

# Consultation

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## RIIO-ED2 Informal Licence Drafting Consultation

Subject	Details
<b>Publication date:</b>	29 September 2022
<b>Response deadline:</b>	27 October 2022
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We are consulting on our proposed modifications to the licence conditions required to implement the RIIO-ED2 price control settlement.

Within this document, we outline our proposed licence changes together with the reasons why we propose to make these changes and their intended effect. The proposed draft licence conditions are set out in Annexes to this consultation.

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](https://www.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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## 1. Introduction

### What are we consulting on?

- 1.1 We are consulting on our proposed modifications to the licence conditions required to implement the RIIO-ED2 price control settlements for electricity distribution networks (DNOs). These conditions would apply from 1 April 2023. We will carry out a further statutory consultation in December.
- 1.2 The licence amendments that we have presented in this document are reflective of the decisions set out in the Sector Specific Methodology Decision (SSMD)<sup>1</sup> and our consultation position in Draft Determinations<sup>2</sup>, unless otherwise indicated. Some elements of the licence cannot be finalised until corresponding policy or cost decisions are made. Where this is the case, provisional or placeholder content may be square-bracketed.
- 1.3 These conditions are working drafts and we recognise that further work may be required to ensure that the conditions appropriately reflect our consideration of RIIO-ED2 Draft Determination responses and Final Determinations that will be published later in the year. There may be other licence conditions that we present in the December consultation that have not been included in this consultation, for example we anticipate introducing a condition to require DNOs to create a forward-looking 'Smart Optimisation Strategy'. Discussions will continue with DNOs during this consultation period. However, we believe the vast majority of licence amendments required to introduce the RIIO-ED2 price control are presented in this consultation.
- 1.4 This four-week consultation is an opportunity for stakeholders to provide views on our working drafts of the proposed licence changes.

### Types of licence conditions

- 1.5 We are proposing changes to the following DNO licences<sup>3</sup>:

Acronym	Group	Licensees (and acronym)
ENWL	Electricity North West Limited	Electricity North West Limited (ENWL)
NPg	Northern Powergrid	Northern Powergrid: Northeast (NPgN) Northern Powergrid: Yorkshire (NPgY)

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<sup>1</sup> <https://www.ofgem.gov.uk/publications/riio-ed2-sector-specific-methodology-decision>

<sup>2</sup> <https://www.ofgem.gov.uk/publications/riio-ed2-draft-determinations>

<sup>3</sup> Note that Standard Licence Conditions may apply to licensees other than those listed.

SPEN	SP Energy Networks	SP Energy Networks: Distribution (SPD) SP Energy Networks: Manweb (SPMW)
SSEN	Scottish and Southern Energy Networks	Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution (SSEH) Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution (SSES)
UKPN	UK Power Networks	UK Power Networks: London Power Networks (LPN) UK Power Networks: South East Power Networks (SPN) UK Power Networks: Eastern Power Networks (EPN)
NGED (formerly WPD)	National Grid Electricity Distribution (formerly Western Power Distribution plc)	National Grid Electricity Distribution (West Midlands) plc (WMID) National Grid Electricity Distribution (East Midlands) plc (EMID) National Grid Electricity Distribution (South Wales) plc (SWALES) National Grid Electricity Distribution (South West) plc (SWEAT)

1.6 There are two different types of licence conditions to which we are proposing changes, which are summarised below.

#### Standard Licence Conditions (SLCs)

1.7 SLCs set out the duties and obligations applicable to all holders of a particular type of licence. All DNO licences contain SLCs. The SLCs include some obligations related to RIIO that do not adjust allowed revenue.

1.8 The SLCs are grouped into different parts and sections that either apply or do not apply according to the activities carried out by the licence holder.

#### Special Conditions (SpCs)

1.9 SpCs are conditions that apply to a particular licensee. However, the wording is often the same for all licensees of a particular type. Where this is the case, we will only present one draft condition in this consultation, although it will be added to the SpCs of each licensee. We have indicated in this document and in the Annexes where conditions are bespoke to individual licensees. The majority of the changes set out in this document relate to SpCs, as most of these relate to RIIO and many contribute to the calculation of allowed revenue.

1.10 In RIIO-ED1, these SpCs were called Charge Restriction Conditions. We have decided not to use this phrase anymore as it did not seem to provide additional

value and using SpC is consistent with the gas distribution and gas and electricity transmission sectors (GD&T), which are also subject to the RIIO price control framework. The nature of the conditions remains the same.

### Types of changes to licence conditions

1.11 The proposed licence modifications generally fall into four categories:

- amendments to a current licence condition to reflect RIIO-ED2 policy
- addition of a new licence condition for RIIO-ED2 to reflect new policies
- close out of a RIIO-ED1 scheme
- removal of a RIIO-ED1 licence condition that is not needed for RIIO-ED2 (e.g. because the policy is no longer applicable).

1.12 In the Annexes to this consultation, we have set out:

- the SpCs for the DNOs with no track changes as we are replacing all of the current SpCs/Charge Restriction Conditions
- the SLCs for DNOs, including track changes where the licence conditions are new or where there are amendments to existing conditions
- definitions for the SpCs in a spreadsheet with no track change<sup>4</sup> and for the SLCs marked in red where there are new or amended definitions
- a blank template 'issue log' for responses to this consultation
- an example template for the ED1 Legacy Price Control Financial Model, and an example template for the ED1 Legacy RRP
- the ED2 Price Control Financial Handbook, ED2 Price Control Financial Model and PCFM Guidance
- 'issue logs' for conditions previously discussed with DNOs where queries were raised.

1.13 We created a RIIO-ED2 Licence Drafting Working Group (LDWG) in September 2021 consisting of members of the Ofgem team and DNO representatives. This group has met monthly to review and develop the licence conditions. We will hold additional LDWG meetings between the publication of this consultation and the statutory consultation in December 2022, as necessary.

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<sup>4</sup> Capitalised terms in this document may also be defined in this spreadsheet.

1.14 We created RIIO-ED2 licence drafting principles to produce a consistent approach to all the licence conditions in RIIO-ED2, as well as to provide greater alignment with the other RIIO-2 licence conditions for GD&T licence holders. These general principles are set out in Appendix 1 and have as far as reasonably possible been applied to the licence conditions in the Annexes.

### Definitions

1.15 Each DNO licence will contain a definitions condition at the start of the SpCs which sets out the definitions used in those SpCs. The SLCs also have definitions in them, in standard condition 1 and individual conditions, and some of these also feature in the SpCs.

1.16 Defined terms are capitalised in the SpCs and mostly capitalised in the SLCs<sup>5</sup> to make it clear to the reader when they should refer to the definitions section for further information.

1.17 We have provided the definitions in an excel file in an Annex to this consultation.

### **Approach to licence drafting questions**

Q1. Do you have any views on the RIIO-ED2 licence drafting principles, set out in Appendix 1?

Q2. Do you have any views on the definitions and the defined terms set out in Annex 3?

### **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. We have provided a template 'issue log' to use for your responses at Annex 4.

1.20 We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

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<sup>5</sup> We have not conducted a wholesale review of the SLCs, but focussed on those conditions related to RIIO-ED2. As such we have not for example looked to capitalise defined terms that are not currently capitalised.

### 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 3.
- 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:
- Do you have any comments about the overall process of this consultation?
  - Do you have any comments about its tone and content?
  - Was it easy to read and understand? Or could it have been better written?
  - Were its conclusions balanced?
  - Did it make reasoned recommendations for improvement?

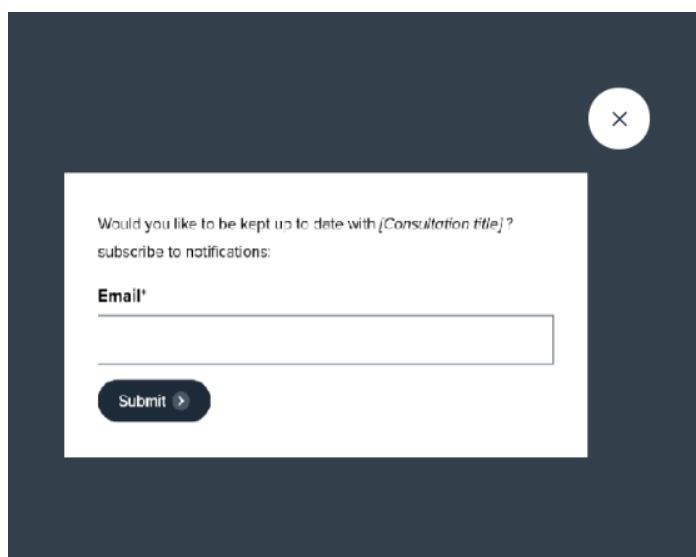
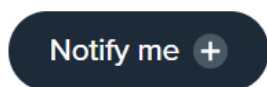


- Any further comments?

1.26 Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

### How to track the progress of the consultation

1.27 [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. \[Ofgem.gov.uk/consultations\]\(https://www.ofgem.gov.uk/consultations\).](#)



1.28 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:

### **Consultation stages**

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29/09/2022	Stage 1: Consultation open
27/10/2022	Stage 2: Consultation closes (awaiting decision), Deadline for responses
14/12/2022	Stage 3: Statutory consultation on licence modifications published
03/02/2023	Stage 4: Licence modification decision published

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01/04/2023

Licence changes come into effect

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## 2. Proposed new structure of the RIIO-ED2 Special Conditions

This section sets out our proposed changes to the structure of the licence for RIIO-ED2. These proposed changes will affect all SpCs and this chapter provides our objectives and reasons for the proposals.

### Consultation questions

Q3. What are your views on the proposed changes to the structure of the SpCs?

### Structure of the special licence conditions following allowed revenue

2.1 We think that there is merit in changing the structure of the SpCs in light of the substantial changes being made to them to introduce RIIO-ED2.<sup>6</sup> We think that this will help improve navigation and help provide greater clarity on the types of regulatory mechanisms that will be implemented for RIIO-ED2. Our proposed changes are threefold:

- Develop a consistent licence structure across sectors, as we have already introduced this structure for GD&T sectors. A similar structure was also used for the electricity system operator, with required modifications to reflect its streams of allowed revenue.
- Implement a licence structure that, as far as possible, mirrors the key components that make up a company's revenue (for more detail on this, please see Chapter 4 of this document).
- Using chapters to bring together regulatory mechanisms of a particular type.

2.2 Below we have set out the broad structure that we propose to use for the SpCs in RIIO-ED2.

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Chapter 1	Interpretations, definitions and common procedure
Chapter 2	Revenue restriction
Chapter 3	Totex Allowance adjustments
Chapter 4	Output delivery incentives
Chapter 5	Other revenue allowances

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<sup>6</sup> We are not proposing structural changes to the SLCs and are making fewer changes overall to those licence conditions in order to implement RIIO-ED2.

## **Consultation** - RIIO-ED2 Informal Licence Drafting Consultation

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Chapter 6	Pass-through expenditure
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Chapter 7	Legacy adjustments
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Chapter 8	Governance
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Chapter 9	General obligations
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### 3. Associated Documents for RIIO-ED2

#### Section summary

This section sets out the Associated Documents that we intend to use as part of RIIO-ED2, our principles for use and the timetable for implementing them

#### Associated Documents questions

Q4. Do you agree with our principles for Associated Documents?

Q5. Do you have any views on our proposed list of Associated Documents and the timetable for consulting on and implementing them?

#### What are Associated Documents?

- 3.1 Associated Documents are documents created under the licence conditions that supplement those conditions and are subordinate to them.<sup>7</sup> They are important for licensees participating within RIIO-ED2 schemes as they provide information, requirements and guidance that are not proportionate for inclusion in the licence conditions.
- 3.2 This section sets out our principles of use for Associated Documents. It also lists all the Associated Documents we expect to use in RIIO-ED2, giving a summary of their content and indicating when we expect to consult on their content.

#### Associated Documents - Principles of use

- 3.3 These are the principles we propose should be used to govern when and how we use the licence to create Associated Documents. These are similar to those we decided to use in the GD&T sectors. We have amended them, including the structure and layout of the principles following engagement with the DNOs at LDWGs. These general principles are set out in Appendix 2.
- 3.4 The full list of Associated Documents that have either been amended, or are new, for RIIO-2 is in Table 2 below.

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<sup>7</sup> The Price Control Financial Model, Price Control Financial Handbook and Network Asset Risk Workbook are not subordinate as they have the same status as the licence.

