

Consultation

Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

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Contact:	Joanna Gaches, Senior Manager
Team:	Networks
Telephone:	020 7901 0510
Email:	Joanna.Gaches@ofgem.gov.uk

This statutory consultation sets out the proposed changes to the licence conditions required to implement the RIIO-ED2 settlement for the electricity distribution network companies (Distribution Network Operators (DNOs)).

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 our decisions in the Sector Specific Methodology Decision (SSMD)¹ and the Final Determinations² on the RIIO-ED2 Price Control settlements for the electricity distribution networks (DNOs). These conditions would apply from 1 April 2023.
- 1.2 The modifications we are proposing to make are set out in annexes to this consultation.
- 1.3 Within this document, we set out the reasons why we propose to make these changes and their intended effect.

Context of these proposed licence changes

- 1.4 We are proposing changes primarily to the following electricity distribution network operator licences³:

Acronym	Group	Licensees (and acronym)
ENWL	Electricity North West Limited	Electricity North West Limited (ENWL)
NGED	National Grid Electricity Distribution ⁴	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 (SWEST)
NPg	Northern Powergrid	Northern Powergrid: Northeast (NPgN) Northern Powergrid: Yorkshire (NPgY)

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

² [RIIO-ED2 Final Determinations | Ofgem](#)

³ Note that Standard Licence Conditions may apply to licensees other than those listed and some of the Associated Documents published alongside this consultation apply to other network licensees subject to the RIIO Price Control.

⁴ Western Power Distribution (WPD) became part of the National Grid Group following its acquisition in 2021. It was renamed National Grid Electricity Distribution (NGED) from 21 September 2022.

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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)

1.5 There are two different types of licence conditions to which we are proposing changes. We have summarised these below.

Standard Licence Conditions (SLCs)

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

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

Special Conditions (SpCs)

1.8 SpCs are conditions that apply to a particular licensee. However, the wording is often the same for all licensees of a particular type. 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.

Structure of the special licence conditions following allowed revenue

1.9 In our September 2022 informal licence drafting consultation⁵ we proposed changing the structure of the SpCs in light of the substantial changes being made to them to introduce RIIO-ED2. This will help improve navigation and provide greater clarity on the types of regulatory mechanisms that will be implemented for RIIO-2. Our proposed modifications to the SpCs in this statutory consultation are in line with this proposed restructure.

1.10 We are not proposing structural changes to the SLCs and are making fewer changes overall to those licence conditions in order to implement RIIO-2.

⁵ <https://www.ofgem.gov.uk/publications/riio-ed2-informal-licence-drafting-consultation>

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

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
Chapter 6	Pass-through expenditure
Chapter 7	Legacy adjustments
Chapter 8	Governance
Chapter 9	General obligations

Types of changes to licence conditions

1.12 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).

1.13 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
- a blank template 'issue log' for responses to this consultation
- the ED2 Price Control Financial Handbook (PCFH) and ED2 Price Control Financial Model (PCFM)
- the NARM Workbook
- the Load Related Expenditure Volume Drivers Governance Document

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- ‘issue logs’ for conditions previously discussed with DNOs where queries were raised.

1.14 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 published a version of the developing licence at the same time that we published our Draft Determinations in July 2022 and we conducted an informal consultation on the licence as it stood at that time in September 2022.

Responses to September licence drafting consultation questions

1.15 In our September informal consultation on the licence, we asked a number of specific questions, plus open questions asking for views on each Chapter. Specific responses to each licence condition can be found in the ‘issue logs’ for each condition. In this section we address the other questions and responses to that consultation. We received responses from each of the DNOs as well as National Grid Electricity Transmission, Wales and West Utilities and a consumer body.

September consultation questions

Q1. Do you have any views on the RIIO-ED2 licence drafting principles?

Q2. Do you have any views on the definitions and the defined terms?

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

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?

Q6. Are there any areas where the licence drafting has not correctly implemented the proposals set out in paragraph 4.1 (consolidated reporting, consolidated correction factor, and replacement AIP processes)? If so please describe.

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

Q8. What are your views on the proposed changes to the SpCs in Chapter 1 of the licence?

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

Q10. What are your views on the proposed changes to the SpCs in Chapter 2 of the licence?

Q11. What are your views on the proposed changes to the SpCs in Chapter 3 of the licence?

- 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?
- Q13. What are your views on the proposed changes to the SpCs in Chapter 4 of the licence?
- Q14. What are your views on the proposed changes to the SpCs in Chapter 5 of the licence?
- Q15. What are your views on the proposed changes to the SpCs in Chapter 6 of the licence?
- Q16. What are your views on the proposed changes to the SpCs in Chapter 7 of the licence?
- Q17. What are your views on the proposed changes to the SpCs in Chapter 8 of the licence?
- Q18. What are your views on the proposed changes to the SpCs in Chapter 9 of the licence?

Qn 1. Do you have any views on the RIIO-ED2 licence drafting principles?

- 1.16 NPg responded to say that they agree with the licence drafting principles.
- 1.17 UKPN responded to say that they are supportive of the principles since they were party to their creation, as were all of the DNOs since the principles were discussed at LDWG and amended in light of those discussions. However, they thought SpC 1.1 should be amended to reflect the principle that introductory text for each condition is for information only. This change has been made.
- 1.18 ENWL responded to say that they consider the principles are clear but have not been followed in all circumstances, giving SpC 3.2 as an example where a template was created but differences have emerged between Parts. They and other DNOs gave detailed feedback on inconsistencies on this condition and we have attempted to rectify this. Please see the relevant issue log for further details.
- 1.19 ENWL also disagreed with the principle that the focus of the licence should be obligations on the licensee rather than Ofgem. However, we continue to believe this is right. Fundamentally the licence conditions are conditions imposed upon the licensee in order to hold a licence to carry out the licensed activity. As such the conditions should primarily focus on what the licensee has to do and in relation to RIIO how to ascertain allowed revenue. We have not sought to

remove all obligations on the Authority, as we recognise that in order to create certain processes such as self-modification of the licence it is necessary to set out how the Authority must do things. As such the phrase “the Authority must” appears in various parts of the licence.

- 1.20 However, we do not consider it appropriate to impose wider obligations on ourselves. We are already subject to public law and as a creature of statute the limitations created by Parliament in relevant legislation, it would not be possible or appropriate for us to purport to over write this. For example, one of the obligations DNOs have repeatedly requested that we have in the licence is for the Authority to “consider all consultation responses” before making a decision. We do not consider this is necessary or appropriate. It is unnecessary because public law already requires us to consider all relevant information and to disregard all irrelevant information. To the extent that consultation responses are relevant we are therefore already required to consider them. However, to bind ourselves to consider responses regardless of relevance (acknowledging they are likely to be relevant) is to overstep our powers. As such we believe we have got the distinction right in having obligations on the Authority in the licence requisite to establish processes needed for the operational stage of RIIO-ED2, whilst maintaining the focus of the licence on obligations on the licensees.
- 1.21 ENWL said that the principles should also apply to the drafting of Associated Documents. In relation to which see Question 4 below.
- 1.22 ENWL said that we had not applied the principle on “endeavours” properly. In relation to the revenue restriction, please refer to Final Determinations for our policy decision on this matter. In relation to SLC 7A, SLC 15A and SLC 31E we are not making any changes to these conditions to implement ED2 and so we have not reviewed the use of “endeavours” in these conditions. The principles were always intended to apply only to the drafting we were doing to implement ED2. In relation to SLC 8 please see the relevant issues log.
- 1.23 SPEN suggested we create an overarching policy on when we would use “best endeavours” and when we would use “reasonable endeavours”. We do not agree and think it is best to approach each use on a case by case basis. We had a policy for the GD&T licence drafting: a preference to adopt “best endeavours” and ultimately we did not find this helpful. In practice, we had to consider each use on a case by case basis and as a result for ED2 we adopted this as our policy.

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- 1.24 SSEN generally supported the licence drafting principles. However, they said that the use of “best endeavours” by default was inappropriate. As set out above, this is not our policy. We have considered each use on a case by case basis.
- 1.25 They also disagreed with the extensive use of self-modification, pointing out the requirement to provide for the time, manner and circumstance for the use of each such power. We believe we have provided this for each power. Please see relevant issue logs for further detail.
- 1.26 They also suggested including derogations in the licence drafting principles. However, we think at most this would require a template derogation power rather than a principle. We consider derogations further below.

Qn 2. Do you have any views on the definitions and the defined terms?

- 1.27 The majority of DNOs confirmed that they had provided their views on definitions and defined terms in the relevant issue logs for each condition.
- 1.28 Additional points raised by SPEN, on SpC 9.5 Digitalisation, are dealt with in the SpC 9.5 issue log.
- 1.29 NGED queried whether the definition of ‘Materiality Threshold’ should be in the definitions or in SpC 3.2 for the re-openers. We have included the value of the Materiality Threshold for each licensee in the SpC 1.2 Definitions condition of their licence. We think this is neater as it is a capitalised defined term and all other capitalised defined terms are set out in SpC 1.2. It is also consistent with the GD&T sectors and provides for the possibility of the phrase being used outside of SpC 3.2.

Qn 3. What are your views on the proposed changes to the structure of the SpCs?

- 1.30 NPg agreed with the proposed changes to the structure of the SpCs. SSEN also responded to say that they support the changes and consider they provide a logical, clear and user-friendly structure to the licence.
- 1.31 ENWL and UKPN responded to say that they broadly agree with the proposed changes to the structure of the SpCs, but had specific feedback on the cyber and Price Control Deliverable (PCD) conditions. In relation to which see Questions 9 and 12 below.
- 1.32 SPEN responded to say that it considered the new structure is easier to follow and that alignment with the electricity transmission sector is logical. However, they consider that the conditions in Chapter 9 are eclectic and they would benefit from an explanation of why those conditions appear there rather than elsewhere in the

chapter. ENWL also believe that some conditions in Chapter 9 would better sit in the SLCs.

- 1.33 Chapter 9 is for licence conditions that contain licence obligations related to the RIIO Price Control, but that do not directly calculate allowed revenue. We recognise that other possible choices could have been made, for example SpC 9.4 requiring licensees to comply with the Re-opener Application Requirements and Guidance Document when making Re-opener Applications could have been a part of SpC 3.2 which contains most of the Re-openers. However, it also applies to SpC 3.4 and SpC 3.6 and it does not directly contribute to the calculate of the totex allowance, like the rest of Chapter 3, so we located it in Chapter 9. This also aligns with the GD&T sectors.
- 1.34 Whereas although we consider supporting vulnerable consumers an important part of ED2, we have located SLC 10AA in the SLCs because we consider it should also apply to other electricity distribution licence holders.
- 1.35 We have not applied a blanket policy, but considered the best location on a case by case basis to create ease of use by all stakeholders and the Authority.

