Relevant licensee National Grid Gas plc

Notice reference Schedule 1 (Part A) SpC 7.5, 7.13
Schedule 1 (Part B) RIIO-GT2 Price Control Financial Handbook
Part B of Schedule 5 RIIO-GT2 Price Control Financial Model

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Relevant licensee	National Grid Electricity System Operator
Notice reference	Schedule 4 (Part A) SpC 4.8 (Part D) Schedule 4 (Part B) ESO Price Control Financial Handbook Part B of Schedule 5 ESO Price Control Financial Model

Reason	To allow for the calculation of the TRU term within the RIIO-2 PCFM, which means the legacy term can be finalized without extension of complex reporting packs. It also applies the correct amount of WACC and inflation, without needing to true up these values or have them different from the rest of the price control.
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Effect	The changes to the special conditions end the current TRU calculation after the first two years, and specify a new calculation for the next two years. The changes to the handbook add the necessary licensee inputs to table 3.1 (REV and RPIF). The changes to the PCFM accept the necessary TRU inputs and perform the calculation set out in the revised special conditions.
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Making disposals variable values in the RIIO-GD2 PCFM

Relevant licensees	Cadent Gas Limited Northern Gas Networks Limited Scotland Gas Networks plc Southern Gas Networks plc Wales & West Utilities Limited
Notice reference	Part C of Schedule 5 RIIO-GD2 Price Control Financial Model

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Reason	To ensure the disposals values are consistent between the RIIO-GD1 legacy and closeout files and the RIIO-GD2 PCFM, as well as true up disposal values within RIIO-2 rather than waiting for closeout.
Effect	Allows GDN licensees to revise the variable “Disposals net sales proceeds” during the price control.

We deduct the net sales proceeds of disposals made by the gas distribution networks from their totex allowances on a five-year lag. We are in the process of closing out the GD1 price control, and some of the disposals made in this period will affect allowed revenue in RIIO-GD2 due to the five-year lag.

This proposed modification ensures that any disposal values reported in the closeout process can also be reflected in the RIIO-GD2 PCFM.

Subsidiary documents

Relevant licensees	all
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Notice reference	N/A
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Alongside the modified RIIO-2 PCFMs, we are also publishing copies of the RIIO-1 Legacy PCFM for each licensee. The Legacy PCFM contains the fixed and variable values used during the RIIO-1 price control period to recalculate licensees’ base revenues. Revising the values in the Legacy PCFM will be the primary means of closing out the RIIO-1 price controls.

For more detail on how we will use the Legacy PCFM and for an example of how this process will work, please refer to Chapter 2 of one of the above closeout methodology decisions.

As well as the Legacy PCFM, we are also publishing a copy of the closeout methodology reporting template, which sets out each of the areas in the closeout methodology decisions for each sector and the adjustments needed to close out those areas of the RIIO-1 price controls.

These subsidiary files are published for reference, only and to give stakeholders an idea of the materiality of any estimated closeout.