

Guidance

Price Control Deliverable Reporting Requirements and Methodology

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Contact: Networks Directorate, RIIO Price Controls

Team: Networks Directorate, RIIO Price Controls

Tel: 020 7901 7000

Email: RIIO2@ofgem.gov.uk

This document is directed at gas and electricity transmission network companies, electricity distribution network companies and gas distribution network companies (for the purposes of this document 'network companies' or 'licensees'), as well as their stakeholders.

The purpose of this document is to set out requirements in relation to the reports that Gas Distribution (GD), Gas Transmission (GT), Electricity Distribution (ED) and Electricity Transmission (ET) licensees are required to provide in relation to evaluative Price Control Deliverables (PCDs) and the methodology that the Authority will use when assessing PCDs.

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1. Introduction

Background

1.1. Price Control Deliverables (PCDs) are a key component of the RIIO-2¹ framework. Under our framework for PCDs, price control funding is linked to the delivery of outputs specified in the licence. This framework provides for the adjustment of the level and timing of allowances in the event the output is not delivered, not delivered to the specification required, or delivered late.

1.2. We are publishing this document in line with Special Conditions 9.3 that apply to the Gas Distribution (GD), Gas Transmission (GT) and Electricity Transmission (ET) sectors (effective from 1 April 2021), and in line with Special Condition 9.3 of the Electricity Distribution (ED) sector (effective from 1 April 2023).

1.3. This document sets out the following:

- The types of PCDs we will use to hold network companies to account for delivery of outputs linked to price control funding, namely evaluative and Mechanistic PCDs;
- the principles that underpin our use of PCDs;
- possible outcomes of our assessment of delivery of PCDs; and
- requirements that the licensee must follow in its reporting on evaluative PCDs, including
- information that the licensee is required to provide; and,
- the process and timelines for our assessment of PCD delivery and allowance adjustments.

1.4. Certain PCDs may have additional reporting requirements or may require a different approach to assessment of delivery, and adjustments to associated allowances. Where applicable, these are set out in appendices to this document, and/ or in the Regulatory Instructions and Guidance (RIGs). This document should be read in conjunction with its appendices. The reporting requirements set out in this document do not apply to the Network Asset Risk Metric (NARM).

¹ For the purposes of this document, RIIO-2 refers to the price controls of the Gas Transportation and Electricity Transmission Licensees, running from 1 April 2021 – 31 March 2026, and the price control of the Electricity Distribution Licensees, running from 1 April 2023 – 31 March 2028.

1.5. As specifically provided for in Special Condition 9.3, this document, including any appendices, may be added to or modified by the Authority following the consultation process set out in the licence condition.

1.6. In this Guidance, we use the terms 'Ofgem' and 'the Authority' as well as the terms 'we', 'us' and 'our' interchangeably. Ofgem is the Office of the Gas and Electricity Markets. The Authority is the Gas and Electricity Markets Authority and is the governing body of Ofgem, consisting of executive and non-executive members.

2. PCD principles

Section summary

This chapter sets out further guidance on the principles that underpin the PCD framework.

2.1. Our PCD framework is based on the following principles. We will have due regard to these principles when implementing our PCD framework during the RIIO-2 period:

- each PCD is defined by the output, as specified in the licence², that we expect the licensee to deliver, the date by which the output is to be delivered in full, and the price control allowances associated with that PCD;
- price control allowances associated with each PCD are provided on the condition that the licensee will deliver the PCD as specified in the licence by the delivery date. We will not make an adjustment to allowances if this condition is met;
- if the licensee does not deliver the PCD as specified in the licence on time, the Authority may make a downward adjustment to the price control allowance associated with the PCD so that consumers only pay the efficient costs of work that has been delivered. For the avoidance of doubt, the value of such downward adjustments will not exceed the value of allowances associated with the relevant PCD;
- for evaluative PCDs, licensees may deliver an alternative specification to the one in the relevant licence condition. In such cases we will adjust allowances downwards to match the efficient cost of delivering the alternative, unless the licensee can demonstrate that:
 - the alternative specification delivers an equivalent or materially better Consumer Outcome compared to the original specification in the licence; and
 - where there are any cost savings compared to the value of allowances associated with the relevant PCD output, the cost savings are attributable to Efficiency or Innovation.

2.2. The onus is on the licensee to demonstrate any cost savings achieved are due to Efficiency or Innovation.

² In relation to certain PCDs the licence specifies the output by reference to a separate confidential document.