Qn. 4 Do you agree with our principles for Associated Documents?

- 1.36 NPg responded to say that they agree with our principles for Associated Documents. However, they think any obligations on licensees in Associated Documents should be clearly expressed. We agree, this is one of the principles. They believe defined terms in the licence should not cross refer to Associated Documents. We disagree, it has been our practice for some time to cross refer to Associated Documents for certain definitions, particularly to the RIGs. This is because sometimes detailed definitions are better located in Associated Documents where that detail can be set out more fully or where it relates closely to other matters in those documents. However, we have taken on board feedback on a case by case basis and where it has been possible to lift up the definition into the licence we have done so in response to LDWG feedback. They also thought that where terms are defined in the licence, Associated Documents should not purport to amend those definitions. We are not aware of any incidence of this, but welcome feedback either in response to this licence consultation or the consultation on individual Associated Documents if this is the case.
- 1.37 ENWL said they thought the licence drafting principles should apply to Associated Documents. We do not agree. The principles were created specifically for the

licence conditions and the level of detail is probably in excess of what is appropriate for Associated Documents. However, we do endeavour to draft Associated Documents clearly, we use the defined terms from the licence or the RII02 Glossary where possible and we consult extensively on each of them to ensure they are clear and well written. None of the Associated Documents for ED2 are in force yet and opportunity remains for further feedback.

- 1.38 SPEN agreed with the principle around timely publication and expressed some concerns about the current timetable. UKPN similarly agreed with the principles, noting their participation in developing them through LDWGs, but comments on the current timetable. In relation to which see Question 5 below.
- 1.39 SPEN also agreed that the licence condition should make clear what the Associated Document should contain. They had specific comments on certain conditions, in relation to which see the relevant issues logs. They also felt the principles should be expanded to say what Associated Documents can't contain and in particular thought that where documents contain "key conditions, values or obligations, which have material financial or operational consequences to the licensee" these should be in the licence itself. We don't think the principles need to say what Associated Documents can't contain, as we have a clear ruling from the Competition and Markets Authority on joined ground D of the Energy Licence Modification Appeals 2021 that sets out those limits.⁶ Where documents directly impact allowances they are given the status of licence instrument instead, for example the ED2 Price Control Financial Instruments, the NARM Workbook and the Load Related Expenditure Volume Driver Governance Documents.
- 1.40 SSEN agreed with the proposed principles. They said that Associated Documents should provide detail and explanation to help DNOs comply with licence conditions, but they shouldn't be used to impose obligations. We disagree and the Competition and Markets Authority ruling on joined ground D of the Energy Licence Modification Appeals 2021 made clear that Associated Documents can contain obligations. SSEN made specific comments about the Load Related Expenditure Volume Driver Governance Document, and we have now made this a licence instrument.

⁶ <https://www.gov.uk/cma-cases/energy-licence-modification-appeals-2021#cma-publishes-summary-of-its-final-determination>

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Qn. 5 Do you have any views on our proposed list of Associated Documents and the timetable for consulting on and implementing them?

- 1.41 All DNOs responded with views on this question, in particular that all Associated Documents should be completed and published for consultation prior to the start of ED2, with some DNOs stating that they should all be published alongside this licence consultation to allow a full review of how licence conditions and associated guidance interact.
- 1.42 In our principles for Associated Documents we state that they will be published “in a timely fashion bearing in mind the specifics of the AD and the obligations in question”. Where possible we have shared drafts of Associated Documents with DNOs at working groups over the course of 2022. We also published ten Associated Documents alongside our September informal licence drafting consultation. We are publishing 14 Associated Documents alongside this statutory consultation. We have attempted to prioritise those most important to DNOs and the operation of RIIO-ED2. For example the Digitalisation Associated Documents are being consulted on at the start of 2023, but the DNOs have been voluntarily complying with these documents since January 2020. A table of all the Associated Documents that we are introducing or amending is below, with a timeline for their publication.
- 1.43 All Associated Documents will be consulted on and in place by the start of RIIO-ED2 on 1 April 2023.
- 1.44 ENWL asked for clarification on the legal status of those Associated Documents that are linked to the standard conditions. In the SpCs we have created a definition for Associated Documents as a useful drafting device because it enables the use of a common procedure in SpC 1.3. This definition doesn’t encapsulate those in the SLCs as that isn’t necessary, the procedure for those is set out in the relevant SLCs. However, we do consider all of the documents listed below to be RIIO-ED2 Associated Documents subject to the Associated Document principles.
- 1.45 More detailed comments from respondents on individual Associated Documents can be found in the relevant issue log for the licence condition to which they relate.

Licence condition	Licence condition Title	Associated Document name	Publication
3.4	UIOLI - Worst served customers	Worst Served Customers Allowance Governance Document	With this publication

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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 incentive	Distribution System Operator Incentive Guidance Document	With this publication
5.2	RIIO-2 Network Innovation Allowance (NIA)	RIIO-2 NIA Governance Document V3 Update	With this publication
5.3	Carry-over NIA	RIIO-1 Electricity NIA Governance Document V5 Update	With this publication
9.1	Annual Environmental Report	Environmental Reporting Guidance	February 2023
9.3	Evaluative Price Control Deliverable reporting requirements	PCD Reporting Requirements and Methodology Document V3	With this publication. Confidential cyber appendix to DNOs directly.
9.4	Re-opener Guidance and Application Requirements Document	Re-opener Guidance and Application Requirements Document	With this publication. Confidential cyber appendix to DNOs directly.
9.5	Digitalisation	Digitalisation Strategy and Action Plan Guidance	With this publication, but with a further consultation in February 2023
9.5	Digitalisation	Data Best Practice Guidance	With this publication, but with a further consultation in February 2023
9.9	Strategic Innovation Fund	SIF Governance Document	With this publication
9.13	Smart Optimisation Output	Smart Optimisation Output Guidance	With this publication
SLC 10AA	Treating Domestic Customers Fairly / Vulnerability LO	RIIO-ED2 Fair Treatment Guidance	With this publication

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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

Qn. 6 Are there any areas where the licence drafting has not correctly implemented the proposals set out in paragraph 4.1 (consolidated reporting, consolidated correction factor, and replacement AIP processes)? If so please describe.

- 1.46 Most respondents noted that specific issues have been raised in their issues logs, which we have reviewed, responded to and addressed where necessary and we enclose copies as part of this consultation. NPg and SPEN noted that the policies set out by Ofgem seem to be correctly implemented in the current drafting of the licence though SPEN notes that it has been difficult to fully assess without a complete ED2 PCFM, and completed associated guidance documents. SEN and NGED echoed this, noting that there are still major gaps within the licence and ED2 PCFH and so they were not able to provide a fully considered response in all areas.
- 1.47 We have published the ED2 PCFM and ED2 PCFH as part of this statutory consultation and we note an earlier version of the ED2 PCFM was published with our Final Determinations. Sections of the ED2 PCFH have been shared in draft with DNOs during our LDWG and where possible we have endeavoured to do the same with the Price Control Finance Model Guidance, although we note that the drafting of these is scheduled for after the licence modification.
- 1.48 SPEN raised some comments on specific policies that they disagreed with, including our decision on having a single Time Value of Money (TVM) mechanism to avoid the licensees “gaming” the Price Control to benefit from different interest rates used to true-up charging errors and revisions of PCFM inputs. We direct SPEN to our Draft and Final Determinations Finance Annexes in which we set out our policy justification for this decision.⁷
- 1.49 SPEN also disagreed with our policy decision to require DNOs to provide a PCFM with 14 days’ notice to Ofgem before tariff-setting, noting that this would bring

⁷ See para 10.133 of Finance Annex: [RIIO-ED2 Draft Determinations | Ofgem](#) and para 10.147 of the Finance Annex: [RIIO-ED2 Final Determinations | Ofgem](#)

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forward the tariff-setting timeline by two weeks and could result in changes arising in the last two weeks being excluded from allowed revenue. We will develop the practical implementation of this process ahead of the first ED2 Annual Iteration Process (AIP) to ensure that all material items are captured in Allowed Revenue and therefore reflected in tariffs in a timely manner.

Qn. 7 Are there other terms or definitions that would be valuable to standardise with other sectors?

1.50 DNOs broadly agree with the principal to standardise terms and definitions where possible and to align across the electricity and gas distribution and transmission licences. UKPN and ENWL do not agree with the proposal to change the term Use of System Charges to Network Charges noting that this term is used extensively throughout the SLCs and to change it risks unnecessary confusion. Having considered this feedback, we have decided to revert to Use of System Charges to avoid any confusion or any disconnect between the standard and special licence conditions.

Qn. 8 What are your views on the proposed changes to the SpCs in Chapter 1 of the licence?

1.51 Please see the issues log for Chapter 1 of the licence.

Qn. 9 Do you think any other common procedure should be added to Spc 1.3 (Common procedure)?

1.52 The DNOs suggested several new common procedures that could be added to SpC 1.3:

- directing additional Re-opener application windows
- instigation of a Re-opener by the Authority
- derogations, where the Authority directs that certain licence obligations do not apply to the licensee. These are normally tightly prescribed for example in relation to a particular time period, asset or geographic location.

1.53 In response, we have:

added Part B of SpC 1.3 setting out the common procedure for directing additional Re-opener application windows
extended the scope of the Re-opener Guidance and Applications Requirements Document to include guidance on the process for Re-openers including Authority instigation

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added Part S to SpC 3.2 making all Authority instigated Re-openers subject to the statutory modification process.

1.54 ENWL thought we should also move the PCD assessment methodology from SpC 3.3 to SpC 1.3. However, we disagree as it is currently only relevant to SpC 3.3. Whereas the Part B is already relevant to SpC 3.2, 3.4 and 3.6.

1.55 In relation to derogations, the DNOs’ view was that in light of the experience of COVID-19, Ofgem should introduce more derogations into the licence and potentially the common procedure for those should sit in SpC 1.3. At the November LDWG, we asked DNOs for a more specific list of those provisions of the licence where they believed an additional ability to derogate was required. This list and our response is set out below. For those conditions where we agree a derogation power would be useful we have added Part C to SpC 1.3.