<b>Licence condition</b>	<b>Licence condition Title</b>	<b>Associated Document name</b>	<b>Publication</b>
3.4	UIOLI - Worst served customers	Worst Served Customers Allowance Governance Document	With this publication
3.9	LRE volume drivers: LV and secondary	Load Related Expenditure Volume Drivers Governance Document	With this publication
4.5	Major connections ODI-F	RIIO-ED2 Major Connections Governance Document	With this publication
4.6	Vulnerability ODI-F (+ ODI-R)	RIIO-ED2 Consumer Vulnerability Guidance Document	With this publication
4.8	DSO incentives	Distribution System Operator Incentive Guidance Document	Consulting separately Autumn 2022
5.2	RIIO-2 network innovation allowance	RIIO-2 NIA Governance Document V3 Update	With this publication
5.3	Carry-over network innovation allowance	RIIO-1 Electricity NIA Governance Document V5 Update	With this publication
9.1	Annual Environmental Report	Environmental Reporting Guidance	First quarter 2023
9.3	Evaluative Price Control Deliverable reporting requirements	PCD Reporting Requirements and Methodology Document V3	With this publication. Confidential cyber appendix: last quarter 2022
9.4	Re-opener Guidance and Application Requirements Document	Re-opener Guidance and Application Requirements Document	With this publication
9.5	Digitalisation	Digitalisation Strategy and Action Plan Guidance	First quarter 2023
9.5	Digitalisation	Data Best Practice Guidance	First quarter 2023
9.9	Strategic innovation fund	SIF Governance Document	First quarter 2023
SLC 10AA	Treating Domestic Customers Fairly / Vulnerability LO	RIIO-ED2 Fair Treatment Guidance	With this publication

SLC 31F	Requirements relating to EV Charging points	TBD	Approach to be confirmed at Final Determinations
SLC 45	Data assurance requirements	Data Assurance Guidance	First quarter 2023
SLC 46	Regulatory instructions and guidance	Regulatory Instructions Guidance	First quarter 2023
SLC 50	Business plan commitment reporting	Business Plan Reporting Guidance	With this publication

3.5 For all Associated Documents, we will aim to share a first draft with licensees and/or other stakeholders before carrying out the consultation required by the licence. The consultation under the licence will involve us publishing the document on our website and usually allowing a period of at least 28 days for representations to be made and considered, before bringing it into force.

## 4. Proposed changes to the finance related licence conditions and Associated Documents

### Finance related questions

Q6. Are there any areas where the licence drafting has not correctly implemented the proposals set out in paragraph 4.1? If so please describe.

Q7. Are there other terms or definitions that would be valuable to standardise with other sectors?

- 4.1 Throughout the SpCs, changes to finance related licence conditions accommodate the proposals in the “Annual Iteration Process”, “Lags on incentives”, and “Interest on prior year adjustments (time value of money)” sections of the Draft Determinations Finance Annex, specifically:
- (a) consolidating reporting and the calculation of allowed revenue into the RIIO-ED2 Price Control Financial Model
  - (b) using a consolidated correction factor with a single time value of money
  - (c) requiring licensees to self-publish their Allowed Revenue and RIIO-ED2 Price Control Financial Model, replacing the procedures around the ED1 Annual Iteration Process which require Ofgem to direct and publish the values.
- 4.2 In summary, we believe changes simplify the drafting and make the licence easier to read and use. Where possible, we are seeking to introduce terms that are consistent with SpCs in other sectors, such as “Calculated Revenue” and “Network Charges”.
- 4.3 The combination of points a) and b) above affects the way formulae are used and generally simplifies licence drafting by avoiding the need to create formulas for truing up outturn values. These changes make formulae in the ED2 licence “ex-post and dynamic”, meaning the revenue calculations are revised after the fact. In practice, licensees will rely on estimates of Allowed Revenue ex-ante, and when values are revised ex-post they are trued up via the consolidated K mechanism described in Draft Determinations and set out in SpC 2.1 (Revenue restriction). This contrasts to ED1, where many conditions set out ex-ante allowances, then specified a true-up for each component of revenue.
- 4.4 While most of these changes are the same as those made in the GD&T sectors for RIIO2, those sectors rely on an annual ex-ante publication of Allowed Revenue by the Authority. Whereas for RIIO-ED2 we are proposing that DNOs self-publish



Allowed Revenue and their RIIO-ED2 Price Control Financial Model. These changes can be seen in Chapters 2 and 8 of the SpCs.

## 5. Licence Chapter 1 Interpretation, definitions and common procedure

### Questions

Q8.What are your views on the proposed changes to the SpCs outlined in this chapter?

Q9.Do you think any other common procedure should be added to Spc 1.3 (Common procedure)?

### Introduction

5.1 Chapter 1 of the SpCs provides general rules of interpretation, definitions, acronyms used to refer to the DNOs and common procedure that are relevant to reading the rest of the SpCs.

### Special Conditions applicable to all DNOs

SpC 1.1 Interpretation	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 1B Interpretation of Part 4 and Part 5
Draft Determination reference	N/A
Associated Document	N/A

5.2 The reason for amending this condition is to improve the structure and clarity of the SpCs.

5.3 The effect is to:

- move defined terms and references to the Electricity Distributors into a separate licence condition – SpC 1.2 (Definitions and references to the Electricity Distributors); and
- provide provisions of general interpretation necessary for the efficient drafting of the rest of the licence, for example, explaining the use of subscripts and the price base used throughout the licence.

SpC 1.2 Definitions and references to the Electricity Distributors	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 1A Overview of Part 4 CRC 1B Interpretation of Part 4 and Part 5
Draft Determination reference	N/A
Associated Document	N/A

5.4 The reason for amending this condition is to improve the structure and clarity of the SpCs.

5.5 The effect is to:

- delete the overview, which we do not consider necessary;
- create a licence condition dedicated to the definitions used and the acronyms used to refer to the DNOs, throughout the SpCs;
- update the definitions to reflect the amendments being made to the rest of the SpCs, including defined terms where the definition is to be found in other documents such as the SLCs or industry codes; and
- provide for defined terms with the definition in certain other documents to have an ambulatory definition.

#### SpC 1.3 Common procedure

Type of change	New condition
Draft Determination reference	N/A
Associated Document	N/A

5.6 The reason for creating this new condition is to improve the structure and clarity of the SpCs.

5.7 The effect is to provide in one place common procedure used throughout the SpCs. At present, this only includes the common procedure for establishing and amending Associated Documents. However, we could also move other common procedure to this condition if it is sufficiently repetitive.

## 6. Licence Chapter 2 Revenue restriction

### Questions

Q10. What are your views on the proposed changes to the SpCs outlined in this chapter?

### Introduction

6.1 Chapter 2 of the SpCs sets out the principal obligation of the price control: that licensees should set their charges so that the revenue they recover equals the revenue allowed by the RIIO-ED2 price control. It provides the first level calculations that are required for the revenue restriction and other closely related financial licence conditions.

### Special Conditions applicable to all DNOs

SpC 2.1 Revenue Restriction	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 2A Restriction of Allowed Distribution Network Revenue
Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; Chapter 10
Associated Document	PCFM Guidance (part of the RIGs)

6.2 The reason for amending this condition is to improve the clarity of the condition and to bring into effect our proposals set out in Draft Determinations, including to:

- (a) Require licensees to update and use the ED2 Price Control Financial Model, and self-publish their allowed revenue<sup>8</sup>
- (b) Use best endeavours rather than reasonable endeavours<sup>9</sup>
- (c) Consolidate reporting and calculation of allowed revenue.

6.3 The effect of the various parts of SpC 2.1 are set out below.

#### Part A: Changes to obligations when setting network charges

6.4 The effect of the changes to this Part are:

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<sup>8</sup> See paragraphs 10.123 to 10.127 of the Draft Determinations Finance Annex for further detail on this change.

<sup>9</sup> See paragraphs 10.127 to 10.132 of the Draft Determinations Finance Annex for further detail on this change.

- (a) The licensee must ensure that Recovered Revenue **equals** Allowed Revenue, rather than not exceeding it. This reflects that under-collection would only be trued up by the K correction factor in any event, and so the previous obligation did not reflect the reality that licensees endeavour and the Authority expects them to endeavour to charge the correct amount
- (b) Change the above obligation from reasonable to best endeavours
- (c) Add a new obligation for the licensee to calculate Allowed Revenue using the ED2 Price Control Financial Handbook
- (d) Add a new obligation for the licensee to publish the ED2 Price Control Financial Model they use on their website, when charges are set.

### Part B: Recovered Revenue

- 6.5 This part aDraft Determinations the definition of Recovered Revenue so that the licence is structurally like other sectors, and also implements the revised approach to Bad Debt set out in Draft Determinations<sup>10</sup> by stating the amount is net of Bad Debt.

### Parts C and D: Allowed and Calculated revenue

- 6.6 The effect of these Parts is to set out the “dynamic” calculation of Allowed Revenue described in the previous chapter, and state that the components of Calculated Revenue are derived by the Price Control Financial Model. This effectively consolidates all revenue into the model.

### Part E: Price index

- 6.7 This Part establishes in one place the formula for the price index term that is used frequently throughout the licence.

### Part F: The correction term

- 6.8 The effect of this Part is to create the consolidated correction term proposed in Draft Determinations.<sup>11</sup>

### Part G: Forecasting penalty

- 6.9 The effect of this Part is to create the forecasting penalties proposed at draft determinations.

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<sup>10</sup> See paragraphs 10.191 to 10.200 of the Draft Determinations Finance Annex.

<sup>11</sup> See paragraph 10.117 of the Draft Determinations Finance Annex.

**Part H: Bad debt**

- 6.10 This effect of this Part is to add a formula to calculate Bad Debt, necessary for the definition of Recovered Revenue. It replaces Parts I and J of CRC 2B Calculation of Allowed Pass-Through Items.
- 6.11 The reason for this amendment is to give effect to our proposal in Draft Determinations to enable Recovered Revenue to be calculated on a cash basis, i.e. net of bad debt.
- 6.12 The effect of calculating Recovered Revenue net of any Bad Debt is that any non-recovered Bad Debt amount will be reflected as an under-recovery, which will be adjusted through the K correction factor. We propose to also include inputs for Recovered Revenue on a billed basis, i.e. inclusive of Bad Debt and Recovered Revenue in our regulatory reporting templates to ensure that we continue to have sight of the Bad Debt values and to set out more clearly, the interplay between Recovered Revenue and Bad Debt. We have also combined what were previously two separate kinds of Bad Debt: COVID-19 Bad Debt and Eligible Bad Debt.

**SpC 2.2 Tax allowance adjustment (TAXAt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Finance Annex; paragraphs 7.32 – 7.35
Associated Document	N/A

- 6.13 The reason for introducing this condition is to give effect to our SSMD decision to introduce a Tax Review uncertainty mechanism.
- 6.14 The effect is to establish a Tax Review process that would enable Ofgem to formally review and, if required, adjust the companies’ tax allowances during the course of RIIO-ED2.

**SpC 2.3 Return adjustment (RTNAt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Finance Annex; Chapter 8
Associated Document	N/A

- 6.15 The reason for introducing this condition is to give effect to our proposals in Draft Determinations and preceding decisions (the RIIO-ED2 Framework decision and the SSMD decision) on the implementation of a return adjustment mechanism.
- 6.16 The effect is to provide a formula that the Authority will use to direct an adjustment to Calculated Revenue, after the Price Control Period.

## 7. Licence Chapter 3 Totex Allowance adjustments

### Questions

- Q11. What are your views on the proposed changes to the SpCs outlined in this chapter?
- Q12. Should we maintain a combined Evaluative Price Control Deliverable condition in SpC 3.3 (Evaluative Price Control Deliverables) or split out the relevant Re-openers and Price Control Deliverables? What are your reasons and how do you think we should split out the conditions?

### Introduction

7.1 Chapter 3 of the SpCs sets out all the licence conditions that adjust the Totex Allowance. The ED2 Price Control Financial Model then determines how the Totex Allowance contributes to Allowed Revenue.

### Special conditions – applicable to all DNOs

SpC 3.1 Allowed Network Asset Risk Metric expenditure (NARMt)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 5D Assessment of Network Asset Secondary Deliverables
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 8.4 – 8.92
Associated Document	N/A

7.2 The reason for amending this licence condition is to give effect to our decision in the SSMD to allow for changes to licensee allowances in relation to Network Asset Risk Metric (NARM) requirements.

7.3 The effect of the amended condition is to:

- set out the output that licensees are funded to deliver, and the associated allowances;
- provide for the rebasing of the output;
- establish the change control framework for the Network Asset Risk Workbook;
- specify the requirement to provide a NARM performance report; and
- establish a mechanism for the Authority to assess the licensee’s performance against its output and direct a change to the licensee’s allowed revenue.

**SpC 3.2 Uncertain Costs Re-openers**

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3F Arrangements for the recovery of uncertain costs
Draft Determination reference	See individual entries for Parts of this condition
Associated Document	Re-opener Guidance and Application Requirements Document

- 7.4 The reason for amending this condition is to reflect the various proposals for changes to Re-openers in our Draft Determinations.
- 7.5 The effect is to establish a single licence condition for most Re-openers in RIIO-ED2. Part A lists the PCFM Variable Values determined by this condition. The final Part sets out the procedure for directions adjusting those terms. Re-openers with related Price Control Deliverables have their PCFM Variable Values set out in SpC 3.3 (Evaluative Price Control Deliverables).
- 7.6 We have also made changes to the drafting and structure of the Re-openers to reflect the final determination of the Competition and Markets Authority on joined ground D of the Energy Licence Modification Appeals 2021.<sup>12</sup>

**SpC 3.2 Part B Physical Security Re-opener (PSUPt)**

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3F Arrangements for the recovery of uncertain costs
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 6.190 – 6.198.
Associated Document	Re-opener Guidance and Application Requirements Document

- 7.7 The reason for amending this licence condition is to give effect to our decision in the SSMD to adjust licensee allowances in relation to physical security requirements at Critical National Infrastructure sites.
- 7.8 The effect is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows or by the Authority at any time, to respond to changes in Government policy or requirements relating to physical site security.