2.3. The work associated with certain PCDs may be subject to incentive mechanisms. These will be set out in the relevant licence conditions and Price Control Financial Model and will take effect in parallel with, and separate from, the funding adjustments under the PCD framework.

3. PCD specification and types

Section summary

This chapter provides guidance on the types of PCDs that Ofgem uses to hold network companies to account for the output(s) that they are funded to deliver through their totex allowances.

3.1. In general, each PCD in the relevant licence condition is defined by the following information:

- the output(s) a licensee is funded to deliver³
- the delivery date of the output(s)
- the totex allowances associated with the output(s)
- how Ofgem will determine any adjustments to associated totex allowances.

3.2. We have created two types of PCDs, Mechanistic and evaluative:

- **Mechanistic PCDs** are set in cases where work is defined by volumes or numbers of units of deliverables, or activities that are typically repeatable and we can set allowances by reference to the unit costs. The output is typically defined by reference to a volume or number of units to be delivered. In such cases, the reporting requirements are relatively light and the adjustments to allowances for non-delivery of work is automatic or largely automatic.
- **evaluative PCDs** are set in cases where there is some flexibility in the output to be delivered, either in terms of the scope of works, costs, the specifications delivered, or the timing of delivery. The output is typically defined by reference to the specification of work to be delivered. For evaluative PCDs, there are more detailed reporting requirements on licensees, and our approach allows for a proportionate ex-post assessment of PCD delivery in accordance with the methodology specified in the licence and this Associated

³ In relation to certain PCDs the licence specifies the output by reference to a separate confidential document.

Document to determine whether an adjustment to allowances is necessary to protect consumers.⁴

⁴ The PCD created by SpC 9.12 (HyNet Front End Engineering Design Price Control Deliverable) of the Gas Distribution licence, is an exception and this document does not apply. Instead please refer to Final Determinations and the licence.

4. PCD delivery status

Section summary

This chapter **sets out** the possible delivery statuses which Ofgem will determine for the PCD outputs that network companies are funded to deliver.

4.1. The assessment of delivery status for Mechanistic PCDs is based on units or volumes delivered, based on the metric used to specify the PCD in the licence. It is not possible for a Mechanistic PCD to be delivered to a different specification. Licensees are required to report on the number of units or volumes of each Mechanistic PCD that have been delivered in the relevant Regulatory Year.

4.2. Evaluative PCDs may be assigned one or more of the following delivery statuses for reporting and assessment purposes. These terms are defined in the licence.

- Fully Delivered
- Fully Delivered With An Alternative Specification
- Partially Delivered
- Partially Delivered With Alternative Specification
- Delayed
- Not Delivered.

4.3. We expect licensees to set out their view of the delivery status of each evaluative PCD as part of the relevant Basic PCD Report (see chapter 6 on PCD reporting). We will form our own view of the delivery status once we have completed our assessment of the information provided by the licensee.

5. Adjustments to allowances

Section summary

This chapter provides guidance on our approach to determining the value of any adjustments to totex allowances that Ofgem considers necessary following our assessment of PCD delivery status.

Mechanistic PCDs

5.1. For Mechanistic PCDs, where a licensee does not deliver the volumes or numbers of units of the output by the delivery date, as set out in the relevant licence condition, the value of adjustments to allowances will be calculated in accordance with the formula and parameters set out in the relevant licence condition.

5.2. The value of adjustments to allowances associated with the relevant PCD output will be calculated based upon the data submitted by licensees as part of the annual Regulatory Reporting Packs (RRPs), which may be subject to validation by Ofgem. There are no upward adjustments to associated allowances if the licensee delivers more than the volume or number of units of the output.⁵

Evaluative PCDs

5.3. Ofgem will not make adjustments to allowances associated with evaluative PCDs in the following circumstances:

- the PCD output is assessed by us as Fully Delivered; or
- the PCD output is assessed by us as Fully Delivered With An Alternative Specification and any underspends achieved by the licensee relative to associated allowances are demonstrated by the licensee to be attributable to Efficiency and/or Innovation.

5.4. In all other cases, the Authority will consider making adjustments to the value of allowances associated with the relevant PCD output in accordance with the methodology set

⁵ For the avoidance of doubt, this does not cover the Gas Distribution Repex PCD.

out in Special Condition 3.3 of the Electricity Distribution Licence, and Special Conditions 9.3 of the Electricity Transmission, Gas Transmission and Gas Distribution Licence.