DNO suggestion	Ofgem response
Standard Conditions	
SLC 7A Whole System – as it is unclear what will happen with implementation of the Smart Optimisation Output in SpC 9.13 and this may well supersede SLC 7A.	Disagree: we do not consider that the obligations in the new Smart Optimisation Output condition cross over with the obligations in this condition.
SLC 8 Safety and Security of Supplies Enquiry Service – in respect of the website being available at all times.	Disagree: we consider the availability of the licensee’s website, (to provide up to date information, guidance and advice about supply interruptions during severe weather or other events) to be a critical part of the DNO’s role. The licensee must ensure that it has sufficient workforce resilience to provide this service.
SLC14 Charges for Use of System and Connection. Charging statements to be always available – given the Distribution Use of Services reform underway, it may be prudent to build a derogation ability into this condition now.	Disagree: the reform will not affect the requirement for statements to be available.
SLC 22A Governance and change control arrangements for relevant charging methodologies – for the same reasons as SLC 14.	Disagree: we cannot see any reason for a derogation to be needed.
SLC 25 Long-Term Development Statement – mindful of the requirement to follow the form of statement for this	Disagree: the fact that work is still in progress does not mean there should be a pause between publications, but will need

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and the fact this area is fast developing and under review, derogation powers to remove specific requirements from the form of statement could be useful as we transition to an updated version.	to continue to publish the Long Term Development Statement according to the existing Form of Statement during the transition.
SLC 25B Network Development Plan – derogation to vary the submission date in line with similar powers for RIGs.	Disagree: these timings have already been amended to align with the Future Energy Scenarios, Distribution Future Energy Scenarios, and Networks Options Assessment – changing these would have ramifications for those processes.
SLC 43 Appointment of compliance officer – derogation to vary the submission date in line with similar powers for RIGs.	Disagree: this is not in the scope of changes to implement RIIO-ED2 as we are not carrying out a general review of SLCs.
SLC 48A Electricity Network Innovation Strategy – derogation to vary the submission date in line with similar powers for RIGs and wider derogation power to allow relief from obligations.	Disagree: we do not see any reason for additional formal derogation powers for this condition.
SLC50 Business Plan Commitment Reporting - commitment reports, derogation to vary the submission date in line with similar powers for RIGs and wider derogation power to allow relief from obligations.	Disagree: we do not see any reason for additional formal derogation powers for this condition.
Special conditions	
SpC 4.5 Major Connections output delivery incentive – derogation to vary the submission date in line with similar powers for RIGs.	Agree: we can foresee that it might be useful to provide a derogation for the submission of the Major Connections Annual Report.
SpC 4.6 Consumer vulnerability output delivery incentive – derogation to vary the submission date in line with similar powers for RIGs.	Agree: we can foresee that it might be useful to provide a derogation for the submission of the Annual Vulnerability Report.
SpC 4.8 Distribution System Operation output delivery incentive – derogation to vary the submission date in line with similar powers for RIGs.	Disagree: we do not see any reason why this should be required. Additionally, allowing later submission may cause wider issues with the preparation of the DSO Incentive Report.
SpC 5.2 RIIO-2 network innovation allowance – in respect of compliance with the the RIIO-2 NIA Governance Document.	Disagree: the governance documents have provisions which allow networks to request our authorisation for not following default rules on, for example, knowledge dissemination or Intellectual Property (IP) for particularly sensitive projects. As regards knowledge sharing, the Governance Document is entirely self-contained. There is no clash with the

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	licence and, therefore, no need for a derogation.
SpC 5.3 Carry-over Network Innovation Allowance – in respect of compliance with the RIIO-1 Electricity NIA Governance Document.	Disagree: the governance documents have provisions which allow networks to request our authorisation for not following default rules on, for example, knowledge dissemination or IP for particularly sensitive projects. As regards knowledge sharing, the Governance Document is entirely self-contained. There is no clash with the licence and, therefore, no need for a derogation.
SpC 7.9 RIIO-ED1 Network Innovation Competition – in respect of compliance with the Electricity Network Innovation Competition Governance Document.	Disagree: the governance documents have provisions which allow networks to request our authorisation for not following default rules on, for example, knowledge dissemination or IP for particularly sensitive projects. As regards knowledge sharing, the Governance Document is entirely self-contained. There is no clash with the licence and, therefore, no need for a derogation.
SpC 9.1 Annual Environmental Report – derogation to vary the submission date in line with similar powers for RIGs.	Agree: we can foresee that it might be useful to provide a derogation for the submission of the Annual Environmental Report.
SpC 9.2 Network Asset Risk Metric methodology – derogation to vary the submission date in line with similar powers for RIGs.	Disagree: we do not think any additional derogation process is needed.
SpC9.3 Evaluative Price Control Deliverable reporting requirements – derogation to vary the submission date in line with similar powers for RIGs.	Disagree: we do not think any additional derogation process is needed.
SpC 9.4 Reopener Guidance and Application Requirements Document - in respect of compliance with the document.	Disagree: we do not think any additional derogation process is needed.
SpC 9.5 Digitalisation – derogation to vary the submission date in line with similar powers for RIGs and wider derogation power to allow relief from obligations.	Agree: we think this may be helpful in situations where major changes happen in the digital energy sector close to publication of Digitalisation Strategies. This may require a shift in publication date.
SpC 9.8 Tax Reconciliation assurance statement – derogation to vary the submission date in line with similar powers for RIGs	Disagree: The Tax Reconciliation will be part of the Regulatory Financial Performance Reporting, which is itself part of the RIGs. If there is a general RIGs derogation in place there is no need for a separate derogation on this.

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SpC 9.9 The Strategic Innovation Fund (SIF) – in respect of compliance with the SIF Governance Document.	Disagree: we do not think any additional derogation process is needed.
SpC 9.13 Smart Optimisation Output – derogation to vary the submission date in line with similar powers for RIGs and wider derogation power to allow relief from obligations.	Disagree: we do not see any reason for needing flexibility on this date.

Qn. 10 What are your views on the proposed changes to the SpCs in Chapter 2 of the licence?

1.56 There were no comments on the structure of this Chapter. Comments on specific conditions are dealt with in the issue logs.

Qn. 11 What are your views on the proposed changes to the SpCs in Chapter 3 of the licence?

1.57 Please see the issues log for individual conditions in Chapter 2 of the licence.

Qn. 12 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?

1.58 All the DNOs responded to say that they believe cyber resilience should have a standalone licence condition bringing together the provisions that relate to the Re-openers and those that relate to the Evaluative Price Control Deliverables for OT and IT.

1.59 However, they all also said that more important than the structure was that the provisions operate as intended. They said that the methodology for assessing Evaluative PCDs required tailoring for the specialist nature of cyber resilience. We do not agree. For more detail please see the cyber resilience issue log and the examples in the RIIO-2 Cyber Resilience OT and IT PCD Reporting Guidance.

1.60 We are proposing to maintain the structure as it was in our informal consultation, with the cyber resilience Re-openers in the combined Re-opener condition SpC 3.2 and the cyber resilience Evaluative PCD in the combined condition SpC 3.3. We acknowledge that it would be a valid choice to have one or two standalone cyber resilience conditions. However, on the basis that it is possible that there will be other Evaluative PCDs specified for all DNOs (because the Load Related Expenditure Re-opener can specify Strategic Investment Evaluative PCDs) we

think it avoids unnecessary duplication, in what is already a lengthy set of special conditions, to maintain the structure we consulted on in September. We have added additional signposting to aid readers.

Qn. 13 What are your views on the proposed changes to the SpCs in Chapter 4 of the licence?

1.61 There were no comments on the structure of this Chapter. Comments on specific conditions are dealt with in the issue logs. SPEN noted that Ofgem had committed to providing a summary of calculations and values for numerical tables within the licence; this has been published alongside this document.

Qn. 14 What are your views on the proposed changes to the SpCs in Chapter 5 of the licence?

1.62 There were no comments on the structure of this Chapter. Comments on specific conditions are dealt with in the issue logs.

Qn. 15 What are your views on the proposed changes to the SpCs in Chapter 6 of the licence?

1.63 There were no comments on the structure of this Chapter. Comments on specific conditions are dealt with in the issue logs.

Qn. 16 What are your views on the proposed changes to the SpCs in Chapter 7 of the licence?

1.64 There were no comments on the structure of this Chapter. Comments on specific conditions are dealt with in the issue logs.

Qn. 17 What are your views on the proposed changes to the SpCs in Chapter 8 of the licence?

1.65 There were no comments on the structure of this Chapter. Comments on specific conditions are dealt with in the issue logs.

Qn. 18 What are your views on the proposed changes to the SpCs in Chapter 9 of the licence?

1.66 Comments on the allocation of conditions to Chapter 9 versus the SLCs are addressed above. Comments on specific conditions are dealt with in the issue logs.

2. Licence Chapter 1 Interpretation, definitions and common procedure

Introduction

- 2.1 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.
- 2.2 This section sets out the reasons for and effects of each of the conditions in Chapter 1.

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
Final Determination reference	N/A
Associated Document	N/A

- 2.3 The reason for amending this condition is to improve the structure and clarity of the SpCs.
- 2.4 The effect is to:
- move defined terms and references to the DNOs into a separate licence condition – SpC 1.2
 - 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
Final Determination reference	N/A
Associated Document	N/A

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

2.6 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
- 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
Final Determination reference	N/A
Associated Document	RIIO-2 Re-opener Application Process Guidance

2.7 The reason for creating this new condition is to improve the structure and clarity of the SpCs and to provide a common procedure for actions that exist in multiple places across the licence.

2.8 The effect is to establishing a common procedure:

- for issuing and amending Associated Documents
- directing additional Re-opener application windows
- providing derogations.

3. Licence Chapter 2 Revenue restriction

Introduction

- 3.1 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.
- 3.2 This section sets out the reasons for and effects of each of the conditions in Chapter 2.

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
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; Chapter 10
Associated Document	PCFM Guidance (part of the RIGs)

- 3.3 The reason for amending this condition is to improve the clarity of the condition and to bring into effect our decisions set out in Final Determinations, including to:
- require licensees to update and use the ED2 PCFM and self publish their Allowed Revenue
 - use best endeavours rather than reasonable endeavours
 - consolidate reporting and calculation of Allowed Revenue.
 - The effect of the various parts of SpC 2.1 are set out below.

Best vs reasonable endeavours

- 3.4 We have set out the reasoning for our policy decision to require networks to use best endeavours to set network charges in our Final Determinations Finance Annex⁸, however DNOs also provided comments on this in relation to the

⁸ See paragraph 10.131 onwards of the Finance Annex: [RIIO-ED2 Draft Determinations | Ofgem](#)

informal licence consultation. As a result we provide a summary of our reasoning below.