**SpC 3.2 Part C Rail Electrification Re-opener (RECT)**

Type of change	Amendment to existing licence condition
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<sup>12</sup> [Energy Licence Modification Appeals 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/energy-licence-modification-appeals-2021)



**SpC 3.2 Part C Rail Electrification Re-opener (REct)**

RIIO-ED1 Licence condition	CRC 3F Arrangements for the recovery of uncertain costs
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraph 7.254.
Associated Document	Re-opener Guidance and Application Requirements Document

7.9 The reason for amending this licence condition is to give effect to our decision in the SSMD to adjust licensee allowances in relation to both costs associated with Network Rail electrification projects and costs associated with projects from companies that may not have a connection with Network Rail.

7.10 The effect is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows to respond to Rail Electrification Costs.

**SpC 3.2 Part D Electricity System Restoration Re-opener (ESRt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 6.199 – 6.209.
Associated Document	Re-opener Guidance and Application Requirements Document

7.11 The reason for introducing this new condition is to give effect to our proposals in Draft Determinations to adjust licensee allowances where there has been a change in relation to Electricity System Restoration Scope of Work.

7.12 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the Re-opener window or by the Authority at any time, in the event that new obligations are placed on licensees in relation to the Electricity System Restoration Standard.

**SpC 3.2 Part E Environmental Re-opener (EVRt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 3.161 – 3.169
Associated Document	Re-opener Guidance and Application Requirements Document

7.13 The reason for introducing this new condition is to give effect to our decision in the SSMD to allow for adjustments to licensee allowances in relation to environmental legislative changes that impose new or amended requirements on the licensee.

7.14 The effect of this new condition is to establish a Re-opener that can be triggered by the Authority or the licensee during the annual common Re-opener window in the event of changes to environmental legislation that imposes new or amended requirements on the licensee during the Price Control Period.

SpC 3.2 Part F Specified Street Works Costs Re-opener (SWRt)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3F Arrangements for the recovery of uncertain costs
Draft Determination reference	RIIO-ED2 Draft Determinations Overview; Table 4.
Associated Document	Re-opener Guidance and Application Requirements Document

7.15 The reason for amending this licence condition is to update it for RIIO-ED2 to give effect to our decision in the SSMD to retain the RIIO-ED1 Street Works Re-opener.

7.16 The effect is to establish a Re-opener that can be triggered by the licensee during the Re-opener window to respond to Specified Street Works Costs incurred or expected to be incurred.

SpC 3.2 Part G Cyber Resilience OT Re-opener	
Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 6.215 – 6.226.
Associated Document	Re-opener Guidance and Application Requirements Document

7.17 The reason for introducing this new condition is to give effect to our decision in the SSMD to adjust licensee allowances in relation to Cyber Resilience OT.

7.18 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows or by the Authority at any time, to respond to changes in statutory or regulatory requirements, changes to levels of risks or threats relating to cyber resilience OT that take the licensee outside of its organisational risk appetite, or for new activities capable of improving cyber resilience OT including risk reduction.

SpC 3.2 Part H Cyber Resilience IT Re-opener	
Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 6.215 – 6.226.

**SpC 3.2 Part H Cyber Resilience IT Re-opener**

Associated Document	Re-opener Guidance and Application Requirements Document
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- 7.19 The reason for introducing this new condition is to give effect to our decision in the SSMD to adjust licensee allowances in relation to Cyber Resilience IT.
- 7.20 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows or by the Authority at any time, to respond to changes in statutory or regulatory requirements, changes to levels of risks or threats relating to cyber resilience IT that take the licensee outside of its organisational risk appetite, or for new activities capable of improving cyber resilience IT including risk reduction.

**SpC 3.2 Part I Digitalisation Re-opener (DIGIt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 4.20-4.24
Associated Document	Re-opener Guidance and Application Requirements Document

- 7.21 The reason for introducing this new condition is to give effect to our proposal in Draft Determinations to allow for adjustments to licensee allowances in relation to Digitalisation.
- 7.22 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the Re-opener window or by the Authority at any time, in the event of changes to statutory or regulatory requirements or government policy that impose new or amended requirements for the licensee to provide new, or significantly altered, digital or data services.

**SpC 3.2 Part J Storm Arwen Re-opener (SARt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Overview; paragraphs 6.23 – 6.30.
Associated Document	Re-opener Guidance and Application Requirements Document

- 7.23 The reason for introducing this new condition is to give effect to our decision in our Draft Determinations to allow for changes to licensee allowances, in relation to implementing the recommendations, or any follow-on actions, from Ofgem’s or the Energy Emergencies Executive Committee’s (E3C’s) reviews into Storm Arwen.

7.24 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the Re-opener window.

**SpC 3.2 Part K Load Related Expenditure Re-opener (LREt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology paragraphs 3.4-3.95
Associated Document	Re-opener Guidance and Application Requirements Document

7.25 The reason for introducing this condition is to give effect to our proposals in Draft Determinations to adjust licensee allowances in relation to Load Related Expenditure.

7.26 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows or by the Authority at any time.

**SpC 3.2 Part L High Value Projects Re-opener (HVPt)**

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3F Arrangements for the recovery of uncertain costs
Draft Determination reference	RIIO-ED2 Draft Determinations Overview Document, paragraphs 6.33-6.37
Associated Document	Re-opener Guidance and Application Requirements Document

7.27 The reason for these amendments is to give effect to our proposal in Draft Determinations to adjust licensee allowances, in relation to non-load related projects that are likely to be worth more than £25m. The only substantive difference between this and the RIIO-ED1 condition is that load related projects are no longer covered by this mechanism, as they are covered by the Load Related Expenditure Re-opener.

7.28 The effect is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows.

**SpC 3.2 Part M Wayleaves and Diversions Re-opener (WDVt)**

Type of change	New licence condition
Draft Determination reference	N/A – this Re-opener is being developed in light of responses to our Draft Determinations
Associated Document	Re-opener Guidance and Application Requirements Document

7.29 The development of this new Re-opener is a consequence of responses to our Draft Determinations. It will allow for adjustments to licensee allowances in relation to wayleaves and diversion costs.

7.30 The effect is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows.

### SpC 3.3 Evaluative Price Control Deliverables

Type of change	New condition
Draft Determination reference	See individual entries for specific PCDs
Associated Document	PCD Reporting Requirements and Methodology Document

7.31 The reason for introducing this condition is to give effect to our decision in the RIIO-ED2 Framework Decision<sup>13</sup> to use Price Control Deliverables (PCDs) as Part of RIIO-ED2.

7.32 The effect of this condition is to:

- establish a single licence condition for evaluative PCDs in RIIO-ED2;
- specify the PCFM Variable Values for the PCDs specified in this condition;
- specify whether delivery of PCDs are subject to any enforceable licence obligations;
- specify the methodology for assessing evaluative PCDs; and
- specifying the outputs, delivery date and allowances for relevant PCDs.

7.33 We proposed to have a combined condition for evaluative PCDs based on our experience in other sectors. However, there are less evaluative PCDs in RIIO-ED2 than the other sectors and we are open minded about whether it would be best to maintain this condition or have separate conditions for cyber resilience and strategic investment evaluative PCDs.<sup>14</sup> We could remove the related Re-openers from SpC 3.2 (Uncertain Costs Re-openers) and have for example one licence condition for the cyber resilience OT Re-opener and PCD, one for the cyber resilience IT Re-opener and PCD and one for the LRE Re-opener and strategic investment PCD. The methodology for assessing PCDs would then move to SpC 9.3.

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<sup>13</sup> <https://www.ofgem.gov.uk/publications/riio-ed2-framework-decision>

<sup>14</sup> We already have the Net Zero evaluative PCD in its own condition with the relevant Re-opener, which we did for consistency with the other sectors, since it is common to all the sectors.

**SpC 3.3 Cyber resilience OT PCDs and Use It Or Lose It Allowance (CROTt and CROTREt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 6.223 – 6.226.
Associated Document	Confidential Appendix 4 “Cyber Resilience PCD Reporting Guidance” to the PCD Reporting Requirements and Methodology Document

7.34 The reason for introducing this new condition is to give effect to our decision in Final Determinations to have a Cyber Resilience OT PCD.

7.35 The effect of this new condition is to specify outputs, delivery dates and associated allowances for cyber resilience OT. This new condition will require the licensee to deliver the outputs, manage risks and report every 6 months on the status of the delivery for each PCD as a licence obligation. This is a use-it-or-lose-it condition and is excluded from TIM.

**SpC 3.3 Cyber resilience IT PCDs (CRITt and CRIREt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 6.223 – 6.226.
Associated Document	Confidential Appendix 4 “Cyber Resilience PCD Reporting Guidance” to the PCD Reporting Requirements and Methodology Document

7.36 The reason for introducing this new condition is to give effect to our decision in Final Determinations to have a Cyber Resilience IT PCD.

7.37 The effect of this new condition is to specify outputs, delivery dates and associated allowances for cyber resilience IT. This new condition will require the licensee to deliver the outputs, manage risks and report every 6 months on the status of the delivery for each PCD as a licence obligation. This is subject to TIM.

**SpC 3.3 Strategic Investment PCDs (SINVt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; Chapter 6
Associated Documents	2022 Guidance and Application Requirements Document (GD,T,ED): Appendix 10, LRE Reopener Guidance;

**SpC 3.3 Strategic Investment PCDs (SINvt)**

	PCD Reporting Requirements and Methodology Document
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7.38 The reason for this PCD is to enable the LRE Re-opener to lead to the setting of evaluative PCDs for large discreet Strategic Investments.

7.39 The effect is to establish the outputs, delivery date and allowances of Strategic Investment PCDs.

**SpC 3.4 Use It Or Lose It Allowances**

Type of change	New condition
Draft Determination reference	See individual entries for specific UIOLI Allowances
Associated Document	N/A

7.40 The reason for this condition is to reflect proposals to establish various Use It Or Lose It Allowances (UIOLI) in our Draft Determinations.

7.41 The effect is to establish a single licence condition for most Use It Or Lose It Allowances in RIIO-ED2, including the related PCFM Variable Values.

**SpC 3.4 Visual Amenity Projects UIOLI (VAPt)**

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3J Allowed expenditure on visual amenity projects
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 3.157 – 3.160
Associated Document	N/A

7.42 The reason we are amending this licence condition is to give effect to our proposals in Draft Determinations to set the licensee a UIOLI in accordance with the updated methodology outlined in the SSMD.

7.43 The effect is to provide allowances for improving visual amenity in Areas of Outstanding National Beauty, National Parks, and other designated areas.

**SpC 3.4 Worst Served Customers UIOLI (WSCt)**

Type of change	Amendment to existing licence condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology, paras 6.115 – 6.128
Associated Document	The WSC Governance Document

- 7.44 The reason we are amending this licence condition is to give effect to our proposals to set the licensee a UIOLI for Worst Served Customers in accordance with Draft Determinations.
- 7.45 The effect is to provide allowances to enable licensees to undertake schemes that specifically aim to reduce the number of interruptions Worst Served Customers experience. The condition also establishes a new Associated Document: the WSC Governance Document.

**SpC 3.5 PCB volume driver (PCBA<sub>t</sub>)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology, paras 3.170 – 3.183
Associated Document	N/A

- 7.46 The reason for this new condition is to give effect to our proposal in Draft Determinations to implement the PCB volume driver to address the uncertainty of PCB contamination in pole-mounted transformers on the networks.
- 7.47 Subject to the outstanding work on unit values, the effect of this condition is to provide the mechanism for adjusting allowances in line with each licensee’s output.

**SpC 3.6 Net Zero Re-opener and Price Control Deliverable (NZ<sub>t</sub>)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology, paragraphs 3.96-3.106
Associated Document	N/A

- 7.48 The reason for introducing this condition is to give effect to our decision in the SSMD to introduce a Net Zero Re-opener mechanism.
- 7.49 The effect of this condition is to introduce a Re-opener that can be triggered solely by the Authority in order to respond to government policy changes connected to the achievement of the Net Zero Carbon Targets that have an effect on the costs and outputs of network licensees.

**SpC 3.7 Coordinated Adjustment Mechanism Re-opener (CAM<sub>t</sub>)**

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3M Coordinated Adjustment Mechanism



**SpC 3.7 Coordinated Adjustment Mechanism Re-opener (CAMt)**

Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology, paragraph 4.105
Associated Document	Re-opener Guidance and Application Requirements Document

7.50 The reason for amending this condition is to update the Regulatory Years in which a window is available to DNOs to trigger this Re-opener.

7.51 The effect of this condition is to establish a Re-opener to allow a licensee to submit an application to reallocate responsibility and associated revenue for an activity to or from another licensee’s price control where there are demonstrable benefits to consumers.