5.5. Where applicable, further specifics are set out in the relevant appendices to this document.

5.6. In all cases, we will determine adjustments to allowances using a transparent approach,⁶ having consulted with licensees and other stakeholders. We will take account of all relevant information provided by licensees and other stakeholders. Specifically, Ofgem will consult on the wording of its proposed direction for a period of not less than 28 days in accordance with the licence. Ofgem's consultation will include:

- Ofgem's proposed PCD output delivery status
- the value of any adjustments to allowances associated with the relevant PCD output
- the methodology and data used to determine the delivery status and the value of any adjustments to allowances associated with the relevant PCD output.

5.7. If Ofgem makes an adjustment for any relevant evaluative PCD allowance that:

- is calculated relative to actual expenditure and
- adjusts allowances that attract real price effect (RPE) allowances in the PCFM,

the Authority will direct allowances adjustments in such a way that, once the RPE allowances calculated in the Price Control Financial Model are taken into account, the total of the adjusted allowances and RPE allowances summates to the relevant actual costs.

⁶ Subject to requirements for confidentiality.

6. PCD reporting

Section summary

This chapter sets out the background on PCD reporting and the evaluative PCD reporting requirements for licensees.

Background

6.1. For all PCDs, licensees are required to submit completed reporting templates and associated commentary as part of the RIIO-2 Regulatory Reporting Packs (RRP) as directed by the relevant Regulatory Instructions and Guidance (RIGs).

6.2. For Mechanistic PCDs, the reporting requirements are proportionate and used for the purposes of tracking delivery of PCDs and calculating the value of any adjustments to allowances associated with the relevant PCD output in line with the licence.

6.3. For evaluative PCDs, the reporting templates capture high-level information about the status of each PCD on an ongoing basis, including:

- progress towards delivery of the relevant PCD output
- likely date of project completion
- any external factors that may impact delivery
- the use of alternative specifications to deliver the PCD output.

Evaluative PCD reporting requirements

6.4. The licensee must by 31 July of each Regulatory Year, or such later date directed by the Authority, send to the Authority a Basic PCD Report on each evaluative PCD for which the delivery date specified in the relevant licence condition was in the previous Regulatory Year. For each Delayed evaluative PCD, licensees must submit a further Basic PCD Report once delivery has been completed in full or in part. We also expect the licensee to notify the Authority and provide a further Basic PCD Report on a delayed evaluative PCD by 31 July of the Regulatory Year following:

- the licensee subsequently deciding not to complete in full or in part the delivery of an evaluative PCD previously reported Delayed or
- the PCD being further delayed beyond the end of the price control period in which the licence specified the output was due to be delivered.

6.5. The Basic PCD Report must include the following information:

- a. PCD identification (e.g. Licence Condition, Scheme Name)
- b. the licensee's view of the delivery status of the PCD, as outlined in paragraph 4.2
- c. a brief description of the work actually delivered
- d. if the PCD has not been Fully Delivered in the view of the licensee, or if the work delivered does not meet the PCD specification, a brief explanation of the reasons for non-delivery or variation
- e. if the delivery of the PCD has been delayed, a brief explanation of the reason for the delay and a timeline for completion
- f. an annual breakdown of actual expenditure incurred, on a gross, net before non price control allocation and net after non price control allocation cost basis
- g. the indicative value of any potential adjustments to allowances associated with delivery of the PCD output that may be required. The licensee may wish to indicate which methodology of adjustment set out in the licence it believes would be appropriate.

6.6. Following our assessment of the Basic PCD Report, we will determine a provisional PCD delivery status and will decide whether to undertake a Full PCD Report Review. Where there is clear evidence and justification that the PCD is Fully Delivered we will not direct the licensee to submit a Full PCD Report.

6.7. Where we have decided to undertake a Full PCD Report Review, we will direct the licensee to submit a Full PCD Report as set out below, which will generally be required by no later than 28 days from the date of the direction. Licensees may request a longer period if that is deemed to be necessary, providing reasons.

6.8. The required contents of the Full PCD Report will depend on the individual circumstances of the PCD and its delivery status as determined by us. However, minimum required contents by PCD delivery status are given below in paragraphs 6.9 – 6.12.