- a) This is not a strict obligation to be achieved at all costs. It would simply require DNOs to do their best to forecast charges with the information that is available to them at the time of charge-setting. Our view is that best endeavours is what a prudent and reasonable DNO acting in its own interests should do.
- b) We recognise that some variables are difficult to forecast 15 months in advance. However, we have made the decision to give DNOs more control in the process of setting their Allowed Revenues and publishing the RIIO-ED2 PCFM and so we consider that a greater degree of responsibility in charge-setting is therefore appropriate.
- c) Differences arising between actual costs incurred and the tariffs set at the beginning of the 15-month notice period will not represent a breach of the licence condition where licensees have used their best endeavours at the time of setting tariffs.
- d) We do not agree that a best endeavours obligation would result in a level of effort and cost that would be detrimental to consumers. On the contrary our view is that attempting to forecast allowed revenues accurately will ensure cost reflectivity in tariffs. As a result we are proposing a best endeavours obligation in this statutory consultation.

Part A: Changes to obligations when setting Network Charges

3.5 The effect of the changes to this Part are:

- 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
- change the above obligation from reasonable to best endeavours
- add a new obligation to calculate Allowed Revenue using the ED2 PCFM
- add a new obligation for the licensee to publish the ED2 PCFM they use when setting charges on their website.

Part B: Recovered Revenue

3.6 The effect of this Part is to set out 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 Final Determinations⁹ by stating the amount of Recovered Revenue is net of Bad Debt.

Parts C and D: Allowed and Calculated Revenue

3.7 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 ED2 PCFM. This effectively consolidates all revenue into the model.

Part E: Price index

3.8 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

3.9 The effect of this Part is to create the consolidated correction term as decided in Final Determinations.

Part G: Forecasting penalty

3.10 The effect of this Part is to create forecasting penalties as decided in Final Determinations.

Part H: Bad debt

3.11 The reason for this amendment is to give effect to our decision in Final Determinations to enable Recovered Revenue to be calculated on a cash basis, ie net of bad debt.

3.12 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.

3.13 Further, 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 have decided to also

⁹ See paragraphs 10.234 to 10.248 of the Final Determinations Finance Annex

include inputs for Recovered Revenue on a billed basis, ie 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 (TAXA_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; Chapter 7 “Corporation Tax”
Associated Document	N/A

3.14 The reason for introducing this condition is to give effect to our SSMD decision to introduce a tax review uncertainty mechanism.

3.15 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 (RTNA_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Finance Annex; Chapter 8
Associated Document	N/A

3.16 The reason for introducing this condition is to give effect to our Final Determinations and preceding decisions (the RIIO-ED2 Framework decision and the SSMD decision) on the implementation of a return adjustment mechanism.

3.17 The effect is to provide a formula that the Authority will use to direct an adjustment to Calculated Revenue, after the Price Control Period.

4. Licence Chapter 3 Totex Allowance adjustments

Introduction

- 4.1 Chapter 3 of the SpCs sets out all the licence conditions that adjust the Totex Allowance. The ED2 PCFM then determines how the Totex Allowance contributes to Allowed Revenue.
- 4.2 This section sets out the reasons for and effects of each of the conditions in Chapter 3.

Special Conditions applicable to all DNOs

SpC 3.1 Allowed Network Asset Risk Metric expenditure (NARM_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 5D Assessment of Network Asset Secondary Deliverables
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paragraphs 6.192 – 6.218
Associated Document	Network Asset Risk Workbooks

- 4.3 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.
- 4.4 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
 - 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

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Final Determination reference	See individual entries for Parts of this condition
Associated Document	N/A

- 4.5 The reason for amending this condition is to reflect the various decisions on Re-openers in our Final Determinations.
- 4.6 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 Parts set out the procedure for making changes to the licence as a result of the Re-openers. Re-openers with related PCDs have their PCFM Variable Values set out in SpC 3.3 (Evaluative Price Control Deliverables).
- 4.7 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 2021.¹⁰

SpC 3.2 Part B Physical Security Re-opener (PSUP_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3F Arrangements for the recovery of uncertain costs
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paragraphs 6.240 – 6.250.
Associated Document	Re-opener Guidance and Application Requirements Document

- 4.8 The reason for amending this licence condition is to give effect to our decision in Final Determinations to adjust licensee allowances in relation to physical security at Critical National Infrastructure sites.
- 4.9 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 (REC_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3F Arrangements for the recovery of uncertain costs

¹⁰ [Energy Licence Modification Appeals 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/energy-licence-modification-appeals-2021)

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Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paragraph 7.288.
Associated Document	Re-opener Guidance and Application Requirements Document

4.10 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.

4.11 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 (ESR_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paragraphs 6.251 – 6.268.
Associated Document	ESR Re-opener Guidance: Appendix 6 of Re-opener Guidance and Application Requirements Document

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

4.13 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.

SpC 3.2 Part E Environmental Re-opener (EVR_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paragraphs 3.178 – 3.194
Associated Document	Environmental Re-opener Guidance: Appendix 7 of Re-opener Guidance and Application Requirements Document

4.14 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 new or amended legislative requirements that relate to the licensee’s impact on the environment that are contained within or could have been contained within the licensee’s Environmental Action Plan.

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4.15 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the annual Re-opener window in the event the licensee incurs or expects to incur costs caused by changes to legislation that impose new or amended requirements and relate to the licensee’s EAP or areas that could have been contained within an EAP.

SpC 3.2 Part F Specified Street Works Costs Re-opener (SWR_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3F Arrangements for the recovery of uncertain costs
Final Determination reference	RIIO-ED2 Final Determinations Overview, Table 6.
Associated Document	Re-opener Guidance and Application Requirements Document

4.16 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.

4.17 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
Final Determination reference	RIIO-ED2 Final Determinations. Overview Document paragraph 6.56
Associated Document	Confidential Appendix 4 “Cyber Resilience Re-opener Application Methodology and Requirements” to the ‘Re-opener Guidance and Application Requirements Document (GD&T& ED)’ document.

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

4.19 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 at any time by the Authority, 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.

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SpC 3.2 Part H Cyber Resilience IT Re-opener	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Overview Document, paragraph 6.56
Associated Document	Confidential Appendix 4 “Cyber Resilience Re-opener Application Methodology and Requirements” to the ‘Re-opener Guidance and Application Requirements Document (GD&T& ED)’ document.

4.20 The reason for introducing this new condition is to give effect to our decision to adjust licensee allowances in relation to Cyber Resilience IT.

4.21 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 (DIGI_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paragraphs 4.16-4.20
Associated Document	Digitalisation Re-opener Guidance: Appendix 9 of the Re-opener Guidance and Application Requirements Document

4.22 The reason for introducing this new condition is to give effect to our decision in Final Determinations to allow for adjustments to licensee allowances in relation to Digitalisation.

4.23 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 (SAR_t)	
Type of change	New condition

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

Final Determination reference	RIIO-ED2 Final Determinations Overview, paragraphs 6.43 – 6.56.
Associated Document	Re-opener Guidance and Application Requirements Document

4.24 The reason for introducing this new condition is to give effect to our decision in our Final 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.

4.25 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 at any time by the Authority.

SpC 3.2 Part K Load Related Expenditure Re-opener (LRE_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paragraphs 3.21-3.32
Associated Document	LRE Re-opener Guidance: Appendix 9 of the Re-opener Guidance and Application Requirements Document

4.26 The reason for introducing this condition is to give effect to our decision in Final Determinations to adjust licensee allowances in relation to Load Related Expenditure.

4.27 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 (HVP_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3F Arrangements for the recovery of uncertain costs
Final Determination reference	RIIO-ED2 Final Determinations Overview Document, paragraphs 6.57-6.64
Associated Document	HVP Re-opener Guidance: Appendix 10 of the Re-opener Guidance and Application Requirements Document

4.28 The reason for introducing this condition is to give effect to our decision in Final Determinations to adjust licensee allowances in relation to High Value Projects.

4.29 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.

SpC 3.2 Part M Wayleaves and Diversions Re-opener (WDV_t)	
Type of change	New licence condition
Final Determination reference	RIIO-ED2 Final Determinations Overview Document, paragraphs 6.65-6.74
Associated Document	Re-opener Guidance and Application Requirements Document

4.30 The reason for introducing this condition is to give effect to our decision in Final Determinations to adjust licensee allowances in relation to Wayleaves and Diversions.

4.31 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.

SpC 3.3 Evaluative Price Control Deliverables	
Type of change	New condition
Final Determination reference	See individual entries for specific PCDs
Associated Document	N/A

4.32 The reason for introducing this condition is to give effect to our decision in the RIIO-ED2 Framework Decision¹¹ to use PCDs as Part of RIIO-ED2.

4.33 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
- specify the outputs, delivery date and allowances for relevant PCDs.

SpC 3.3 Cyber resilience OT PCDs and Use It Or Lose It Allowance (CROT_t and CROTRE_t)	
Type of change	New condition

¹¹ <https://www.ofgem.gov.uk/publications/riio-ed2-framework-decision>

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Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paragraphs 6.277 – 6.286.
Associated Document	Confidential Appendix 4 “RIIO-2 Cyber Resilience IT and OT PCD Reporting Guidance” to the PCD Reporting Requirements and Methodology Document

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

4.35 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 annually on the status of the delivery for each PCD as a licence obligation. OT allowances are use-it-or-lose-it and are excluded from the TIM.

SpC 3.3 Cyber resilience IT PCDs (CRIT_t and CRIRE_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paragraphs 6.277 – 6.286.
Associated Document	Confidential Appendix 4 “RIIO-2 Cyber Resilience IT and OT PCD Reporting Guidance” to the PCD Reporting Requirements and Methodology Document

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

4.37 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 annually on the status of the delivery for each PCD as a licence obligation. This is subject to TIM.

SpC 3.3 Strategic Investment PCDs (SINV_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paragraphs 3.21 – 3.32.
Associated Documents	LRE Re-opener Guidance: Appendix 9 of the Re-opener Guidance and Application Requirements Document

4.38 The reason for this PCD is to enable the LRE Re-opener to lead to the setting of evaluative PCDs for large discreet Strategic Investment projects.

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4.39 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
Final Determination reference	See individual entries for specific UIOLI Allowances
Associated Document	N/A

4.40 The reason for this condition is to reflect decisions to establish various Use It Or Lose It Allowances (UIOLI) in our Final Determinations.

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

SpC 3.4 Visual Amenity Projects UIOLI (VAP_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3J Allowed expenditure on visual amenity projects
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paragraphs 3.195 – 3.206
Associated Document	N/A

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

4.43 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 (WSC_t)	
Type of change	Amendment to existing licence condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paras 6.167 – 6.191
Associated Document	The WSC Governance Document

4.44 The reason we are amending this licence condition is to give effect to our decision in Final Determinations to set the licensee a UIOLI for Worst Served Customers.