**SpC 3.8 Carry-over Green Recovery Scheme Project Costs (CGRSt)**

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3N Green Recovery Scheme
Decision reference	Decision on the RIIO-ED1 Green Recovery Scheme of 24 May 2021 <sup>15</sup>
Associated Document	N/A

7.52 The reason for amending this condition is to allow recovery of Green Recovery Scheme Costs, within the total cap, that extend into the RIIO-ED2 period.

7.53 The effect of this condition is that these costs will contribute to the calculation of the Totex Allowance, but will be treated by the ED2 Price Control Financial Model so as to receive neutral treatment by the Totex Incentive Mechanism.

**SpC 3.9 Load related volume drivers (SRVDt and LVSVDt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 3.49 to 3.71
Associated Document	Load Related Expenditure Volume Drivers Governance Document

7.54 The reason for introducing this licence condition is to give effect to our proposals in Draft Determinations to introduce a volume driver for secondary reinforcement expenditure and a volume driver for low voltage services reinforcement expenditure.

<sup>15</sup> <https://www.ofgem.gov.uk/publications/decision-riio-ed1-green-recovery-scheme>

- 7.55 The effect of this condition is to adjust revenue to fund the licensee for Load Related Expenditure related to Secondary Reinforcement and Low Voltage Services during the Price Control Period relative to baseline allowances and subject to a cap across the Price Control Period.

**SpC 3.10 Allowed Expenditure for 1-in-20 Severe Weather Events (OTSWt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paras 6.163 to 6.175.
Associated Document	N/A

- 7.56 The reason for introducing this new condition is to give effect to our proposals in Draft Determinations to implement a variant totex allowance for weather events that meet the 1-in-20 Severe Weather Event thresholds.
- 7.57 The effect of this condition is to provide a mechanism for adjusting allowances for costs incurred by the licensee, in the event they are affected by a 1-in-20 Severe Weather Event.

**SpC 3.11 Net to Gross adjustment for Load Related Expenditure**

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 5G Net to gross adjustment for Load Related Expenditure
Draft Determination reference	N/A
Associated Document	N/A

- 7.58 The reason for amending this condition is to improve the structure and clarity of the licence and ensure it is coherent with the new uncertainty mechanisms introduced for load related expenditure.
- 7.59 The effect of this condition is to provide a mechanism for adjusting allowances when the percentage of gross load related expenditure provided by Specific Customer Funded Reinforcement during the price control period falls outside a defined threshold.

**Special conditions – bespoke to individual DNOs**

**SpC 3.2 Part N West Coast of Cumbria Re-opener (MRt) (ENWL)**

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3L Arrangements for the recovery of Moorside costs
Draft Determination reference	RIIO-ED2 Draft Determinations ENWL annex, paragraphs 4.7-4.11

**SpC 3.2 Part N West Coast of Cumbria Re-opener (Mrt) (ENWL)**

Associated Document	Appendix 12 of the Re-opener Guidance and Application Requirements Document
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7.60 The reason for introducing this condition is to give effect to our decision in the SSMD to introduce a West Coast of Cumbria (referred to then as 'Moorside') Re-opener.

7.61 The effect of this condition is to introduce a Re-opener that can be triggered by the licensee once the Authority directs a window in order to fund ENWL efficiently for any network investment associated with any potential new nuclear generation connecting on the West Coast of Cumbria.

**SpC 3.2 Part O Hebrides and Orkney Re-opener (SSEN)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations SSEN Annex, paragraphs 4.8-4.12
Associated Document	Re-opener Guidance and Application Requirements Document

7.62 The reason for introducing this new condition is to give effect to our proposal in Draft Determinations to adjust licensee allowances in relation to infrastructure investment relating to the Hebrides and Orkney.

7.63 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows, on the completion of analysis that requires the licensee to provide new, or significantly altered, expenditure on infrastructure.

**SpC 3.2 Part P Shetland Enduring Solution Re-opener (SESt) (SSEN)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations SSEN Annex, paragraphs 4.13-4.15
Associated Document	Re-opener Guidance and Application Requirements Document

7.64 The reason for introducing this new condition is to give effect to our proposal in Draft Determinations to adjust licensee allowances, in relation to the various projects to provide long term security of supply on Shetland.

7.65 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows.

**SpC 3.2 Part Q Shetland Extension Fixed Energy Costs Re-opener (SEFEct) (SSEN)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations SSEN Annex, paragraphs [x]
Associated Document	Re-opener Guidance and Application Requirements Document

7.66 The reason for introducing this new condition is to give effect to our proposal in Draft Determinations to allow for changes to licensee allowances, in relation to the costs of: (a) third party contracts for Power Purchase Agreements with Sullom Voe Terminal and contingency arrangements if applicable; (b) capital and operating fixed costs for Lerwick power station; and (c) operating costs for the Shetland ANM System.

7.67 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows.

**SpC 3.4 EV Optioneering UIOLI (SPEN)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations SPEN Annex, paragraph 2.20
Associated Document	N/A

7.68 The reason for introducing this licence condition is to give effect to our proposal to set the licensee a UIOLI for EV Optioneering in accordance with Draft Determinations.

7.69 The effect is to provide allowances to enable licensees to determine optimal locations for public electric vehicle charge points for local authorities.

**SpC 3.12 Smart Street mechanistic Price Control Deliverable (SSMPt) (ENWL)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations ENWL Annex; paras 2.25 to 2.28
Associated Document	N/A

7.70 The reason for introducing this new condition is to give effect to our proposal in Draft Determinations to implement a mechanistic PCD for Smart Street.

7.71 The effect of this condition is to provide the mechanism for adjusting allowances proportionate with ENWL’s installations of Smart Street and to impose reporting requirements on the licensee.

**SpC 3.13 Off-Gas Grid mechanistic Price Control Deliverable (OGGt) (UKPN)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations UKPN Annex; paragraphs 2.28 to 2.36
Associated Document	N/A

- 7.72 The reason for introducing this new condition is to give effect to our proposal in Draft Determinations to implement a PCD for UKPN to take forward a programme of anticipatory investment in off-gas-grid areas to provide capacity for 129,233 customers to decarbonise their heat and transport.
- 7.73 Subject to remaining work on the units, the effect of the condition is to provide the mechanism for adjusting allowances proportionate to UKPN's delivery of the programme of anticipatory investment.

## 8. Licence Chapter 4 Output delivery incentives

### Questions

Q13. What are your views on the proposed changes to the SpCs outlined in this chapter?

### Introduction

8.1 Chapter 4 of the SpCs sets out all of the output delivery incentives and contains the consumer value propositions, which are an aspect of the Business Plan Incentive.

### Special Conditions for all DNOs

#### SpC 4.1 Total output delivery incentive performance (ODIt)

Type of change	New condition
Draft Determination reference	N/A
Associated Document	N/A

8.2 The reason for this new condition is to improve the structure and clarity of the licence.

8.3 The effect of this condition is to sum the output delivery incentive PCFM Variable values into ODIt, which in turn contributes to Calculated Revenue.

#### SpC 4.2 Time to connect output delivery incentive (TTCT)

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 2F Time to connect incentive
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology, paragraphs 5.118 – 5.125
Associated Document	N/A

8.4 The reason for this amendment is to give effect to our proposals in Draft Determinations to introduce penalties, set symmetrical financial exposure and apply a deadband to the time to connect incentive that already exists in RIIO-ED1.

8.5 The effect of this condition is to incentivise improvements in performance and guard against the risk that performance falls below the standard achieved by the end of RIIO-ED1. In addition, the introduction of a deadband provides appropriate protection against a penalty if the Access and Forward-looking Charges Significant Code Review and net zero initiatives drive up connection activities.

**SpC 4.3 Broad Measure of Customer Service output delivery incentive (BMCSt)**

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 2C Broad Measure of Customer Service Adjustment
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology, paras 5.4 – 5.35
Associated Document	N/A

8.6 The reason for this amendment is to update it in line with our proposals set out in paragraphs 5.4 – 5.35 of our Draft Determinations. This includes removing the Stakeholder Engagement and Customer Vulnerability incentive and introducing a deadband to the Supply Interruptions, Connections and General Enquiries elements of the Customer Satisfaction Survey.

8.7 The effect of this condition is to reward or penalise the licensee, through an increase or decrease in its RoRE, in line with its performance in relation to the quality of service provided to customers and resolving complaints.

**SpC 4.4 Interruptions incentives scheme output delivery incentive (IISt)**

Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 2D Adjustments of licensee’s revenue to reflect interruptions related quality of service performance
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology, paras 6.9 – 6.95
Associated Document	N/A

8.8 The reason for amending the licence condition is to give effect to our proposals in Draft Determinations to introduce an asymmetric cap for RIIO-ED2 with an upside cap of 100BPs and downside collar of 250BPs of RoRE.

8.9 The effect of this condition is to reward or penalise the licensee, through an increase or decrease in its RoRE, in line with its performance under the interruptions incentive scheme output delivery incentive which incentivises licensees to reduce the frequency (measured by customer interruptions) and duration (measured by customer minutes lost) of interruptions experienced by average customers.

**SpC 4.5 Major connections output delivery incentive (MCT)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology, paragraphs 5.126 – 5.168

**SpC 4.5 Major connections output delivery incentive (MCT)**

Associated Document	Major connections output delivery incentive guidance
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- 8.10 The reason for this new condition is to give effect to our proposal in Draft Determinations to provide a strong incentive for DNOs to deliver a high quality service to all major connections customers, across Relevant Market Segments.
- 8.11 The effect of this condition is to penalise licensees where performance in relation to the Major Connections Customer Satisfaction Survey falls below the annual target, as set out in the license. Licensees will also be required to produce a Major Connections Annual Report, detailing performance against the timeliness of connections and the delivery of their Major Connections Strategies (submitted in their Business Plans).

**SpC 4.6 Consumer Vulnerability output delivery incentive (CVIt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology, paras 5.47 – 5.110
Associated Document	RIIO-ED2 Consumer Vulnerability Guidance Document

- 8.12 The reason for introducing this new condition is to give effect to our proposals in Draft Determinations to implement a financial output delivery incentive and a reporting requirement to publish an Annual Vulnerability report.
- 8.13 The effect of this condition is to reward or penalise the licensee, through an increase or decrease in its RoRE, in line with its performance in relation to providing the appropriate support and services for consumers in vulnerable situations. The condition also establishes an Associated Document: the RIIO-ED2 Consumer Vulnerability Guidance Document.

**SpC 4.8 Distribution System Operation output delivery incentive (DSOIt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations – Core Methodology Document; paras 4.50 to 4.86
Associated Document	Distribution System Operator Incentive Governance Document

- 8.14 The reason for introducing this new condition is to give effect to our proposal in Draft Determinations to implement a financial output delivery incentive to drive DNOs to more efficiently develop and use their network, taking into account flexible alternatives to network reinforcement.



8.15 The effect of this condition is to reward or penalise the licensee, through an increase or decrease in its RoRE, in line with its performance in delivering Distribution System Operation functions and services. We are still developing the metrics to complete this incentive and there is placeholder text in square brackets that we propose to use if the incentive is not going to be operational in the first year of ED2. The licence condition also establishes the Distribution System Operator Incentive Governance Document.

**Special conditions – bespoke to individual DNOs**

SpC 4.7 Consumer Value Proposition (SSEN and NGED (formerly WPD))	
Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations SSEN Annex RIIO-ED2 Draft Determinations WPD Annex
Associated Document	N/A

8.16 The reason for introducing this new condition is to give effect to our proposals in Draft Determinations to accept consumer value propositions (CVPs) by SSEN and WPD.

8.17 The effect of this condition is to:

- specify the CVP Outputs and Rewards;
- provide for the Authority to adjust the business plan incentive term (BPit) where CVPs are not fully delivered; and
- establish reporting requirements on the licensee.

SpC 4.9 Dig, Fix and go output delivery incentive (DFGt) (ENWL)	
Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations ENWL Annex, paras 2.20 – 2.22
Associated Document	N/A

8.18 The reason for introducing this new condition is to give effect to our proposal in Draft Determinations to implement a financial output delivery incentive to drive ENWL to decrease the time taken to restore roads and surrounding areas following emergency streetworks.

8.19 The effect of this condition is to reward or penalise the licensee, through an increase or decrease in its RoRE, in line with its performance in relation to the restoration time following emergency streetworks.

**SpC 4.10 Collaborative Streetworks output delivery incentive (CSWt) (UKPN)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations UKPN Annex, paragraphs 2.18-2.26
Associated Document	N/A

8.20 The reason for introducing this new condition is to give effect to our proposal in Draft Determinations to implement a financial output delivery incentive to enable UKPN to participate in the Greater London Authority’s collaborative streetworks framework.

8.21 The effect of this condition is to provide the licensee with an expenditure allowance for participating in collaborative streetwork projects under the established framework of the Greater London Authority. The allowance will cover only those projects that are completed and that meet the Greater London Authority’s criteria for such works.

## 9. Licence Chapter 5 Other revenue allowances

### Questions

Q14. What are your views on the proposed changes to the SpCs outlined in this chapter?