6.9. In the case of Delayed PCD output delivery, the requirements for the Full PCD Report will include:

- a. a detailed description of what has been delivered and when, compared to the outputs in the relevant licence condition
- b. a detailed delivery plan setting out the licensee's plans and timelines for completion of the delivery of the PCD output
- c. the licensee's explanation of the proportion of the output and Consumer Outcome delivered compared to the requirements of the licence, along with supporting evidence of this
- d. an explanation of the reasons for the delay along with details of steps taken to prevent further delays
- e. expenditure incurred to date, and forecast expenditure
- f. the licensee's proposals for any re-profiling of the value of allowances associated with the relevant PCD output.

6.10. In the case of Partially Delivered and Partially Delivered With Alternative Specification, the requirements for the Full PCD Report will include:

- a. a detailed description of the work delivered compared to the requirements of the licence
- b. an explanation for the partial delivery
- c. the licensee's view of the proportion of output and Consumer Outcome delivered, including supporting evidence and analysis
- d. the licensee's view of the efficient cost of delivering the specification that was actually delivered, along with supporting information
- e. the licensee's proposals for any adjustments to allowances.

6.11. In the case of Fully Delivered With An Alternative Specification, the requirements for the Full PCD Report will include:

- a. the licensee's explanation of how the Consumer Outcome delivered by the alternative specification compares in the short and long term with the original output, along with supporting evidence of this
- b. the licensee's view of the efficient cost of delivering the alternative specification, along with supporting evidence

- c. the licensee's actual incurred expenditure of delivering the alternative specification (if different from the above), along with supporting information
- d. where the licensee's actual expenditure is lower than the value of allowances associated with the relevant PCD output, a statement of whether the licensee considers the savings achieved relative to the allowances is due to Efficiency and/or Innovation along with supporting evidence to demonstrate this.

6.12. In the case where the output is Not Delivered, the requirements for the Full PCD Report will include:

- a. a statement explaining the reasons for non-delivery including any supporting evidence
- b. the licensee's view of the efficient costs of reasonable works that took place leading up to the cancellation or deferral in the consumer interest along with supporting evidence
- c. the licensee's actual incurred expenditure in undertaking the works (if different from the above).

6.13. Where the licensee has schemes/projects that are covered by PCDs but also by other mechanisms that require additional information, then the Authority may allow the Full PCD Report to be combined with other reporting requirements.

6.14. Some evaluative PCDs may have additional reporting requirements. Where applicable, these are set out in relevant appendices to this document or the licence.

7. Process for the assessment of PCD delivery and allowance adjustments

Section summary

This chapter sets out the process we expect to follow as part of our PCD assessments.

7.1. The aim of the assessment process is to ensure the determination of PCD output delivery status and any adjustments to allowances is efficient, timely, transparent, and proportionate with respect to individual PCDs.

Mechanistic PCDs

7.2. For Mechanistic PCDs, our assessment of delivery will be based on data reported by licensees in the relevant tables that form part of the RRP. Table 7.1 below sets out the assessment process for Mechanistic PCDs.

Table 7.1

Process for Mechanistic PCDs
1. Submission of relevant tables as part of the Regulatory Reporting Packs
2. Assessment including supplementary question (SQ) process Using the data from the RRP, Ofgem will calculate the value of the adjustment to allowances (where required) using the relevant formulae as stated in the relevant licence condition. Ofgem may issue SQs, where it is necessary to complete the assessment.
3. Annual Iteration Process Allowances are adjusted via the Annual Iteration Process. When a PCD adjustment is input into the Price Control Financial Model, the resulting revenue adjustment is reflected in the following year. This may occur within the RIIO-2 period, where the final delivery date is within the RIIO-2 period, or as part of the RIIO-2 close-out process in RIIO-3.

Evaluative PCDs

7.3. For evaluative PCDs, our assessments will usually commence upon receipt of the relevant Basic PCD Report. Licensees must submit the report by 31 July following the end of the Regulatory Year in which the PCD was due to be delivered unless otherwise directed by the Authority. For example, if the PCD delivery date is 31 March 2024, the Basic PCD Report

is due to be submitted by 31 July 2024, and the assessment process will commence shortly thereafter. Licensees may submit the Basic PCD report earlier than the 31 July of the relevant year.

7.4. In some cases, the delivery of a PCD output is a trigger for a re-opener submission or is the re-opener submission. In such cases, the PCD assessment will be undertaken as part of the re-opener assessment. For those PCD outputs that form part of a re-opener assessment, the timing of assessments and submissions are specified in the relevant licence condition. Where appropriate we have provided additional guidance on reporting requirements in the relevant appendices within this document or the Re-opener Guidance and Application Requirements Document.