4.45 The effect is to provide allowances to enable licensees to undertake projects that specifically aim to reduce the number of interruptions Worst Served Customers

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

experience. The condition also establishes a new Associated Document: the WSC Governance Document.

SpC 3.5 PCB volume driver (PCB_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paras 3.216 – 3.232
Associated Document	N/A

4.46 The reason for this new condition is to give effect to our Final Determination to implement the polychlorinated biphenyl (PCB) volume driver to address the uncertainty of PCB contamination in pole-mounted transformers on the networks.

4.47 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_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paragraphs 3.72-3.86
Associated Document	N/A

4.48 The reason for introducing this condition is to give effect to our decision in the SSMD to introduce a Net Zero Re-opener mechanism.

4.49 The effect of this condition is to introduce a Re-opener that can be triggered solely by the Authority in order to respond to Net Zero developments, including changes to government policy 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_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3M Coordinated Adjustment Mechanism
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paragraph 4.105
Associated Document	N/A

4.50 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.

4.51 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 (CGRS_t)	
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 2021P14F12
Associated Document	N/A

4.52 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.

4.53 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 PCFM so as to receive neutral treatment by the Totex Incentive Mechanism.

SpC 3.9 Load Related Expenditure volume drivers (SRVD_t and LVSVD_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paragraphs 3.33-3.71
Associated Document	Load Related Expenditure Volume Drivers Governance Document

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

4.55 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 ex ante allowances and subject to a cap across the Price Control Period. The condition also established the Load Related Volume Drivers Governance Document which is a licence instrument.

¹² <https://www.ofgem.gov.uk/publications/decision-riio-ed1-green-recovery-scheme>

SpC 3.10 Allowed Expenditure for 1-in-20 Severe Weather Events (OTSW_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paras 6.222 to 6.232.
Associated Document	N/A

4.56 The reason for introducing this new condition is to give effect to our decision in Final Determinations to provide a totex allowance for weather events that meet the 1-in-20 Severe Weather Event thresholds.

4.57 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
Final Determination reference	N/A
Associated Document	N/A

4.58 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. We are retaining this condition for RIIO-ED2 because we consider that there is uncertainty regarding the percentage of Load Related Expenditure that will be provided by Specific Customer Funded Reinforcement during the Price Control period due to uncertain network demand growth during RIIO-ED2 and the impact of the Access and Forward-looking Charges Significant Code Review (Access SCR) decision.¹³

4.59 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.

SpC 3.12 Indirects Scaler (IS_t)	
Type of change	New condition

¹³ [Access and Forward-Looking Charges Significant Code Review: Decision and Direction | Ofgem](#)

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paragraphs 7.520-7.526
Associated Document	N/A

4.60 The reason for introducing this condition is to give effect to our decision in Final Determinations that the DNOs are funded through an automatic mechanism for closely associated indirect costs associated with capital expenditure provided through certain uncertainty mechanisms.

4.61 The effect is to provide DNOs with opex allowances when capex allowances are funded through the relevant uncertainty mechanism.

Special conditions – bespoke to individual DNOs

SpC 3.2 Part N West Coast of Cumbria Re-opener (MR_t) (ENWL)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 3L Arrangements for the recovery of Moorside costs
Final Determination reference	RIIO-ED2 Final Determinations ENWL Annex, paragraphs 4.6-4.12
Associated Document	West Coast of Cumbria Re-opener: Appendix 11 of the Re-opener Guidance and Application Requirements Document

4.62 The reason for introducing this condition is to give effect to our decision in the Final Determinations to introduce the West Coast of Cumbria Re-opener.

4.63 The effect of this condition is to introduce a Re-opener that can be triggered by the licensee in a window directed by the Authority 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
Final Determination reference	RIIO-ED2 Final Determinations SSEN Annex, paragraphs 4.6-4.9
Associated Document	Re-opener Guidance and Application Requirements Document

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

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

4.65 The effect of this new condition is to establish a Re-opener that can be triggered by the licensee during the Re-opener windows, on the completion of the whole system analysis work described in the SSEN business plan, that requires the licensee to provide new, or significantly altered, expenditure on infrastructure.

SpC 3.2 Part P Shetland Enduring Solution Re-opener (SES_t) (SSEN)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations SSEN Annex, paragraphs 4.10-4.14
Associated Document	Re-opener Guidance and Application Requirements Document

4.66 The reason for introducing this new condition is to give effect to our decision in Final Determinations to adjust licensee allowances in relation to infrastructure investment relating to the Shetland Enduring Solution.

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

SpC 3.2 Part Q Shetland Extension Fixed Energy Costs Re-opener (SEFEC_t) (SSEN)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations SSEN Annex, paragraphs 4.15-4.18
Associated Document	Re-opener Guidance and Application Requirements Document

4.68 The reason for introducing this new condition is to give effect to our decision in Final Determinations to adjust licensee allowances in relation to infrastructure investment relating to the Shetland Extension Fixed Energy Costs.

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

SpC 3.4 EV Optioneering UIOLI (SPEN)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations SPEN Annex, paragraph 2.28
Associated Document	N/A

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

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

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

SpC 3.13 Smart Street mechanistic Mechanistic Price Control Deliverable (SSMP_t) (ENWL)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations ENWL Annex; paras 2.26 to 2.30
Associated Document	N/A

4.72 The reason for introducing this new condition is to give effect to our decision in Final Determinations to implement a mechanistic PCD for Smart Street.

4.73 The effect of this condition is to provide the mechanism for adjusting allowances proportionate with ENWL’s installations of Smart Street.

SpC 3.14 Off-Gas Grid Mechanistic Price Control Deliverable (OGG_t) (UKPN)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations UKPN Annex; paragraphs 2.36 to 2.45
Associated Document	N/A

4.74 The reason for introducing this new condition is to give effect to our decision in Final 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.

4.75 The effect of the condition is to provide the mechanism for adjusting allowances proportionate to UKPN’s delivery of the programme of anticipatory investment.

SpC 3.15 LineSIGHT Mechanistic Price Control Deliverable (ENWL)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations ENWL Annex, paras. 2.31-2.36
Associated Document	N/A

Consultation – Statutory consultation on the RII0-ED2 licence drafting modifications – reasons and effect

4.76 The reason for introducing this new condition is to give effect to our decision in Final Determinations to implement a mechanistic PCD for LineSIGHT, a high voltage overhead line safety management system for ENWL.

4.77 The effect of this condition is to provide the mechanism for adjusting allowances proportionate with ENWL’s installation of LineSIGHT.

SpC 3.16 Shetland Link Contribution (SSEH)	
Type of change	New condition
Final Determination reference	N/A
Associated Document	N/A

4.78 The reason for introducing this new condition is to give effect to our decision¹⁴ published in December 2019 and updated¹⁵ in July 2020 on the SHEPD contribution to the Shetland Transmission link. This decision approved the funding methodology as well as a cap.

4.79 The effect of this condition is to provide the mechanism for adjusting allowances once the Shetland Transmission Link becomes operational and SHEPD are required to make the contribution.

¹⁴ <https://www.ofgem.gov.uk/publications/decision-scottish-hydro-electric-power-distributions-proposals-contribute-towards-proposed-electricity-transmission-links-shetland-western-isles-and-orkney>

¹⁵ <https://www.ofgem.gov.uk/publications/update-decision-approve-shepds-proposed-methodology-contribute-shetland-transmission-project>

5. Licence Chapter 4 Output delivery incentives

Introduction

- 5.1 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.
- 5.2 This section sets out the reasons for and effects of each of the conditions in Chapter 4.

Special Conditions applicable to all DNOs

SpC 4.1 Total output delivery incentive performance (ODI_t)	
Type of change	New condition
Final Determination reference	N/A
Associated Document	N/A

- 5.3 The reason for this new condition is to improve the structure and clarity of the licence.
- 5.4 The effect of this condition is to sum the output delivery incentive PCFM Variable Values into ODI_t, which in turn contributes to Calculated Revenue.

SpC 4.2 Time to connect output delivery incentive (TTC_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 2F Time to connect incentive
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paragraphs 5.214 – 5.233
Associated Document	N/A

- 5.5 The reason for this amendment is to give effect to our decisions in Final Determinations to introduce penalties, set symmetrical financial exposure and apply a deadband to the time to connect incentive that already exists in RIIO-ED1.
- 5.6 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 SCR and net zero initiatives drive up connection activities.

SpC 4.3 Broad Measure of Customer Service output delivery incentive (BMCS_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 Licence condition	CRC 2C Broad Measure of Customer Service Adjustment
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paras 5.7 – 5.50
Associated Document	N/A

5.7 The reason for this amendment is to update the RIIO-ED1 condition in line with the decisions set out in paragraphs 5.7 – 5.50 of our Final 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.

5.8 The effect of this condition is to reward or penalise the licensee, through an increase or decrease in its RoRE, if its performance in relation to the quality of service provided to customers falls outside of the deadband or if its performance in relation to resolving complaints falls above the target.

SpC 4.4 Interruptions incentives scheme output delivery incentive (IIS_t)	
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
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paras 6.9 – 6.128
Associated Document	N/A

5.9 The reason for amending the licence condition is to give effect to our decisions in Final Determinations to introduce an asymmetric upside cap of 150BPs and downside collar of 250BPs of RoRE for RIIO-ED2.

5.10 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 (MC_t)

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paragraphs 5.235 – 5.282
Associated Document	Major Connections Incentive Guidance Document

- 5.11 The reason for this new condition is to give effect to our decision to provide a strong incentive for DNOs to deliver a high quality service to all major connections customers, across Relevant Market Segments.
- 5.12 The effect of this condition is to penalise licensees where performance in relation to the Major Connections Customer Satisfaction Survey ('MCCSS') falls below the annual target, as set out in the licence. 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). The condition also established the Major Connections Incentive Guidance Document.

SpC 4.6 Consumer Vulnerability output delivery incentive (CVI_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paras 5.102 – 5.189
Associated Document	RIIO-ED2 Consumer Vulnerability Guidance Document

- 5.13 The reason for introducing this new condition is to give effect to our decision to implement a financial output delivery incentive and a reporting requirement to publish an Annual Vulnerability report.
- 5.14 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.
- 5.15 Our Final Determinations confirmed group-wide targets for the value of services delivered to consumers in fuel poverty and supporting the low carbon transition. As performance (and any reward or penalty) is calculated on an individual licensee basis, we have calculated the values in appendices 5 to 16 of Special Condition 4.6 by applying a weighting to the group-wide targets submitted by DNOs based on the number of customer in each licensee area. We consider this

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

incentivises licensees to deliver value to customers in all licence areas, avoiding targeting one area at the expense of another.