### Introduction

9.1 Chapter 5 of the SpCs sets out a number of revenue allowances that are not totex allowances, output delivery incentives, pass-through items or legacy adjustments. There is no common theme to the allowances in these chapter, other than them all being fast money that flows directly into Calculated Revenue. As a result we have called this chapter "other revenue allowances".

### Special Conditions for all DNOs

#### SpC 5.1 Total other revenue allowances (ODIt)

Type of change	New condition
Draft Determination reference	N/A
Associated Document	N/A

9.2 The reason for this new condition is to improve the structure and clarity of the licence.

9.3 The effect of this condition is to sum the other revenue allowances PCFM Variable values into ORAt, which in turn contributes to calculated revenue. This includes AUMt which relates to SpC 9.10.

#### SpC 5.2 RIIO-2 Network Innovation Allowance (NIAt)

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 2H The Network Innovation Allowance
Draft Determination reference	RIIO-ED2 Draft Determinations, Core Methodology Document, Paragraph 3.125
Associated Document	RIIO-2 Network Innovation Allowance Governance Document

9.4 The reason for replacing the ED1 NIA licence condition with this condition is to, first, update its format in line with the RIIO-ED2 licence drafting principles. Secondly, it is to introduce an allowance for RIIO-ED2 that is capped over the course of RIIO-ED2 rather than for individual regulatory years, as was the case in ED1.

- 9.5 The effect is to establish a framework for the regulation, administration and governance of RIIO-ED2 NIA projects. The condition states the level of NIA funding licensees will receive and establishes the process for introducing the RIIO-2 NIA Governance Document.
- 9.6 The RIIO-2 NIA Governance Document is already in force in the GD&T sectors. We are proposing to apply the same document in the ED sector and have proposed amendments to this effect, alongside further amendments to improve reporting and knowledge dissemination following the completion of network innovation projects.

**SpC 5.3 Carry-over Network Innovation Allowance (CNIAt)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations, Core Methodology Document, Paragraph 3.138
Associated Document	RIIO-1 Electricity NIA Governance Document

- 9.7 The reason for introducing this licence condition is to give effect to our proposal in Draft Determinations to allow licensees to carry-over unspent RIIO-ED1 NIA funds from regulatory year 2023/23 into regulatory year 2023/24.
- 9.8 The effect of the condition is to calculate the level of unspent RIIO-ED1 NIA that licensees may carry over, and establish the arrangements relating to the regulation, administration, and governance of the carry-over RIIO-ED1 NIA. This condition is separate from the RIIO-ED2 NIA framework arrangements which are contained in a separate licence condition (see above). The condition also preserves the RIIO-1 Electricity NIA Governance Document to which we propose to add the relevant CNIA references.

**SpC 5.4 Revenue adjustments in respect of connection performance failures**

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 2L Revenue adjustments in respect of performance failures
Draft Determination reference	N/A
Associated Document	N/A

- 9.9 The reason for this revised condition is to roll over the existing RIIO-ED1 mechanism with amendments to reflect our approach to drafting in RIIO-ED2 and the financial changes dealt with in Chapter 4 of this document.

- 9.10 The effect of this condition is to provide the mechanism to adjust revenue where the sum of payments up to the current year made by the licensee associated with connection performance failures exceeds the licensee's revenue exposure cap.

## 10. Licence Chapter 6 Pass-through

### Questions

Q15. What are your views on the proposed changes to the SpCs outlined in this chapter?

### Introduction

10.1 Chapter 6 of the SpCs sets out all the pass through items in the price control; these are areas of expenditure largely outside the DNOs' direct control that are passed through directly to network charges.

### Special Conditions for all DNOs

SpC 6.1 Pass-through items (PTt)	
Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 2B Calculation of Allowed Pass-Through Items
Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; paras 10.87-10.89,10.191-10.200, 10.201-10.204
Associated Document	N/A

10.2 The reason for amending this licence condition is to give effect to our proposals in Draft Determinations in relation to various pass-through items. This includes:

- removing the Eligible Bad Debt term (EBDt) and Covid-19 Bad Debt term (CBDt) from the pass-through condition and instead including them in SpC 2.1 (Revenue Restriction)
- adding the pension scheme established deficit term (EDEt) to the pass-through condition
- amending the Supplier of Last Resort adjustment (SLRt) to account for the updates that have been made to SLC 38B (Last Resort Supply Payment Claims)
- adding the Shetland Variable Energy Costs (SEct) term to the pass-through condition, for SSEN only.

10.3 We have also changed 'Business Rates' to 'Prescribed Rates' to reflect the fact that local taxes have different names in different jurisdictions.

- 10.4 The reason for removing EBD and CBD from pass-through and adding a general bad debt term to SpC 2.1 is to ensure that we record Recovered Revenue on a cash basis. If we kept the EBD and CBD terms, this would result in needing to record the licensee's Recovered Revenue as billed. Recovered revenue as billed means that the value of Recovered Revenue reflects the total amount a licensee bills its customers but not necessarily the true amount that it collects, for instance due to unrecoverable Bad Debt. We believe Recovered Revenue as billed is unclear and could be misleading as the Recovered Revenue value does not reflect the revenue actually recovered by a licensee.
- 10.5 The effect of removing the EBDt and CBDt term from the pass-through condition and adding them to SpC 2.1 means that licensees will be required to record Recovered Revenue on a cash basis ie net of any Bad Debt. The non-recovered Bad Debt amount will then be reflected as an under-recovery, which will be adjusted through the K correction factor.
- 10.6 We will however retain the Valid Bad Debt Claims term (IBDA<sub>t</sub>) term as a pass-through item. In RIIO-ED1 IBDA<sub>t</sub> was a part of the EBD<sub>t</sub> term, but we are proposing to establish this as a standalone pass through term. The reason for retaining IBDA<sub>t</sub> as a pass through term is because this term is governed by a separate process defined in SLC 38C (Treatment of Valid Bad Debt Claims) and SLC BA5 (Valid Bad Debt Claims) relating to IDNOs, and is therefore separate from Bad Debt, which relates to unrecovered charges. As IBDA<sub>t</sub> does not relate to unrecovered charges it should not be removed from recovered revenue, and is therefore being retained as a pass through term.

## 11. Licence Chapter 7 Legacy

### Questions

Q16. What are your views on the proposed changes to the SpCs outlined in this chapter?

### Introduction

- 11.1 Chapter 7 of the SpCs deals with adjustments to revenue that are the result of the RIIO-ED1 price control.
- 11.2 We have provided two templates as Annexes to the consultation, relating to this Chapter of the SpCs. These are the ED1 Legacy PCFM and the ED1 Legacy RRP template. Combined, these two templates provide the inputs required to calculate legacy true-ups during the first two years of RIIO ED-2.

### Special Conditions for all DNOs

#### SpC 7.1 Legacy adjustments to revenue (LART)

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 3A Legacy price control adjustments
Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out” and “RAV opening balances”
Associated Document	N/A

- 11.3 The reason for amending this condition is to reflect the close out RIIO-ED1 legacy items, rather than items from the DPCR5.<sup>16</sup>
- 11.4 The effect of this amended condition is to sum other legacy adjustments. We have split out some aspects of the legacy adjustments into standalone licence conditions, addressed below.

#### SpC 7.2 Legacy MOD (LMOD<sub>t</sub>)

Type of change	Close out of the ED1 Price Control Financial Model
Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out” and “RAV opening balances”
Associated Document	N/A

<sup>16</sup> <https://www.ofgem.gov.uk/energy-policy-and-regulation/policy-and-regulatory-programmes/distribution-price-control-review-dpcr-5>



- 11.5 The reason for creating this condition is to adjust allowed revenue within RIIO-ED2 for the closeout of the RIIO ED1 Price Control.
- 11.6 The effect of this is condition is to specify how the Legacy MOD term will be calculated, referencing the methodologies set out in the ED2 Price Control Financial Handbook.

**SpC 7.3 Legacy net RAV additions and tax pool balances**

Type of change	Close out of ED1 balances
Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out” and “RAV opening balances”
Associated Document	N/A

- 11.7 The reason for amending this condition is to specify the opening balances for the RAV (based on historical net RAV additions) and tax pool balances in the RIIO-ED2 price control, based on final values the RIIO-ED1 price control.
- 11.8 The effect of this is condition is to specify historical net RAV additions and tax pools balances that will be carried forward into the RIIO-ED2 Price Control Financial Model.

**SpC 7.4 Legacy incentive performance (LIPt)**

Type of change	Close out of ED1 incentives
RIIO-ED1 number	CRC 2C Broad Measure of Customer Service Adjustment CRC 2D Adjustments of licensee’s revenue to reflect interruptions related quality of service performance CRC 2E incentive on connections engagement
Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out” and “RAV opening balances”
Associated Document	N/A

- 11.9 The reason for this condition is to close out RIIO-ED1 incentives that have lags between licensee’s performance and when they receive the revenue adjustment.
- 11.10 The effect of this is condition is to incentivise the licensee in accordance with the intention for the RIIO-ED1 incentives currently in operation.

**SpC 7.5 Legacy pass-through items (LPTt)**

Type of change	Close out of ED1 pass through items
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**SpC 7.5 Legacy pass-through items (LPTt)**

Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out” and “RAV opening balances”
Associated Document	N/A

11.11 The reason for this condition is to close out RIIO-ED1 pass through items.

11.12 The effect is to allow licensees to true up the final years of pass through costs from the RIIO-ED1 price control period.

**SpC 7.6 Legacy K correction (LKt)**

Type of change	Close out of the ED1 correction term
Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out” and “RAV opening balances”
Associated Document	N/A

11.13 The reason for this condition is to close out the RIIO-ED1 K correction term.

11.14 The effect is that licensee’s revenues will be corrected for under or over-recovery in the final year of RIIO-ED1.

**SpC 7.7 Legacy TRU term (LTRUt)**

Type of change	Close out of the ED1 TRU term
Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out” and “RAV opening balances”
Associated Document	N/A

11.15 The reason for this condition is to close out the RIIO-ED1 TRU term.

11.16 The effect is that licensee’s revenues will be adjusted to reflect outturn inflation in the RIIO-ED1 price control period.

**SpC 7.8 Low Carbon Networks Fund (LCNt)**

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 2J Low Carbon Networks Fund
Draft Determination reference	N/A
Associated Document	LCN Fund Governance Document

11.17 The reason for the amendment is to narrow the scope of the licence condition that was in place during ED1. No new Low Carbon Networks Fund projects have been funded since 31 March 2015, but there are several projects seeking rewards in 2022 and these would, if successful, be recovered by licensees during ED2.

- 11.18 The effect of this condition is to enable licensees to recover potential LCNF Second Tier Funding, should associated rewards be directed by the Authority. The condition also maintains the LCN Fund Governance Document.
- 11.19 Whether this condition will be needed or not will be determined before the end of 2022, when Ofgem aims to issue its decision on LCNF Second Tier Funding.

**SpC 7.9 RIIO-ED1 network innovation competition**

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 5A Network Innovation Competition
Draft Determination reference	Core Methodology Document, Paragraph 3.110
Associated Document	Electricity Network Innovation Competition Governance Document

- 11.20 The reason for amending the current licence condition is to implement our decision in the SSMD to replace the Network Innovation Competition (NIC) with the Strategic Innovation Fund in RIIO-ED2. Accordingly, certain provisions of the RIIO-1 NIC licence condition will be redundant in RIIO-ED2. However, certain provisions will need to remain operative in relation to RIIO-1 projects so as to ensure, for example, that governance arrangements continue to apply in relation to project funding and that funds unspent when RIIO-1 projects finish can be returned to consumers or, in certain circumstances retained by licensees.
- 11.21 The effect of the changes is to remove parts of the NIC licence condition that we will no longer use and to retain those that we will use. The condition also maintains the Electricity Network Innovation Competition Governance Document.

## 12. Licence Chapter 8 Governance

### Questions

Q17. What are your views on the proposed changes to the SpCs outlined in this chapter?

### Introduction

12.1 Chapter 8 of the SpCs establishes the ED2 Price Control Financial Model and the ED2 Price Control Financial Handbook, collectively referred to as the Price Control Financial Instruments and sets out how they can be changed.

### Special Conditions for all DNOs

#### SpC 8.1 Governance of the Governance of Price Control Financial Instruments

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 4A Governance of ED1 Price Control Financial Instruments
Draft Determination reference	N/A
Associated Document	N/A

12.2 The reason for amending this condition is to implement the RIIO-ED2 drafting style and to create a governance process that works with our “self-publication of Allowed Revenue” proposals in draft determinations. We have also amended the change control framework to reflect the final determination of the Competition and Markets Authority on joined ground D of the Energy Licence Modification Appeals 2021<sup>17</sup>.

12.3 The effect of the amendments is to remove the test of significance that was used in ED1 and instead replace it with a set of categories and circumstances in which we will use the self-modification method to change the PCFI and only where this will have no impact on the licensee’s allowed revenue. Otherwise, we will use a statutory modification to change the PCFIs. The proposed drafting also removes content rendered unnecessary given the self-publication proposals.