7.5. Table 7.2 below sets out the process for evaluative PCDs. We will seek to complete the assessment process within a period of nine months, so that our decision on allowance adjustments can be reflected in the Annual Iteration Process. However, we recognise that for a variety of reasons this may not always be possible.⁷

Table 7.2

Evaluative PCD assessment process
<p>1. Preliminary Review</p> <p>Following the submission of the Basic PCD Report, Ofgem will conduct an initial assessment of whether the delivery of the PCD output complies with the relevant licence condition, using information submitted. Where possible, Ofgem to initially determine if PCD output is:</p> <ul style="list-style-type: none"> • Fully Delivered • Fully Delivered With An Alternative Specification • Partially Delivered • Partially Delivered With Alternative Specification • Delayed • Not Delivered. <p>Ofgem may submit supplementary questions to clarify information. If Ofgem can determine the delivery status or statuses using the information available to it, the process moves on to steps 4 or 5.</p> <p>Ofgem to notify the licensee whether Ofgem will undertake a Full PCD Report Review. If a Full PCD Report Review is required, Ofgem will initiate discussions with the licensee to determine data requirements and direct the licensee to provide a Full PCD Report, stipulating any specific submission requirements and the date such a report should be provided, which can be no sooner than 28 days from the date of the</p>

⁷ Where a PCD relates to work associated with a subsequent re-opener due to take place, we will seek to complete the assessment process as soon as is practicable and in-line with requirements of the associated re-opener.

direction. The licensee may request an extension to the 28 day requirement, providing reasons.
2. Full PCD Report submission Licensee to submit its Full PCD Report to Ofgem by the specified deadline. Ofgem may submit supplementary questions to clarify information.
3. Full PCD Review - including supplementary question (SQ) process Ofgem will carry out a detailed assessment of delivery status and any proposed adjustments to allowances based upon the information from the Full PCD Report, responses to SQs and any other relevant information available to Ofgem.
4. Minded-To Decision (optional) Ofgem may consult on a minded-to decision if it considers that to be necessary. Otherwise the process will move immediately to the draft decision (below).
5. Draft Decision Ofgem will consult on its draft decision. If a direction is considered necessary, Ofgem will consult on the wording of its proposed direction under the relevant PCD licence condition for a period of not less than 28 days in accordance with the licence.
6. Decision Ofgem will publish its decision following consideration of responses received. If necessary, Ofgem will issue a direction under the relevant PCD licence condition ⁸ .
7. Annual Iteration Process Adjustments to allowances are reflected via the Annual Iteration Process. When a PCD adjustment is input in the Price Control Financial Model, the resulting revenue adjustment is reflected in the following year. This may occur within the RIIO-2 period, where the final delivery date is within the RIIO-2 period, or as part of the RIIO-2 close-out process in RIIO-3.

7.6. Adjustments to allowances may be made during or after the RIIO-2 period. In assessing the delivery status of evaluative PCDs and any associated adjustments to allowances, we will consider all relevant, including the most recently available, information. This may include information submitted by licensees in their RIIO-2 Business Plans and associated documents (including responses to SQs during the RIIO-2 review process).

Supplementary Questions

7.7. The SQ process is intended for clarification purposes only. Network companies should not expect to use it as a means of submitting additional information that the Basic PCD Report and Full PCD Report should have included.

7.8. Licensees will be required to respond to an SQ within 5 or 10 working days, depending on the complexity of the query, unless otherwise specified by Ofgem.

⁸ Depending on the timing of the delivery date, some PCDs may be treated as part of RIIO-2 close-out. Such an example is the set of Cyber Resilience OT PCDs in the gas distribution, gas transmission and electricity transmission sectors.

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Appendix 1: Definitions

Definition of PCD terms

Additional terms are defined in Special Condition 1.1 of the relevant licence.

Terminology	Definition
Basic PCD Report	means a report the licensee is required to submit in accordance with Special Condition 9.3. and paragraph 6.4 of this document, which includes the information specified in paragraph 6.5 of this document.
Full PCD Report	means a report the licensee may be directed to submit in accordance with Special Condition 9.3 and paragraphs 6.9-6.12 of this document, as applicable to the individual circumstances of the PCD concerned and its delivery status.
Full PCD Report Review	means Ofgem's assessment of a Full PCD Report.
Mechanistic PCD	means a Price Control Deliverable where the relevant licence condition establishes the adjustment that will be made to allowances in a mechanistic manner, where the output has not been delivered as specified in the licence.
Efficiency	This term is defined in Special Condition 1.1 of the relevant licence.
Innovation	This term is defined in Special Condition 1.1 of the relevant licence.
Consumer Outcome	This term is defined in Special Condition 1.1 of the relevant licence.