SpC 4.8 Distribution System Operation output delivery incentive (DSOI_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology Document; paras 4.46 to 4.89.
Associated Document	Distribution System Operator Incentive Governance Document

5.16 The reason for introducing this new condition is to give effect to our decision in Final 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.

5.17 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. The licence condition also establishes the Distribution System Operation Incentive Governance Document.

Special conditions – bespoke to individual DNOs

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

5.18 The reason for introducing this new condition is to give effect to our decisions in Final Determinations to accept consumer value propositions (CVPs) by SSEN and NGED.

5.19 The effect of this condition is to:

- specify CVP outputs and rewards
- introduce a reporting requirement for the licensee regarding delivery of its CVP

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

- enable the recovery of CVP rewards where the licensee fails to deliver the relevant outputs
- specify the CVP Outputs and Rewards
- provide for the Authority to adjust the business plan incentive term (BPI_t) where CVPs are not fully delivered
- establish reporting requirements on the licensee.

SpC 4.9 Dig, Fix and go output delivery incentive (DFG_t) (ENWL)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations ENWL Annex, paras 2.20 – 2.24
Associated Document	N/A

5.20 The reason for introducing this new condition is to give effect to our decision in Final 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.

5.21 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 (CSW_t) (UKPN)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations UKPN Annex, paragraphs 2.28-2.34
Associated Document	N/A

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

5.23 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.

6. Licence Chapter 5 Other revenue allowances

Introduction

- 6.1 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”.
- 6.2 This section sets out the reasons for and effects of each of the conditions in Chapter 5.

Special Conditions applicable to all DNOs

SpC 5.1 Total other revenue allowances (ODI_t)	
Type of change	New condition
Final Determination reference	N/A
Associated Document	N/A

- 6.3 The reason for this new condition is to improve the structure and clarity of the licence.
- 6.4 The effect of this condition is to sum the other revenue allowances PCFM Variable Values into ORA_t, which in turn contributes to Calculated Revenue. This includes AUM_t which relates to SpC 9.10.

SpC 5.2 RIIO-2 Network Innovation Allowance (NIA_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 2H The Network Innovation Allowance
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology Document, paragraph 3.95
Associated Document	RIIO-2 Network Innovation Allowance Governance Document

- 6.5 The reason for replacing the ED1 NIA licence condition with this condition is firstly to 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.

- 6.6 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.
- 6.7 We published the RIIO-2 NIA Governance Document alongside our September informal licence consultation. We proposed several amendments to apply the document already in force in the GD&T sectors also in the ED sector. We furthermore proposed that final Project Progress Information published by licensees following NIA project completion must contain a net benefits statement (table 6.1, p. 37). The reason to introduce this amendment is to improve reporting and knowledge dissemination.
- 6.8 NGET agreed with this proposed change. No respondents raised objections to this change, and UKPN proposed minor drafting amendments to the new provision.
- 6.9 We are now proposing further changes to the RIIO-2 NIA Governance Document:
- to strengthen requirements for licensees to collaborate with third parties (new paragraphs 2.7 and 2.8)
 - clarify that Project Eligibility Assessment (PEA) documents must be published prior to NIA project registration.

SpC 5.3 Carry-over Network Innovation Allowance (CNIA_t)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations, Core Methodology Document, Paragraph 3.119
Associated Document	RIIO-1 Electricity NIA Governance Document

- 6.10 The reason for introducing this licence condition is to give effect to our decision in Final Determinations to allow licensees to carry-over unspent RIIO-ED1 NIA funds from regulatory year 2023/23 into regulatory year 2023/24.
- 6.11 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, SpC 5.2). The condition also preserves the RIIO-1 Electricity NIA Governance Document to which we propose to add the relevant CNIA references.

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

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
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology Document, paragraphs 5.283 to 5.299
Associated Document	N/A

- 6.12 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 ED2 PCFM.
- 6.13 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.

7. Licence Chapter 6 Pass-through

Introduction

- 7.1 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.
- 7.2 This section sets out the reasons for and effects of each of the conditions in Chapter 6.

Special Conditions applicable to all DNOs

SpC 6.1 Pass-through items (PT_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 2B Calculation of Allowed Pass-Through Items
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; paras 10.92-10.96,10.234-10.248, 10.249-10.256
Associated Document	N/A

- 7.3 The reason for amending this licence condition is to give effect to our decisions in Final Determinations in relation to various pass-through items. This includes:
- removing the Eligible Bad Debt term (EBD_t) and Covid-19 Bad Debt term (CBD_t) from the pass-through condition and instead including a general Bad Debt term in SpC 2.1 (Revenue Restriction)
 - adding the pension scheme established deficit term (EDE_t) to the pass-through condition
 - amending the Supplier of Last Resort adjustment (SLR_t) to account for the updates that have been made to SLC 38B (Last Resort Supply Payment Claims)
 - adding the Shetland Variable Energy Costs (SEC_t) term and the High-cost Distribution Payments term (HB_t) to the pass-through condition, for SSEN only.
- 7.4 We have also changed 'Business Rates' to 'Prescribed Rates' to reflect the fact that local taxes have different names in different jurisdictions.

- 7.5 We have also added a new term SRC_t to provide for the possibility of reimbursement of costs of a Valid Claim under the Supplier of Last Resort provisions, in relation to a Former Electricity Supplier.
- 7.6 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.
- 7.7 The effect of removing the EBD_t and CBD_t 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.
- 7.8 We will however retain the Valid Bad Debt Claims term ($IBDA_t$) term as a pass-through item. In RIIO-ED1 $IBDA_t$ was a part of the EBD_t term, but we have decided to establish this as a standalone pass-through term. The reason for retaining $IBDA_t$ 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 $IBDA_t$ does not relate to unrecovered charges it should not be removed from recovered revenue, and is therefore being retained as a pass-through term.

8. Licence Chapter 7 Legacy

Introduction

8.1 Chapter 7 of the SpCs deals with adjustments to revenue that are the result of the RIIO-ED1 Price Control.

8.2 This section sets out the reasons for and effects of each of the conditions in Chapter 7.

Special Conditions applicable to all DNOs

SpC 7.1 Legacy adjustments to revenue (LAR_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 3A Legacy Price Control adjustments
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out and RAV opening balances”
Associated Document	N/A

8.3 The reason for amending this condition is to reflect the close out RIIO-ED1 legacy items, rather than items from the previous Price Control (DPCR5).

8.4 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 (LMO_{Dt})	
Type of change	Close out of the ED1 Price Control Financial Model
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out and RAV opening balances”
Associated Document	N/A

8.5 The reason for creating this condition is to adjust allowed revenue within RIIO-ED2 for the closeout of the RIIO-ED1 Price Control.

8.6 The effect of this condition is to specify how the Legacy MOD term will be calculated, referencing the methodologies set out in the ED2 PCFH.

SpC 7.3 Legacy net RAV additions and tax pool balances

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

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

8.7 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 in the RIIO-ED1 Price Control.

8.8 The effect of this condition is to specify historical net RAV additions and tax pools balances that will be carried forward into the RIIO-ED2 PCFM.

SpC 7.4 Legacy incentive performance (LIP_t)	
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
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out and RAV opening balances
Associated Document	N/A

8.9 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.

8.10 The effect of this 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 (LPT_t)	
Type of change	Close out of ED1 pass through items
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out and RAV opening balances
Associated Document	N/A

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

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

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

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

8.14 The effect is that the licensee’s revenues will be corrected for under or over-recovery in the second to last year of ED1 will be recovered in the first year of ED2. The last year of ED1 will be trued up in via the ED2 K correction term (see Spc 2.1).

SpC 7.7 Legacy TRU term (LTRU_t)	
Type of change	Close out of the ED1 TRU term
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; Chapter 10 “RIIO-ED1 close-out and RAV opening balances”
Associated Document	N/A

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

8.16 The effect is that the licensee’s revenues will be adjusted to reflect outturn inflation in the RIIO-ED1 Price Control period.

SpC 7.8 Low Carbon Networks Fund (LCN_t)	
Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 2J Low Carbon Networks Fund
Final Determination reference	N/A
Associated Document	LCN Fund Governance Document

8.17 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.

8.18 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.

SpC 7.9 RIIO-ED1 network innovation competition	
Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 5A Network Innovation Competition
Final Determination reference	N/A
Associated Document	Electricity Network Innovation Competition Governance Document

8.19 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 (SIF) 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.

8.20 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.

9. Licence Chapter 8 Governance

Introduction

- 9.1 Chapter 8 of the SpCs establishes the ED2 PCFM and the ED2 PCFH, collectively referred to as the Price Control Financial Instruments (PCFI), and sets out how they can be changed.
- 9.2 This section sets out the reasons for and effects of each of the conditions in Chapter 8.

Special Conditions applicable to 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
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; Chapter 10 “Annual Iteration Process”
Associated Document	N/A

- 9.3 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”. 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 2021.¹⁶
- 9.4 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 the statutory modification to change the PCFIs. The proposed drafting also removes content rendered unnecessary given the decision to use self-publication in ED2.

¹⁶ [Energy Licence Modification Appeals 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/energy-licence-modification-appeals-2021)

10. Licence Chapter 9 General obligations

Introduction

- 10.1 Chapter 9 of the SpCs sets out the licence obligations which, although they don't directly feed into the revenue restriction in SpC 2.1, relate to the RIIO-ED2 Price Control or setting charges.
- 10.2 This section sets out the reasons for and effects of each of the conditions in Chapter 9.

Special Conditions applicable to all DNOs

SpC 9.1 Annual Environmental Report	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determination Core Methodology; paragraphs 3.131 – 3.146
Associated Document	Environmental Reporting Guidance (AD to be consulted on in February 2023)

- 10.3 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 impact of their businesses and network activities on the environment, and on the licensees' progress against their Environmental Action Plan commitments.
- 10.4 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
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paragraphs 6.192 – 6.218
Associated Document	N/A

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

10.5 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).¹⁷

10.6 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 and Appendix 1
Associated Document	PCD Reporting Requirements and Methodology Document

10.7 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.

10.8 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.

10.9 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

¹⁷ See Table 23 of the SSMD for a summary of these decisions:
https://www.ofgem.gov.uk/sites/default/files/docs/2020/12/rrio_ed2_ssmd_annex_1_delivering_value_for_money_services_for_customers.pdf

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

- sets out additional information on how the Authority will assess the delivery of evaluative PCDs.