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<sup>17</sup> <https://www.gov.uk/cma-cases/energy-licence-modification-appeals-2021#cma-publishes-summary-of-its-final-determination>

## 13. Licence Chapter 9 General obligations

### Questions

Q18. What are your views on the proposed changes to the SpCs outlined in this chapter?

### Introduction

13.1 Chapter 9 of the SpCs sets out licence obligations being placed on the DNOs that whilst they don't directly feed into the revenue restriction in SpC 2.1, relate to the RIIO-ED2 price control or setting charges.

### Special Conditions – applicable to all DNOs

#### SpC 9.1 Annual Environmental Report

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determination Core Methodology; paragraphs 3.143 – 3.146
Associated Document	Environmental Reporting Guidance

13.2 The reason for introducing this condition is to give effect to our decision in the SSMD to increase the transparency and the accountability of the network licensees in relation to the impacts of their businesses and network activities on the environment, and on the licensees' progress against their Environmental Action Plan commitments.

13.3 The effect of the condition is to require the network licensees to prepare and publish on their respective websites an Annual Environmental Report in accordance with the Environmental Reporting Guidance.

#### SpC 9.2 Network Asset Risk Metric methodology

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 5D Assessment of Network Asset Secondary Deliverables
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 8.4 – 8.92
Associated Document	N/A

13.4 The reason for amending this licence condition is to give effect to our decisions in the SSMD in relation to the Network Asset Risk Metric (NARM)<sup>18</sup>.

13.5 The effect of the condition is to:

- require licensees to have in place and act in accordance with the NARM framework, which comprises the Common Network Asset Indices Methodology, and a Network Asset Indices Methodology
- set out the objectives of the NARM framework
- establish a mechanism for making modifications to the Common Network Asset Indices Methodology
- require the licensees to provide an Information Gathering Plan and set out the requirements around maintaining the Information Gathering Plan.

#### SpC 9.3 Evaluative Price Control Deliverable reporting requirements

Type of change	New condition
RIIO-ED2 Framework Decision reference	Paragraph 2.26
Associated Document	PCD Reporting Requirements and Methodology Document

13.6 The reason for introducing this condition is to establish reporting requirements for evaluative PCDs so that the Authority can understand the decisions taken by licensees to deliver, or not deliver, outputs and to establish the PCD Reporting Requirements and Methodology Document.

13.7 The effect of the condition is to

- place a requirement on licensees to report to the Authority on the delivery of its evaluative PCDs
- establish the PCD Reporting Requirements and Methodology Document with which a licensee needs to comply when preparing evaluative PCD reports.

13.8 The PCD Reporting Requirements and Methodology Document

- provides guidance on the Authority's use of Mechanistic and Evaluative PCDs
- sets out reporting requirements for evaluative PCDs
- sets out how the Authority will assess the delivery of evaluative PCDs.

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<sup>18</sup> See Table 23 of the SSMD for a summary of these decisions:  
[https://www.ofgem.gov.uk/sites/default/files/docs/2020/12/riio\\_ed2\\_ssmd\\_annex\\_1\\_de\\_livering\\_value\\_for\\_money\\_services\\_for\\_customers.pdf](https://www.ofgem.gov.uk/sites/default/files/docs/2020/12/riio_ed2_ssmd_annex_1_de_livering_value_for_money_services_for_customers.pdf)

13.9 The PCD Reporting Requirements and Methodology Document is already in force in the GD&T sectors. We have proposed amendments to include the Electricity Distribution sector, improve clarity, and remove errors.

SpC 9.4 Re-opener Guidance and Application Requirements Document	
Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; Chapter 6, paragraph 6.45
Associated Document	Re-opener Guidance and Application Requirements Document

13.10 The reason for this condition is to enable the creation and amendment of an Associated Document that will provide further detail on how licensees should prepare Re-opener applications in order to improve the quality of applications.

13.11 The effect of this licence condition is to require licensees to prepare applications in accordance with the Re-opener Guidance and Application Requirements Document. We intend to amend the equivalent document that applies to the other sectors to extend it to include RIIO-ED2 Re-openers.

13.12 This is a short condition since the procedure is contained in SpC 1.3 (Common procedure) and we have considered moving this to SpC 3.2 (Uncertain Costs Re-openers). However, the Re-opener Guidance and Application Requirements Document will apply to Re-openers in other conditions and leaving it in SpC 9.3 (Evaluative Price Control Deliverable reporting requirements) will make the administrative processes of updating the guidance easier, as it will be the same condition number as the other sectors.

13.13 The Re-opener Guidance and Application Requirements Document is already in force in the GD&T sectors. We have proposed minor amendments to include the Electricity Distribution sector and to reflect learnings from the first years of RIIO-2.

SpC 9.5 Digitalisation	
Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology; paragraphs 4.12 - 4.19
Associated Documents	DSAP guidance, Data Best Practice guidance

13.14 The reason for introducing this condition is to give effect to our decision in the SSMD to apply the cross-sector policy decision we adopted for the RIIO-2 price control, requiring licensees to publish and review a Digitalisation Strategy and

Digitalisation Action Plan, and requiring licensees to comply with Data Best Practice Guidance.

- 13.15 The effect of this condition is to require the licensee to adhere to DSAP Guidance when publishing and reviewing their Digitalisation Strategy and Digitalisation Action Plan, and to require the licensee to adhere to Data Best Practice Guidance when using data.

#### SpC 9.6 Disapplication of Relevant Special Conditions

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 5K Disapplication
Draft Determination reference	N/A
Associated Documents	N/A

- 13.16 The reason for the modifications is to reflect the RIIO-2 drafting principles and the finance-related changes set out in this chapter.

- 13.17 The effect is to update the condition in accordance with our RIIO2 drafting principles.

#### SpC 9.7 Directly Remunerated Services

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 5C Directly remunerated services
Draft Determination reference	PoLR: RIIO-ED2 Draft Determinations Overview Document, paragraphs 6.13-6.22
Associated Documents	N/A

- 13.18 The reason for the modifications is to harmonise the Directly Remunerated Services categories with the other sectors and to make certain other changes. Firstly, we have added Theft Recovery to DRS12. Secondly, we have introduced a new DRS category on Distribution Network Voltage Control Services that gives effect to our proposals on the March 2022 consultation on Customer Load Active System Service (CLASS) to be sold to the GB System Operator for the purposes of its system operator residual balancing activity. This new category will distinguish CLASS Net Revenues from other activities reported through DRS 10 on Value Added Services, while retaining the same remuneration mechanism as DRS 10. Thirdly, we have introduced a new Electric Vehicle Provider of Last Resort (PoLR) category, which is one of the options in Draft Determinations to allow DNOs to recover efficient costs in the event that they are appointed as an EV PoLR by the Authority under Standard Licence Condition 31F.



13.19 The effect is to update the condition in accordance with our RIIO-2 drafting principles and to remunerate Theft Recovery, Distribution Network Voltage Control Services and Electric Vehicle PoLR through a market framework where attributable costs and revenues are included in the scope of DRS.

**SpC 9.8 Tax reconciliation assurance statement**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Finance Annex; paragraphs 7.15 – 7.16
Associated Document	N/A

13.20 The reason for introducing this condition is to give effect to our decision in the SSMD to introduce a requirement for licensees to submit an annual board assurance statement that is submitted alongside the Tax Reconciliation to provide additional comfort over the values within it.

13.21 The effect of this licence condition is to require licensees to submit a signed board assurance statement alongside the Tax Reconciliation, that we will require them to submit as part of their annual regulatory submissions. The statement will provide us with additional comfort over the appropriateness of the values in the reconciliation or where there are material differences, an adverse statement will highlight any areas that we may need to investigate, though a tax review (see proposed changes to Chapter 2 of the SpCs).

**SpC 9.9 Strategic Innovation Fund (SIF<sub>T</sub>)**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Document, Paragraph 3.110
Associated Document	SIF Governance Document

13.22 The reason for introducing this condition is to give effect to our decision in the SSMD to replace the NIC with the Strategic Innovation Fund (SIF).

13.23 The effect of this condition is to establish arrangements relating to the regulation, administration, and governance of the SIF, funded via the System Operator’s network charges. The condition also establishes the SIF Governance Document.

13.24 The SIF Governance Document version 2 was consulted on in summer 2022 and directed on 23 September 2022, to reflect learnings from the first two years of

RIIO-2<sup>19</sup>. It is now in force for the GD&T licensees. We are proposing to apply the same document in the ED sector and will in 2023 consult on amendments to this effect.

**SpC 9.10 Margins on licensee’s connection activities**

Type of change	Amendments to existing licence condition
RIIO-ED1 number	CRC 2K Margins on licensee’s connection activities
Draft Determination reference	N/A
Associated Document	None

13.25 The reason for amending this condition is to reflect the RIIO-ED2 drafting principles and reflect changes in the connection activities landscape since RIIO-ED1.

13.26 The effect of the condition is to set out the circumstances in which the licensee may charge an unregulated margin on their connections activities.

**SpC 9.11 Restriction on charges for the provision of legacy metering equipment**

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 5B Restriction of charges for the provision of legacy metering equipment
Draft Determination reference	N/A
Associated Document	N/A

13.27 The reason for amending the current licence condition to apply the RIIO-ED2 licence drafting principles.

13.28 The effect is to improve the clarity of the licence.

**SpC 9.12 Charging outside the distribution area**

Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 5E Charging outside the distribution services area
Draft Determination reference	N/A
Associated Document	N/A

13.29 The reason for amending the current licence condition is to apply the RIIO-ED2 licence drafting principles.

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<sup>19</sup> The SIF Governance document Version 2 is available at <https://www.ofgem.gov.uk/publications/updated-sif-governance-document>

13.30 The effect is to move much of the content into the definitions and improve the clarity of the licence.

**Special Conditions – bespoke to individual DNOs**

SpC 9.13 Assistance for high-cost distribution areas (SHEPD)	
Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 2N Assistance for high-cost distribution areas for SSEH
Draft Determination reference	N/A
Associated Document	N/A

13.31 The reason for introducing this new condition is to continue our RIIO-ED1 policy regarding treatment of SHEPD’s high cost distribution areas.

13.32 The effect of this new condition is to establish the treatment of SHEPD’s high cost distribution areas.

## 14. Proposed changes to Standard Licence Conditions

### Introduction

14.1 The SLCs apply to all electricity distribution licence holders, not just those subject to the RIIO-ED2 price control. We have only made changes related to the RIIO-ED2 price control.

### Standard Licence Conditions

#### SLC 1 Definitions for the standard conditions

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.2 This reason for amending this condition is to add new definitions or amend existing definitions to reflect other changes being made to the SLCs and SpCs.

14.3 The effect is an up to date list of definitions.

#### SLC 2 Interpretation of this licence

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.4 This reason for amending this condition is to rectify the inconsistent use of two terms that mean the same thing: Electricity Supply Licence and Supply Licence

14.5 The effect is to use Electricity Supply Licence consistently through the SLCs.

#### SLC 3A Housekeeping

Type of change	New condition
Draft Determination reference	N/A
Associated Document	N/A

14.6 The reason for introducing this condition is to provide the Authority with a more efficient and economic process to make "housekeeping" changes to licence conditions. Housekeeping changes are minor or administrative amendments, for example the correction of typographical errors and the renumbering of paragraphs. The condition will help to reduce the regulatory burden on the Authority and enable more accuracy and expediency in licence changes.

14.7 The effect of the condition is to introduce an alternative to the statutory modification process that the Authority can use to make housekeeping changes to licence conditions. If the Authority concludes that the change is not a

housekeeping change it will use the statutory process to make any changes instead.

#### SLC 5 Licensee's payments to the Authority

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.8 This condition establishes the licence fee payments that are made by licensees to the Authority. For DNOs this is a pass-through cost set out in SpC 6.1 (Pass-through-items) as the Price Control Variable Value LfT.

14.9 There are two reasons for modifying this condition:

- firstly, the way advocacy and advice services are being delivered in Scotland was changed in 2020-21 and 2021-22. Functions previously performed by Citizens Advice Scotland are now being performed by a new body, Consumer Scotland
- secondly, Ofgem consulted on and then decided to make minor changes<sup>20</sup> to the licence fee cost recovery principles ("the principles") earlier last year, including in relation to the returning of surpluses to licence fee payers. Consultation responses noted that some licence conditions needed to be updated and we agree.

14.10 The effect of these modifications is the updating of the licences to reflect the new approach to advocacy and advice in Scotland by amending references to Citizens Advice Scotland. The modifications replace the references to Citizens Advice Scotland with references to Consumer Scotland or add references to Consumer Scotland depending on the context. The modifications also align the licence conditions with the amended principles.

#### SLC 8 Safety and Security of Supplies Enquiry Service

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

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<sup>20</sup> <https://www.ofgem.gov.uk/publications/licence-fee-decision-2021-22>

14.11 This condition requires licensees to operate and maintain an enquiry service which enables any person to receive reports and offer information on incidents that are affecting the safety, security or availability of the licensee’s network.

