

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

| Subject                  | Details                 |
|--------------------------|-------------------------|
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## Executive Summary

This decision covers a series of modifications to the RIIO-2 Price Control Financial Handbook (handbook), Price Control Financial Model (PCFM) and Special Licence conditions for Gas Transmission (GT), Gas Distribution (GD) and Electricity Transmission (ET) that we consulted on, on 23 September 2022. These modifications will enable the implementation of our closeout methodology decisions:

- Decision on the closeout methodologies for RIIO-GD<sup>1</sup>
- Decision on the closeout methodologies for RIIO-ET<sup>2</sup>
- Decision on the closeout methodologies for RIIO-GT<sup>3</sup>
- Decision on the RIIO-1 close out methodologies for the Electricity System Operator<sup>4</sup>

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<sup>1</sup> Ofgem, "[Decision on the closeout methodologies for RIIO-GD1](#)", 14 April 2022.

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

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

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

## Direction

**To:**

**National Grid Electricity Transmission Plc**  
**SP Transmission Limited**  
**Scottish Hydro Electric Transmission Plc**  
**National Grid Electricity System Operator Limited**  
**Cadent Gas Limited**  
**Northern Gas Networks Limited**  
**Scotland Gas Networks plc**  
**Southern Gas Networks plc**  
**Wales & West Utilities Limited**  
**National Grid Gas plc**

**Electricity Act 1989**

**Section 11A(2)**

**Gas Act 1986**

**Section 23(2)**

**Modification of the special conditions of the Gas Transporter and Electricity Transmission licence and Price Control Financial Instruments**

1. Each of the companies to whom this notice is addressed holds
  - A gas transporter licence, granted or treated as granted under section 7 of the Gas Act 1986 ('the Gas Act'); or
  - An electricity transmission licence granted, or treated as granted, pursuant to section 6(1)(b) of the Electricity Act 1989 ('the Electricity Act').
2. Under section 11A (2)- of the Electricity Act, and section 23(2)- of the Gas Act, the Gas and Electricity Markets Authority ('the Authority')<sup>5</sup> gave notice on 23 September 2022 ('the Notice') that it proposed to modify the special licence conditions, Price Control Financial Handbook and Price Control Financial Model (collectively termed the Price Control Financial Instruments).<sup>6</sup>
3. The Notice stated that any representations on these proposed modifications must be made on, or before 21 October 2022.

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<sup>5</sup> The terms 'Ofgem', 'we' and 'us' are used interchangeably in this notice. Ofgem is the office of the Gas and Electricity Markets Authority.

<sup>6</sup> [Statutory Consultation to modify the RIIO-2 Price Control Financial Instruments and Licence conditions to implement the closeout of RIIO-1 | Ofgem](#)

4. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act and we have not received any direction that the modifications should not be made.
5. We received numerous responses to the Notice from stakeholders, which we have carefully considered and set out along with our responses to them in the Issues Log published alongside this decision. Responses marked as confidential have not been published in the Issues Log.
6. Most of the responses received related to drafting changes and corrections, which serve to aid clarity and consistency across the licence and licence instruments and do not change the meaning of the drafting or the calculations within the models. Some examples include the inclusion of missing labels and terms within the Price Control Financial Models and drafting tweaks and corrections within the licence conditions and Price Control Financial Handbooks.
7. Some responses related to the wider process around the close-out of RIIO-1, which do not directly relate to the modifications that we consulted on in the Notice. We have responded to these in the Issues Log noting that where necessary a separate round of licence modifications will be undertaken in future, or where the point is a process point, that these have already been discussed with the affected licensees through this year's Annual Iteration Process and the issues have been resolved.
8. Having carefully considered the response received to the Notice, we have decided to proceed with the proposed licence modifications as set out in the Notice, with some alterations to reflect the stakeholder feedback received. These alterations are highlighted in yellow in the modified Special Licence Conditions and Price Control Financial Instruments as shown in the following schedules to this Direction:
  - Schedule 1- Gas Transmission
  - Schedule 2- Gas Distribution
  - Schedule 3- Electricity Transmission TO
  - Schedule 4- Electricity Transmission SO
  - Schedule 5- RIIO-2 Price Control Financial Models
  - Schedule 6- Subsidiary workbooks<sup>7</sup>
  - Schedule 7- Issues log
9. The reason for these modifications is threefold:
  - a. To provide a vehicle for the financial effect of closeout of the RIIO-1 price control in the RIIO-2 licence conditions.
  - b. To allow for the calculation of the TRU term within the RIIO-2 PCFM, which means the legacy term can be finalized without extension of complex reporting packs. It also applies the correct amount of WACC and inflation, without needing to true up these values or have them different from the rest of the price control.

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<sup>7</sup> Alongside the modified special licence conditions and Price Control Financial Instruments, we have also published a set of subsidiary workbooks in Schedule 6. These files form part of our close-out process and are for reference only.

- c. To ensure the disposals values are consistent between the RIIO-GD1 legacy and closeout files and the RIIO-GD2 PCFM, as well as true up disposal values within RIIO-2 rather than waiting for closeout.

10. The effect of these modifications is as follows:

- a. The changes to the special conditions set out how a closeout adjustment will affect revenue in RIIO-2.  
The changes to the handbook add the necessary licensee inputs to table 3.1 and set out a process by which COA and LRAV values (referenced in the special conditions<sup>8</sup>) are determined and directed by the Authority.  
The changes to the PCFM allow it to accept the necessary closeout inputs and perform the calculation of LMOD as set out in the revised special conditions.
- b. The changes to the special conditions end the current TRU calculation after the first two years, and specify a new calculation for the next two years.  
The changes to the handbook add the necessary licensee inputs to table 3.1 (REV and RPIF).  
The changes to the PCFM accept the necessary TRU inputs and perform the calculation set out in the revised special conditions.
- c. The change allows GDN licensees to revise the variable “Disposals net sales proceeds” during the price control.

11. Where an application for permission to appeal this decision is made to the Competition and Markets Authority (CMA) under section 11C of the Electricity Act and section 23B of the Gas Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2.

12. Under the powers set out in section 11A(1)(a) of the Electricity Act and section 23(1) of the Gas Act, we hereby modify the Price Control Financial Instruments and the Special Licence Conditions of the Licence in the manner specified in Schedules 1-5. This decision will take effect not less than 56 days after this decision is published.

**Jourdan Edwards**  
**Interim Deputy Director, Onshore Networks**  
**Duly Authorised by the Authority**  
**31 October 2022**

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<sup>8</sup> Special Conditions as follows: GT - 7.3, 7.9, 7.11 and 7.17, ET & GD- 7.3 and 7.12, ESO- 4.8 and 4.9.