10.10 Part B requires licensees to report on their cyber resilience PCDs and this has been aligned with submission dates for the annual regulatory submission cycle on the basis of feedback. The effect should result in PCD reports being completed annually for the reporting period of '1 April to 31 March' with greater accuracy and reduce the rate of errors in completion. Also, this should reduce resource requirements on licensees as the PCD report will only be required to be submitted annually on 31st July rather than the previous condition which required bi-annual PCD report submissions on 31st Jan and 31st July.

10.11 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
Final Determination reference	RIIO-ED2 Final Determinations Overview Document, paragraph 6.56
Associated Document	Re opener Guidance and Application Requirements Document

10.12 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. The Associated Document will also provide guidance on the Re-opener process.

10.13 The effect of this licence condition is to require licensees to prepare applications in accordance with the Re-opener Guidance and Application Requirements document.

10.14 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 9.4 will make the administrative process of updating the guidance easier, as it will be the same condition number as the other sectors.

10.15 The Re-opener Guidance and Application Requirements Document is already in force in the GD&T sectors. We have proposed minor adjustments to include the

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

Electricity Distribution sector and to reflect learnings from the first years of RIIO-2.

SpC 9.5 Digitalisation	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, paragraphs 4.6 - 4.13
Associated Documents	DSAP guidance, Data Best Practice guidance (draft versions published in this consultation)

10.16 The reason for introducing this condition is to give effect to our decision in Final Determinations 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.

10.17 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
Final Determination reference	Special Condition 9.6 Disapplication of Relevant Special Conditions
Associated Documents	N/A

10.18 The reason for making only minor changes to this condition is that we intend to consult on more substantive changes in future. We have made minor changes to improve clarity.

10.19 The effect is to leave the condition in place substantially as it was in RIIO-ED1.

SpC 9.7 Directly Remunerated Services	
Type of change	Amendment to existing licence condition
RIIO-ED1 number	CRC 5C Directly remunerated services
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; Chapter 7 paras 10.57 - 10.68

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

Associated Documents	N/A
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10.20 The reason for the modifications is to set out the basis on which services provided by the licensee will be treated as Directly Remunerated Services (DRS). We have added Theft Recovery to DRS12 and introduced a new DRS category on Distribution Network Voltage Control Services to include Customer Load Active System Service (CLASS) to be sold to the GB System Operator for the purposes of its system operator activity. Finally, we have removed the Electric Vehicle Provider of Last Resort (PoLR) category, which had been originally proposed in our informal consultation, to implement our Final Determination decision.

10.21 The effect is to update the condition in accordance with our RIIO-2 drafting principles and to:

- a) remunerate Theft Recovery and Distribution Network Voltage Control Services through a market framework where attributable costs and revenues are included in the scope of DRS
- b) harmonise the Directly Remunerated Services categories with the other sectors, including the addition of Theft Recovery to DRS12
- c) add a new DRS category on Distribution network voltage control services that gives effect to our decision to allow Customer Load Active System Services (CLASS) to be sold to the GB System Operator for the purposes of its system operator residual balancing activity.

10.22 Our Final Determinations (Overview Doc, paragraphs 6.32-6.42) set out our decision not to include Electric Vehicle Provider of Last Resort (EV PoLR) funding provisions in RIIO-ED2, so we are no longer consulting to include these in the DRS licence condition.

SpC 9.8 Tax reconciliation assurance statement	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; Chapter 7 “Corporation Tax”
Associated Document	N/A

10.23 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.

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

10.24 The effect is to require licensees to submit a board assurance statement signed by a director alongside their Tax Reconciliations as part of their annual regulatory submissions.

SpC 9.9 Strategic Innovation Fund (SIFRtR)	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Document, Paragraph 3.87
Associated Document	SIF Governance Document

10.25 The purpose of this condition is to establish arrangements for the SIF and to provide for the calculation of the term SIF.

10.26 The effect of this condition is to provide funding for Eligible SIF Projects by means of payments received from the System Operator (as adjusted, where appropriate, by the SIF Funding Return Mechanism) in accordance with the determination process in Part A.

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
Final Determination reference	N/A
Associated Document	None

10.27 The purpose of this condition is to set out the charging arrangements for the licensee relating to any Connection Activities.

10.28 The effect of this condition is to:

- prohibit the licensee from charging a Margin in a Connection Charge that relates to any of its Connection Activities in an Excluded Market Segment of the Local Connections Market
- provide for the level of Margin that a licensee may charge in a Connection Charge that relates to any of its Connection Activities in Relevant Market Segments of the Local Connections Market where the Authority has determined that there is not effective competition except where the Authority directs otherwise, permit the licensee to charge an Unregulated Margin in a Connection Charge that relates to any of its Connection Activities in Relevant

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

Market Segments of the Local Connections Market where the Authority has determined that there is effective competition

- provide a mechanism for the Authority to direct the licensee to repay such part of the Margin charged in a Connection Charge that relates to any of its Connection 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
Final Determination reference	N/A
Associated Document	N/A

10.29 The purpose of this condition is to establish the restrictions on charges for the provision of Legacy Metering Equipment and to set out the obligations of the licensee in respect of those restrictions.

10.30 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
Final Determination reference	N/A
Associated Document	N/A

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

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

SpC 9.13 Smart Optimisation Output	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology; paragraphs 4.90 – 4.117
Associated Document	Smart Optimisation Output Guidance

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

10.33 The reason for introducing this licence condition is to give effect to our decision in Final Determinations in respect of the Smart Optimisation Output.

10.34 The effect of this condition is to set out obligations on the licensee to deliver the Smart Optimisation Output and to establish the Smart Optimisation Output Guidance, which the licensee must comply with when delivering its Smart Optimisation Output.

Special Conditions – bespoke to individual DNOs

SpC 9.14 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
Final Determination reference	N/A
Associated Document	N/A

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

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

11. Proposed changes to Standard Licence Conditions

Introduction

- 11.1 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.
- 11.2 This section sets out the reasons for and effects of each amendment we are making to the SLCs.

Standard Licence Conditions

SLC 1 Definitions for the standard conditions	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A
Associated Document	N/A

- 11.3 The 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 and to update references from WPD to NGED.
- 11.4 The effect is an up-to-date list of definitions.

SLC 2 Interpretation of this licence	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A
Associated Document	N/A

- 11.5 The 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.
- 11.6 The effect is to use Electricity Supply Licence consistently through the SLCs.

SLC 3A Housekeeping	
Type of change	New condition
Final Determination reference	N/A
Associated Document	N/A

- 11.7 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.

11.8 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
Final Determination reference	N/A
Associated Document	N/A

11.9 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 LF_t.

11.10 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 changes¹⁸ to the licence fee cost recovery principles (“the principles”) earlier last year, including in relation to returning surpluses to licence fee payers. Consultation responses noted that some licence conditions needed to be updated and we agree.

11.11 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

¹⁸ <https://www.ofgem.gov.uk/publications/licence-fee-decision-2021-22>

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

Scotland depending on the context. The modifications also align the licence conditions with the amended principles.

SLC 7A Whole Electricity System Obligations	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A
Associated Document	N/A

11.12 The reason for amending the current licence condition is to correct a typographical error.

11.13 The effect of the amendment is to improve the clarity of the licence.

SLC 8 Safety and Security of Supplies Enquiry Service	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A
Associated Document	N/A

11.14 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.

11.15 We are modifying this condition to include a requirement for licensees to operate a website which provides up to date information on supply interruptions lasting three minutes or longer that occur as a consequence of a severe weather event or other exceptional event. The licensee is required to make all reasonable efforts to ensure this website is available at all times.

11.16 The effect of this modification is to provide customers with assurance that they can access up to date information about supply interruptions during significant events such as severe storms.

SLC 10AA Treating Domestic Customers Fairly	
Type of change	New condition
Final Determination reference	RIIO-ED2 Final Determinations Core Methodology, para 5.74 to 5.84
Associated Document	RIIO-ED2 Fair Treatment Guidance

11.17 The reason for introducing this condition is to implement our decision in Final Determinations to have a new principles-based condition to require that licensees treat domestic customers fairly.

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

11.18 The effect of this condition is to:

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

SLC 10A Smart Metering – Matters Relating to Obtaining and Using Consumption Data	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A
Associated Document	N/A

11.19 The reason for amending the current licence condition is to correct a typographical error.

11.20 The effect of the amendment is to improve the clarity of the licence.

SLC 11 Reporting on performance	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A
Associated Document	N/A

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

11.22 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
Final Determination reference	N/A
Associated Document	N/A

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

11.23 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.

11.24 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
Final Determination reference	N/A
Associated Document	N/A

11.25 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.

11.26 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
Final Determination reference	N/A
Associated Document	N/A

11.27 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.

11.28 The effect is to bring the approach in line with Data Best Practice guidelines.

SLC 25B Network Development Plan	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A
Associated Document	N/A

11.29 The reason for amending the current licence condition is to correct a typographical error.

11.30 The effect of the amendment is to improve the clarity of the licence.

SLC 26 Disposal of relevant assets and restrictions on charges over receivables	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

Associated Document	N/A
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11.31 The reason for this condition is to set out the requirements by which the licence can dispose of or relinquish operational control over any relevant asset.

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

11.33 The effect is to update the licence condition.

SLC 31B Independence of the Distribution Business and restricted use of Confidential Information	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A
Associated Document	N/A

11.34 The 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.

11.35 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
Final Determination reference	N/A
Associated Document	N/A

11.36 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.

11.37 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
Final Determination reference	RIIO-ED2 Final Determinations – Finance Annex; paras 10.249-10.256
Associated Document	N/A

11.38 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.

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

11.39 The effect is approved LRSP claims will be paid in accordance with that claim, and there is no longer a materiality threshold. Instead any claim can be made over a period longer than 12 months in accordance with a schedule specified by the Authority. 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 SLR_t in SpC 6.1 (Pass-through items).

SLC 38C Treatment of Valid Bad Debt Claims	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A
Associated Document	N/A

11.40 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.

11.41 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
Final Determination reference	N/A
Associated Document	N/A

11.42 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.

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

SLC 42A Affiliate distribution network operators	
Type of change	Amendment to existing licence condition
Final Determination reference	N/A
Associated Document	N/A

11.44 The reason for amending the current licence condition is to correct a typographical error.

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

SLC 45 Data Assurance requirements	
Type of change	Amendment to existing licence condition

Consultation – Statutory consultation on the RIIO-ED2 licence drafting modifications – reasons and effect

Final Determination reference	N/A
Associated Document	Data assurance guidance

11.46 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.