14.12 We are modifying this condition to include a requirement for licensees to operate a website which provides up to date information on matters that are affecting public safety or supply interruptions longer than three minutes. The licensee is required to make all reasonable efforts to ensure this website is available at all times.

14.13 The effect of this modification is to provide customers with assurance that they can access up to date information about supply interruptions or safety matters at any time, but especially during significant events such as severe storms.

**SLC 10AA Treating Domestic Customers Fairly**

Type of change	New condition
Draft Determination reference	RIIO-ED2 Draft Determinations Core Methodology, para 5.39
Associated Document	RIIO-ED2 Fair Treatment Guidance

14.14 The reason for introducing this condition is to implement our decision in the SSMD to have a new principles-based condition to require that DNOs treat domestic customers fairly.

14.15 The effect of this condition is to:

- place a greater onus on the DNOs to treat their domestic customers fairly and develop approaches that deliver positive outcomes for such customers
- place an obligation on the DNOs to seek to identify domestic customers in vulnerable situations in a manner which is effective and appropriate during interactions with such customers
- require DNOs to respond and interact with these domestic customers in a way that takes into account their vulnerability.

14.16 This condition will have an associated guidance document to help DNOs, and other stakeholders, treat their consumers fairly.

**SLC 11 Reporting on performance**

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.17 The reason for amending the current licence condition is to update the reference to Citizens Advice Scotland and to correct some minor drafting errors.

14.18 The effect of the amendments is to reflect the new approach to advocacy and advice in Scotland by amending references to Citizens Advice Scotland, and improve its clarity.

**SLC 13C Recovery of Reinforcement Costs arising in respect of Relevant Customers**

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.19 The reason for amending this condition is to update the reference to 'Charge Restriction Conditions' to 'Special Conditions', as we do not propose to use the phrase 'Charge Restriction Conditions' in RIIO-ED2.

14.20 The effect is to create consistency and clarity in the SLCs and SpCs.

**SLC 14 Charges for Use of System and connection**

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.21 The reason for amending this condition is to update the reference to CRC 2K to the new numbering we are proposing for RIIO-ED2: SpC 9.10.

14.22 The effect is to create consistency and clarity in the SLCs and SpCs.

**SLC 25 Long-Term Development Statement**

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.23 The reason for amending the current licence condition is to remove the requirement for submitting directly to Ofgem as access is available via commercial data portals.

14.24 The effect is to bring in line with Data Best Practice guidelines.

**SLC 26 Disposal of relevant assets and restrictions on charges over receivables**

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.25 The reason for this condition is to set out the requirements by which the licensee can dispose of or relinquish operational control over any relevant asset.

14.26 The reason for amending the current licence condition is to update values to take account of inflation.

14.27 The effect is an up to date condition.

**SLC 31B Independence of the Distribution Business and restricted use of Confidential Information**

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.28 This reason for amending this condition is to rectify the inconsistent use of two terms that mean the same thing: Electricity Supply Licence and Supply Licence

14.29 The effect is to use Electricity Supply Licence consistently through the SLCs.

**SLC 38 Treatment of payment claims for last-resort supply where Valid Claim is received before 1 April 2019**

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.30 The reason for amending this condition is to update the reference to 'Charge Restriction Conditions' to 'Special Conditions', as we do not propose to use the phrase 'Charge Restriction Conditions' in RIIO-ED2.

14.31 The effect is to create consistency and clarity in the SLCs and SpCs.

**SLC 38B Last Resort Supply Payment Claims**

Type of change	Amendment to existing licence condition
Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; paras 10.201-10.204
Associated Document	N/A

14.32 The reason for amending the current licence condition is to remove complexity and to better align Last Resort Supply Payments (LRSP) with recovery via Allowed Revenue.

14.33 The effect is approved LRSP claims received by 31 December will be paid in the following Regulatory Year, and there is no longer a materiality threshold. The amendments also make it clear that an LRSP can be made to an LRSP Permitted



Assignee. Any approved LRSP will be recovered through the pass-through term SLRt in SpC 6.1 (Pass-through items).

#### SLC 38C Treatment of Valid Bad Debt Claims

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.34 The reason for amending the current licence condition is to update the drafting in accordance with the updated names of the RIIO-ED2 Special Conditions and to make a minor drafting improvement.

14.35 The effect is to create consistency and clarity in the SLCs and SpCs.

#### SLC 42 Independence of the Distribution Business and restricted use of Confidential Information

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.36 This reason for amending this condition is to rectify the inconsistent use of two terms that mean the same thing: Electricity Supply Licence and Supply Licence

14.37 The effect is to use Electricity Supply Licence consistently through the SLCs.

#### SLC 45 Data Assurance requirements

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	Data assurance guidance

14.38 The reason for amending the current licence condition is to update the drafting in accordance with the RIIO-2 drafting principles, in particular to create a consistent approach for establishing and amending Associated Documents.

14.39 The effect is to create consistency and clarity in the SLCs and SpCs.

#### SLC 46 Regulatory Instructions and Guidance

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	Regulatory instructions and guidance

14.40 The reason for amending the current licence condition is to update the drafting in accordance with the RIIO-2 drafting principles, in particular to create a consistent

approach to establishing and amending Associated Documents and to reflect changes to the defined terms used in the SpCs.

14.41 The effect is to create consistency and clarity in the SLCs and SpCs.

**SLC 48 The Innovation strategy**

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.42 The reason for the amendment to the licence condition is to update the existing ED1 definition of Innovation Strategy. The definition previously referred to an ED1 decision document, and now lists what the licensee must include in its Innovation Strategy to comply with the licence condition. We have also made minor drafting improvements and updated references to CRC 2H to the new numbering we are proposing for RIIO-ED2: SpC 5.2.

14.43 The effect of the amendments is to improve the clarity of the licence.

**SLC 48A Electricity Network Innovation Strategy**

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

14.44 The reason for the amendments proposed is to update references from RIIO-ED1 to RIIO-ED2 e.g. dates and licence condition names, and secondly to make drafting changes which clarify the scope of the Electricity Network Innovation Strategy and what it must include. Third, we are proposing to introduce a requirement to have regard to Whole System Solutions and to this end a requirement to consult with stakeholders in relevant sectors has been added.

14.45 The effect is to improve the clarity of the licence to oblige the licensee to work with other parties to maintain the Electricity Network Innovation Strategy.

**SLC 50 Business Plan Commitment Reporting**

Type of change	Amendment to existing licence condition
Draft Determination reference	N/A
Associated Document	Business Plan Commitment Reporting Guidance

14.46 The reason for amending the current licence condition is to update the drafting in accordance with the RIIO-2 drafting principles, the reporting requirements in

RIIO-ED2, and to set out the reporting expectations clearly and transparently for the network licensee.

14.47 The effect of the amendments is to accurately reflect the reporting arrangements for RIIO-ED2.

## 15. Removed Licence Conditions

15.1 This chapter of our consultation sets out those SpCs and SLCs that we are proposing to delete.

### CRC 1A Overview of Part 4

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.2 The reason for removing this condition is because we do not consider it necessary in light of the improved structure we are introducing for the SpCs. We are proposing to move Part C, which we do think is useful to SpC 1.2 (Definitions and references to the Electricity Distributors).

15.3 The effect of removing this condition is to improve the structure and clarity of the licence.

### CRC 2E Incentive on Connections Engagement

Type of change	Removal of existing licence condition
Draft Determination reference	SSMD Annex 1, paragraphs 5.87 – 5.89
Associated Document	N/A

15.4 The reason for removing this condition is because we are removing the incentive for RIIO-ED2. The treatment of the incentive for the final year of RIIO-ED1 is managed through SpC 7.4 (Legacy incentive performance).

15.5 The effect of this condition is that there will be no Incentive on Connections Engagement in RIIO-ED2.

### CRC 2G The losses discretionary reward

Type of change	Removal of existing licence condition
Draft Determination reference	SSMD Annex 1, paragraphs 9.88 – 9.89
Associated Document	N/A

15.6 The reason for removing this condition is to reflect our decision in SSMD to remove the losses discretionary reward.

15.7 The effect of removing this condition is to have no losses discretionary reward in RIIO-ED2.

### CRC 2I Not Used

Type of change	Removal of existing licence condition
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**CRC 2I Not Used**

Draft Determination reference	N/A
Associated Document	N/A

15.8 The reason for removing this condition is because it is not currently used and with the complete rewrite of the SpCs it is no longer necessary to retain this placeholder for the purposes of numbering.

15.9 The effect of removing this condition is to improve the structure and clarity of the licence.

**CRC 2M Adjustment of licensee’s revenues for the residual distribution losses incentive**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.10 The reason for removing this condition is because it was a legacy item for the price control before RIIO-ED1 that is no longer required in RIIO-ED2.

15.11 The effect of removing this condition is to remove this redundant mechanism.

**CRC 2O Not Used**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.12 The reason for removing this condition is because it is not currently used and with the complete rewrite of the SpCs it is no longer necessary to retain this placeholder for the purposes of numbering.

15.13 The effect of removing this condition is to improve the structure and clarity of the licence.

**CRC 2P Shetland Variable Energy Costs Pass-Through Items**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.14 The reason for removing this condition is because it has been consolidated alongside CRC 2R under SpC 6.1 (Pass-through items).

15.15 The effect of removing this condition is to simplify the licence.

**CRC 2Q Arrangements for the recovery of costs for an integrated plan to manage supply and demand on Shetland**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.16 The reason for removing this condition is because it is no longer required as we are proposing to introduce other mechanisms to manage the costs relating to the long term plan for Shetland (such as Part P of SpC 3.2 (Uncertain Costs Re-openers)).

15.17 The effect of removing this condition is to remove this mechanism.

**CRC 2R Shetland Extension Variable Energy Costs Pass-Through Items**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.18 The reason for removing this condition is because it has been consolidated alongside CRC 2P under SpC 6.1 (Pass-through items).

15.19 The effect of removing this condition is to simplify the licence.

**CRC 3C Specified Financial Adjustments**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.20 The reason for removing this condition is because of the changes we have made to the structure of the licence and the ED2 Price Control Financial Handbook, as well as to the Annual Iteration Process (AIP).

15.21 In RIIO-ED1 Ofgem determined, updated and directed the PCFM Variable Values as well as the MOD term at each AIP publication. CRC 3C provides for the determination and direction of the finance-related PCFM Variable Values as part of the RIIO-ED1 AIP. For RIIO-ED2 we have proposed to change this process such that the PCFM Variable Values should be updated and published by the DNOs themselves.<sup>21</sup>

15.22 In moving towards a process wherein licensees populate and submit the ED2 Price Control Financial Model for an AIP, there will be a need for detailed

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<sup>21</sup> See paragraphs 15.28 – 15.31 of this document.

instructions and guidance around the PCFM Variable Values, which licensees are expected to update. We think this would be best included in a new document: the PCFM Guidance, which would sit within the RIGs.

15.23 PCFM Variable Values will be calculable based on a clearly defined calculation or separate process set out in either the licence, ED2 Price Control Financial Handbook or PCFM Guidance. We propose that the handbook will include variable value methodologies for the PCFM Variable Values that Ofgem is responsible for calculating, eg those related to the cost of capital or inflation inputs and that the PCFM Guidance will include the instructions and guidance for the PCFM Variable Values that the licensee must calculate. As such there will be no need for CRC 3C.

15.24 The effect of removing this condition is to improve the structure and clarity of the licence.

#### CRC 3D Innovation Roll-out Mechanism

Type of change	Removal of existing licence condition
RIIO-ED2 Framework Decision reference	Paragraph 2.81
Associated Document	N/A

15.25 The reason for removing the condition is to reflect the omission from RIIO-ED2 of the Innovation Roll-out Mechanism, as per our SSMD.

15.26 The effect of removing the condition is that no Innovation Roll-Out Mechanism will be available in RIIO-ED2.

#### CRC 3E Smart Meter roll out costs

Type of change	Removal of existing licence condition
Draft Determination reference	Draft Determinations Core Methodology document, paragraph 7.379
Associated Document	N/A

15.27 The reason for removing the condition is because we propose to remove the Smart Meter roll out costs volume driver mechanism for RIIO-ED2 and fund these costs through ex ante allowances only.

15.28 The effect of removing the condition is that Smart Meter roll out volume driver funding will stop at the end of RIIO-ED1.

#### CRC 3G Revising the allowed level of Load Related Expenditure

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.29 The reason for removing the condition is because we are proposing other mechanisms to manage Load Related Expenditure in RIIO-ED2 (such as Part K of SpC 3.2 (Uncertain Costs Re-openers), SpC 3.9 (Load Related Expenditure volume drivers) and SpC 3.11 (Net to gross adjustment for Load Related Expenditure), meaning this condition is no longer required.

15.30 The effect of removing the condition is to remove this mechanism.

CRC 3I Not used	
Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.31 The reason for removing this condition is because it is not currently used and with the complete rewrite of the SpCs it is no longer necessary to retain this placeholder for the purposes of numbering.

15.32 The effect of removing this condition is to improve the structure and clarity of the licence.

CRC 3K Rail electrification adjustments (NGED only (formerly WPD))	
Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.33 The reason for removing this condition is because we are proposing to have a Rail Electrification Re-opener in RIIO-ED2 in Part C of SpC 3.2 (Uncertain Costs Re-openers) that is available to all DNOs. There is no longer, therefore, any need for this WPD specific mechanism.

15.34 The effect is to remove this mechanism.

CRC 4B Annual Iteration Process for the ED1 Price Control Financial Model	
Type of change	Removal of existing licence condition
Draft Determination reference	Finance Annex paragraph 10.123 – 10.126
Associated Document	N/A



15.35 The AIP is the formal process of updating the PCFM Variable Values to calculate the annual incremental change or “MOD”, to Base Revenues<sup>22</sup> as they were set in Final Determinations. During RIIO-ED1, the AIP concluded by 30 November in each Regulatory Year at which point Ofgem formally directed the value for the MOD adjustment and each of the updated PCFM Variable Values. Once directed, the MOD value feeds into the calculation of the companies’ maximum allowed revenues for the Regulatory Year commencing on the following 1 April. For RIIO-ED2, we are proposing to change the process and remove this condition from the licence and to instead include a section within the ED2 Price Control Financial Handbook and PCFM Guidance, describing the steps of the AIP, for DNOs. We have set out the reason and effect of this deletion under the sub-headings, below.

**Licensee self-publication of allowed revenue**

15.36 We propose to require licensees to update and publish the ED2 Price Control Financial Model themselves in RIIO-ED2, in accordance with the ED2 Price Control Financial Handbook and PCFM Guidance. With a self-publication requirement, licensees will be responsible for calculating their own Allowed Revenue values and publishing the ED2 Price Control Financial Model on their websites with charging statements. This process would not require any Ofgem direction, instead Ofgem will simply publish a consolidated version of the DNO-published ED2 Price Control Financial Models used for charge-setting.

15.37 The reason for this is to move towards a process that can run with less intervention from the regulator. This will enable licensees to more easily reflect changes to their variable values where those are subject to volatile fluctuations and would make the price control more cost-reflective.

15.38 Also, with changes to the licence, guidance and Associated Documents making it transparent how the AIP should be completed, there is no need for Ofgem to direct the outcome of the AIP. In the RIIO2 price control for the GD&T companies we took a step in this direction, with Ofgem still conducting the AIP but publishing it rather than directing it. This goes a step further as we have further grown in confidence about the clarity provided on how to conduct the AIP. PCFM Variable Values will be calculable based on a clearly defined calculation or separate

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<sup>22</sup> Base Revenue represents a large component, but not the entirety of network companies’ maximum allowed revenues. The ED2 Price Control Financial Model only contains Base Revenue and, following each AIP the re-calculated Base Revenue. The remaining components of Allowed Revenue (incentive revenues, pass-through items etc.) are calculated and recorded in the Revenue RRP

process set out in either the licence, ED2 Price Control Financial Handbook or PCFM Guidance. In some cases, individual variable values may be adjusted by an Ofgem direction and the process for this will be set out in the individual licence conditions.

15.39 As a result we have removed the text relating to the publication of the AIP and the direction of the variable values from the licence.

### **Description of the AIP**

15.40 We are proposing to move the remaining text listing the steps outlining the process of updating the ED2 Price Control Financial Model to the ED2 Price Control Financial Handbook and the PCFM Guidance.

15.41 The reason for this is because we are proposing to require licensees to update their Allowed Revenue figure and publish the ED2 Price Control Financial Model themselves. As such, this text becomes part of the guidance provided to licensees for how to update the ED2 Price Control Financial Model. We have shared early iterations of both the ED2 Price Control Financial Handbook and the PCFM Guidance and will continue to work with licensees to develop the drafting of these ahead of the first ED2 Price Control Financial Model submission. We have also published these alongside this consultation.

15.42 As a result there is no longer any need for a licence condition to deal with the AIP process.

### **Consolidated reporting and calculation of allowed revenue**

15.43 We propose to include all of the components of Allowed Revenue in the ED2 Price Control Financial Model rather than just the Base Revenue and MOD elements, as is currently the case.

15.44 The reason for this is to reduce duplicative inflation and time value of money adjustments and to fully align the calculations in the ED2 Price Control Financial Model with the licence algebra in the special licence conditions.

15.45 The effect of this is to amend the focus of AIP from the MOD term to total Allowed Revenue. There will therefore be no references to the MOD in any of our RIIO-ED2 licence conditions, PCFIs or Associated Documents.

#### **CRC 4C Price control update provisions for WPD (NGED only (formerly WPD))**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A

**CRC 4C Price control update provisions for WPD (NGED only (formerly WPD))**

Associated Document	N/A
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15.46 The reason for removing this condition is because it relates only to the ED1 Price Control Period and contained specific provisions in relation to the fast-tracking of Western Power Distribution, which does not apply to RIIO-ED2 and therefore is no longer necessary to retain in the licence.

15.47 The effect of removing this condition is to remove this mechanism.

**CRC 5F Treatment of income from recovery in respect of relevant theft electricity**

Type of change	Removal of existing condition
Draft Determination reference	N/A
Associated Document	N/A

15.48 The reason for removing this as a standalone condition is because it can be more neatly dealt with as part of SpC 9.7 Directly Remunderated Serviced.

15.49 The effect of removing this condition is to improve the structure and clarity of the licence.

**CRC 5H Not used**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.50 The reason for removing this condition is because it is not currently used and with the complete rewrite of the SpCs it is no longer necessary to retain this placeholder for the purposes of numbering.

15.51 The effect of removing this condition is to improve the structure and clarity of the licence.

**CRC 5I Not used**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.52 The reason for removing this condition is because it is not currently used and with the complete rewrite of the SpCs it is no longer necessary to retain this placeholder for the purposes of numbering.

15.53 The effect of removing this condition is to improve the structure and clarity of the licence.

**CRC 5J Not used**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.54 The reason for removing this condition is because it is not currently used and with the complete rewrite of the SpCs it is no longer necessary to retain this placeholder for the purposes of numbering.

15.55 The effect of removing this condition is to improve the structure and clarity of the licence.

**SLC 47 Environmental reporting**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.56 The reason for removing this condition is because of our proposal instead to introduce SpC 9.1, which also deals with environmental reporting. We have chosen to locate this condition in the SpCs for RIIO-ED2 to reflect its relationship with the price control and to match the other sectors, which has administrative benefits, for example in managing the related Environmental Reporting Guidance.

15.57 The effect of removing this condition is to avoid duplication of obligations.

**SLC 51 Network asset indices methodology**

Type of change	Removal of existing licence condition
Draft Determination reference	N/A
Associated Document	N/A

15.58 The reason for removing this condition is because of our proposal instead to introduce SpC 3.1 (Allowed Network Asset Risk Metric expenditure) and 9.2 (Network Asset Risk Metric methodology) on network assets and to deal with close out of the RIIO-ED1 scheme in the ED2 Price Control Financial Handbook.

15.59 The effect of removing this condition is to avoid duplication in the licence.

## 16. ED2 Price Control Financial Handbook

ED2 Price Control Financial Handbook	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	ED1 Price Control Financial Handbook
Draft Determination reference	RIIO-ED2 Draft Determinations – Finance Annex; Chapter 10
Associated Document	PCFM Guidance, Regulatory Instructions and Guidance

- 16.1 The reason for this amendment is to replace the ED1 Price Control Financial Handbook with one that is relevant to the RIIO-ED2 Price Control, rather than ED1. It also adds new obligations that the licensee must fulfil to calculate Allowed Revenue. These changes are to facilitate the self-publication process described in the finance annex of Draft Determinations.
- 16.2 The effect is to document the RIIO-ED2 Price Control Financial Model, list RIIO-ED2 PCFM Variable Values, and detail RIIO-ED2 methodologies: including the methodologies to closeout the ED1 price control.

## Appendix 1 Licence drafting principles

### General principles

- A1.1 The focus of licence conditions will be on what licensees are required to do and what is the impact on allowed revenue. Licence conditions will set out the procedure Ofgem will follow for things such as directions.
- A1.2 Use plain English wherever possible.
- A1.3 We will aim for consistency in common drafting and create templates to make that easier.
- A1.4 Use "must" instead of "shall" for placing obligations on the licensee.
- A1.5 Use the active rather than the passive voice i.e. "the licensee must send a notice", rather than "a notice must be sent by the licensee".
- A1.6 Use sub-paragraphs to show items in a list for clarity. The Oxford comma may assist in the understanding of a provision by showing that the last two items in a list are separate, but it is clearer to use sub-paragraphs. For example, "wash, cut, and blow dry" is clearer than "wash, cut and blow dry", but "(a) wash; (b) cut; and (c) blow dry" is even clearer.
- A1.7 "Condition", "licence", "*standard conditions*" and "*special conditions*" should all be lower case, unless at the beginning of a sentence or naming a specific condition e.g. Standard Condition 1 (Definitions for the standard conditions). Note in ED1 we were somewhat inconsistent about this: lower case was used when naming specific standard conditions but upper case was used for charge restriction conditions, both generically and in relation to specific conditions.
- A1.8 We will not use the term "Charge Restriction Conditions". It does not differentiate from other types of special condition, since all ED1 special conditions are charge restriction conditions so it does not seem to add value, but does create an inconsistency with the other sectors. Further, in our proposed structure we will have conditions in Chapter 9 that do not restrict charges, but otherwise relate to ED2, making it inaccurate e.g. digitalisation, annual environmental reporting, cyber resilience reporting.
- A1.9 Defined terms will be capitalised and in the SpCs will all be set out in SpC 1.2 (Definitions and references to the Electricity Distributors), not in individual licence conditions.

- A1.10 Algebraic terms will be limited to a maximum of four letters wherever possible, plus, where appropriate, a subscript.
- A1.11 Avoid cross references if possible. Where needed, the first cross reference to another condition should refer to the number and the title. Subsequent cross references in the same condition should simply refer to the number.
- A1.12 Not say "above" or "below" when referring to another licence condition, or a particular paragraph within a licence condition.
- A1.13 When referring to a particular Part within a licence condition, refer to "Part X" without saying "of this condition".
- A1.14 When referring to an Appendix to the same licence condition, refer to "*Appendix X*" without saying "*to this condition*".
- A1.15 Use "*determine*" only when referring to the actual determination of a question or dispute referred to us, otherwise use "decide", or "direct" if we will be issuing a direction.
- A1.16 We will try to avoid qualified obligations that rely on "*endeavours*" and instead provide specifically for the circumstances where an obligation does not need to be met or for a derogation to be obtained. Where we need to use "*endeavours*" we will decide whether to use "*best endeavours*" or "*reasonable endeavours*" on a case by case basis. We will not use "*all reasonable endeavours*" since its meaning is less clear than the other two phrases.
- A1.17 Structure: all conditions will have titles and headings, which should be informative. Headings can take the form of questions. All conditions will have introductions, which should be no more than three paragraphs long and is non-operative text. Conditions should have a logical structure with impacts on revenue dealt with first, and with substantive matters dealt with before procedural matters.
- A1.18 Where possible we will deal with interpretation issues globally in SpC 1.1 (Interpretation) e.g. price base.
- A1.19 We will generally make definitions that rely on other documents ambulatory where Ofgem has some control over those other documents and static where it does not.
- A1.20 We will reduce administrative burden by having one version of the Special Conditions for as long as possible, splitting it out for separate licensees late in the process and using "Not Used" for licence conditions that are not applicable to a particular licensee.

## Appendix 2 Associated Document principles

The Associated Document principles are:

### A2.1 Associated Documents:

- Must have a logical title, which gives the reader a sense of what the Associated Document will contain and use relevant words from the licence condition in the title
- Should only be used where more detail and explanation is required, beyond that in the relevant licence condition
- May contain obligations, guidance and/or other useful information with which the licensee does not have to comply. Where there is a mix of obligations and information, the Associated Document must be clear whether each section is an obligation or guidance only
- Where an Associated Document contains obligations on the licensee, those obligations must be clearly drafted and it must be clear whether the licensee is required to comply with the obligations or use best or reasonable endeavours to comply with it so the licensee can be sure what is expected of it
- Must be published in a timely fashion bearing in mind the specifics of the Associated Document and the obligations in question.

### A2.2 The relevant licence condition must set out clearly:

- Whether the licensee is required to comply with an Associated Document, use best or reasonable endeavours to comply with it or simply have regard to it
- The circumstances in which the licensee has to comply with, use best or reasonable endeavours to comply with or have regard to the Associated Document
- What the Associated Document will encompass
- The change control process that applies to the Associated Document.



- A2.3 There should be a clear division between Associated Documents such that they do not cover the same ground.
- A2.4 The relevant licence condition should not state that "the licensee does not need to comply with [the AD] until it has been issued", as that is inherent in the process of issuing Associated Documents.

## Appendix 3 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](mailto: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.

#### 4. With whom we will be sharing your personal data

We will not be sharing your personal data.

#### 5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for twelve months after the consultation has closed.

#### 6. 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.

7. Your personal data will not be sent overseas.

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

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

**More information**

10. or more information on how Ofgem processes your data, click on the link to our "[Ofgem privacy promise](#)".