11.47 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
Final Determination reference	N/A
Associated Document	Regulatory instructions and guidance

11.48 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.

11.49 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
Final Determination reference	N/A
Associated Document	N/A

11.50 The reason for the amendment to the licence condition is to update the existing RIIO-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.

11.51 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
Final Determination reference	N/A
Associated Document	N/A

11.52 The reason for the amendments proposed is to update references from RIIO-ED1 to RIIO-ED2 eg dates and licence condition names, and secondly to make drafting

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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.

11.53 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
Final Determination reference	N/A
Associated Document	Business Plan Commitment Reporting Guidance

11.54 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.

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

12. Removed Licence Conditions

Introduction

12.1 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
Final Determination reference	N/A
Associated Document	N/A

12.2 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).

12.3 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
SSMD reference	SSMD Annex 1, paragraphs 5.87 – 5.89
Associated Document	N/A

12.4 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).

12.5 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
SSMD reference	SSMD Annex 1, paragraphs 9.88 – 9.89
Associated Document	N/A

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

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12.7 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
Final Determination reference	N/A
Associated Document	N/A

12.8 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.

12.9 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
Final Determination reference	N/A
Associated Document	N/A

12.10 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.

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

CRC 2O Not Used	
Type of change	Removal of existing licence condition
Final Determination reference	N/A
Associated Document	N/A

12.12 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.

12.13 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

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Final Determination reference	Final Determinations, SSEN Company Annex, Chapter 4
Associated Document	N/A

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

12.15 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
Final Determination reference	Final Determinations, SSEN Company Annex, Chapter 4
Associated Document	N/A

12.16 The reason for removing this condition is to reflect our decision in Final Determinations to instead introduce the Shetland Enduring Solution Re-opener and the Shetland Extension Fixed Energy Costs Re-opener under SpC 3.2 (Uncertain Costs Re-openers) to manage the costs relating to the long term plan for Shetland.

12.17 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
Final Determination reference	Final Determinations, SSEN Company Annex, Chapter 4
Associated Document	N/A

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

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

CRC 3C Specified Financial Adjustments	
Type of change	Removal of existing licence condition
Final Determination reference	N/A
Associated Document	N/A

12.20 The reason for removing this condition is because of changes we have made to the structure of the licence and the ED2 PCFH, as well as to the AIP.

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- 12.21 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 must be updated and published by the DNOs themselves.
- 12.22 In moving towards a process wherein licensees populate and submit the ED2 PCFM for an AIP, there will be a need for detailed 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.
- 12.23 PCFM Variable Values will be calculable based on a clearly defined calculation or separate process set out in either the licence, ED2 PCFH 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.
- 12.24 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

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

12.26 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
Final Determination reference	Final Determinations Overview Document, paragraph 6.85-6.88
Associated Document	N/A

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

12.28 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
Final Determination reference	N/A
Associated Document	N/A

12.29 The reason for removing the condition is because we are proposing other mechanisms to manage Load Related Expenditure in RIIO-ED2 (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.

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

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

12.31 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.

12.32 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
Final Determination reference	N/A
Associated Document	N/A

12.33 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 NGED/WPD specific mechanism.

12.34 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
Final Determination reference	Finance Annex paragraph 10.117 – 10.130
Associated Document	N/A

12.35 The AIP is the formal process of updating the PCFM Variable Values to calculate the annual incremental change or “MOD”, to Base Revenues¹⁹ 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 have decided to change the process and remove this condition from the licence and instead to include a section within the ED2 PCFH 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

12.36 We have decided to require licensees to update and publish the ED2 PCFM themselves in RIIO-ED2, in accordance with the ED2 PCFH and PCFM Guidance. With a self-publication requirement, licensees will be responsible for calculating their own Allowed Revenue values and publishing the ED2 PCFM 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.

12.37 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

¹⁹ 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 recalculated Base Revenue. The remaining components of Allowed Revenue (incentive revenues, pass-through items etc.) are calculated and recorded in the Revenue RRP

changes to their variable values where those are subject to volatile fluctuations and would make the Price Control more cost-reflective.

12.38 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 greater 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 process set out in either the licence, ED2 PCFH 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.

12.39 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

12.40 We propose to move the remaining text listing the steps outlining the process of updating the ED2 PCFM to the ED2 PCFH and the PCFM Guidance.

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

12.42 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

12.43 We have decided to include all of the components of Allowed Revenue in the ED2 PCFM rather than just the Base Revenue and MOD elements, as is currently the case.

12.44 The reason for this is to reduce duplicative inflation and time value of money adjustments and to fully align the calculations in the ED2 PCFM with the licence algebra in the special licence conditions.

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12.45 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
Final Determination reference	N/A
Associated Document	N/A

12.46 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.

12.47 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
Final Determination reference	N/A
Associated Document	N/A

12.48 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 Services.

12.49 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
Final Determination reference	N/A
Associated Document	N/A

12.50 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.

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

CRC 5I Not used	
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Type of change	Removal of existing licence condition
Final Determination reference	N/A
Associated Document	N/A

12.52 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.

12.53 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
Final Determination reference	N/A
Associated Document	N/A

12.54 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.

12.55 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
Final Determination reference	N/A
Associated Document	N/A

12.56 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.

12.57 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
Final Determination reference	N/A

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Associated Document	N/A
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12.58 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 PCFH.

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

13. Other licence instruments

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

13.1 The reason for this amendment is to replace the ED1 PCFH 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 Final Determinations.

13.2 The effect is to document the RIIO-ED2 PCFM, list RIIO-ED2 PCFM Variable Values, and detail RIIO-ED2 methodologies: including the methodologies to closeout the ED1 Price Control.

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

13.3 The reason for this amendment is to replace the ED1 PCFM with one that is relevant to the RIIO-ED2 Price Control, rather than ED1.

13.4 The effect is to implement the licence algebra and methodologies required to calculate and re-calculate Allowed Revenue for the ED2 Price Control Period based on annual updates to the PCFM Variable Values.

Load Related Expenditure Volume Drivers Governance Document	
Type of change	New licence instrument
RIIO-ED1 Licence condition	N/A
Final Determination reference	RIIO-ED2 Final Determinations Core

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	Methodology; paragraphs 3.33-3.71
Associated Document	N/A

13.5 The reason for introducing the Load Related Expenditure Volume Drivers Governance Document is to create a licence instrument which sets out the governance arrangements for the Load Related Expenditure Volume Drivers and establishes the metrics against which delivery under them will be assessed in accordance with SpC 3.9.

13.6 The effect is that the Load Related Expenditure Volume Drivers metrics are part of the licence and can be amended only through the statutory modification procedure except for the specified categories of modifications set out at SpC 3.9. which may be made by direction.

Network Asset Risk Workbook	
Type of change	New licence instrument
RIIO-ED1 Licence condition	N/A
Final Determination reference	RIIO-ED2 Final Determinations – Core Methodology; Chapter 6
Associated Document	N/A

13.7 The reason for introducing the Network Asset Risk Workbook is to create a licence instrument which contains a licensee’s Baseline Network Risk Output, as well as supporting data necessary for the Authority to calculate any funding adjustments and penalties related to a licensee’s delivery of its Baseline Network Risk Output in accordance with SpC 3.1.

13.8 The effect is that each licensee’s Baseline Network Risk Output is part of the licence. The Network Asset Risk Workbook can be amended only through the statutory modification procedure except for specified categories of modifications, which are by direction.

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 ie “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 restrictions 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.

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- 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

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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

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. ie a consultation.

3. With whom we will be sharing your personal data

We will not be sharing your personal data.

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

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

5. Your rights

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right to:

- know how we use your personal data
- access your personal data
- have personal data corrected if it is inaccurate or incomplete
- ask us to delete personal data when we no longer need it
- ask us to restrict how we process your data

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- get your data from us and re-use it across other services
- object to certain ways we use your data
- be safeguarded against risks where decisions based on your data are taken entirely automatically
- tell us if we can share your information with 3rd parties
- tell us your preferred frequency, content and format of our communications with you
- to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

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




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

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

Appendix 4 How to respond

- A4.1 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.
- A4.2 We’ve asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- A4.3 We will publish non-confidential responses on our website at www.ofgem.gov.uk/consultations.

Figure 1: Consultation stages

Stage 1		Stage 2		Stage 3		Stage 4
Consultation open		Consultation closes (awaiting decision). Deadline for responses		Licence modification decision published		Licence changes come into effect
14/12/2022		17/01/2023		03/02/2023		01/04/2023

Your response, data and confidentiality

- A4.4 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.
- A4.5 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.
- A4.6 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

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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.

- A4.7 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

- A4.8 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?

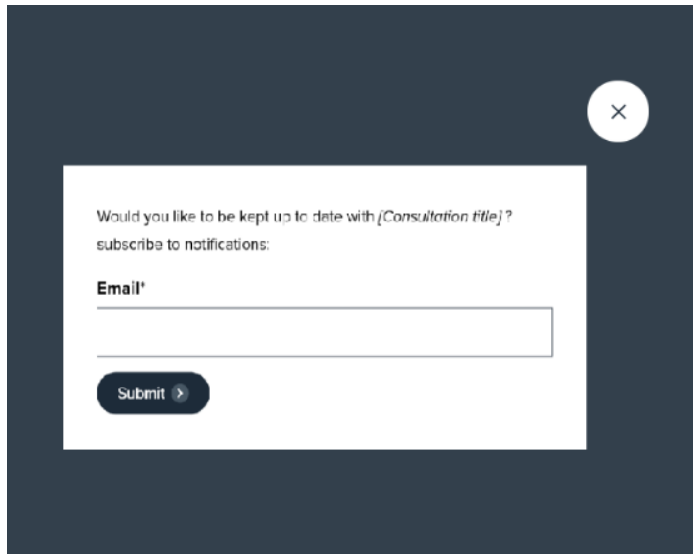
- A4.9 Please send any general feedback comments to stakeholders@ofgem.gov.uk

How to track the progress of the consultation

- A4.10 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).

Notify me +

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A screenshot of a dark-themed modal window. In the top right corner, there is a white circular button with a black 'X' icon. The main content area is white and contains the text: "Would you like to be kept up to date with [Consultation title]?" followed by "subscribe to notifications:". Below this is a label "Email*" and a white text input field. At the bottom left of the white area is a dark rounded button with the text "Submit" and a right-pointing arrow.

A4.11 Once subscribed to the notifications for a particular consultation, you will receive an email to notify you when it has changed status. Our consultation stages are:

- Upcoming
- Open
- Closed (awaiting decision)
- Closed (with decision)