Appendix 2: Illustrative scenarios

In this appendix we provide illustrative examples of the potential PCDs, delivery statuses, adjustments to the value of allowances associated with the PCDs and possible links to re-openers. These examples are purely illustrative, and Ofgem will determine adjustments to allowances on a case-by-case basis taking account of all relevant information.

Hypothetical example 1a (Delayed and Partially Delivered):

Original defined PCD: £200m to deliver 1000MW boundary capability based on newbuild of OHL.

At the delivery date, £160m has been spent to deliver 800MW boundary capability based on the solution defined in the licence, licensee demonstrates that it intends to deliver the remaining 200MW boundary capability late by one year.

Where we have evidence that the delay in delivering the PCD would have a material impact on the Consumer Outcome, we may decide to re-profile allowances to match the new expected delivery profile.

The licensee will provide another Basic PCD Report after the work is complete.

One year later, the licensee has delivered the 1000MW boundary capability late, but otherwise as specified in the licence. Where we have evidence that the delay in delivering the PCD has led to a reduction in Consumer Outcome as compared to if the output had been delivered on time, we may decide to adjust allowances down in line with the methodology set out in the licence.

Hypothetical example 1b (Delayed and Partially Delivered With Alternative Specification)

Original defined PCD: £6m for installation of various assets expected to release 27MW demand capacity.

At the delivery date specified in the licence, in this example 31 March 2026, not all assets have been installed. By 31 July 2026, when the Basic PCD Report is due to be submitted, the licensee is still undertaking the works. As it intends to carry out further installations, it must assign the PCD the status Delayed. The licensee completes the programme of works by 15

August 2026, albeit to a different specification than set out in the licence, releasing 25 MW demand capacity.

The licensee provides another Basic PCD Report once the work is complete, assigning the statuses Delayed and Partially Delivered With Alternative Specification. Ofgem will adjust allowances to take account of the fact that only part of the Consumer Outcome in terms of capacity released has been achieved. In this example case, it finds that the delay has not had a material impact on the Consumer Outcome, and will therefore not adjust allowances further.

Hypothetical example 2 (Fully Delivered With An Alternative Specification):

Original defined PCD: £200m to deliver 1000MW boundary capability based on newbuild of OHL.

At the delivery date, £160m spent to deliver 1000MW boundary capability based on a different specification than that specified in the PCD licence condition.

If the licensee can demonstrate that the cost savings of £40m is attributable to Efficiency or Innovation, we will not make any adjustments to allowances. Otherwise, we will assess the efficient costs of delivering the alternative specification, using the information and tools available to us. We will then adjust allowances downwards such that the allowance matches the assessed efficient costs.

Hypothetical example 3 (Partially Delivered):

Original defined PCD: £5m to install 50 new novel Instrument Transformers (ITs).

At the delivery date, £4m spent to install 46 new novel ITs. Where the licensee has not needed to replace the additional 4 ITs as a result of Efficiency or Innovation (e.g. for this example - site rationalisation), we may follow two paths:

If the licensee can demonstrate that the cost savings of £1m are attributable to Efficiency or Innovation (e.g. justified site rationalisation), and the Consumer Outcome delivered by the programme is equivalent or better than would have been achieved if the licensee had delivered the output as specified in the relevant special condition, we will not make any adjustments to allowances.

Otherwise, we will assess the efficient costs of delivering the 46 ITs, using the information and tools available to us. We will then adjust allowances downwards such that the allowance matches the assessed efficient costs of delivering the 46 ITs.

Hypothetical example 4 (Not Delivered)

Original defined PCD: investment of £4m to deliver 11MVA of capacity, equivalent to 150 ultra-rapid (150kw+) chargers at one Motorway Service Area, as part of a wider £20m programme to deliver 56MVA of capacity across 7 sites.

At the delivery date, none of the capacity has been delivered at the site specified, and £0.1m have been spent on system analysis. The programme was cancelled because the site in question required upgrades to the transmission system instead of the upgrades to the distribution system originally expected.

If the licensee can demonstrate that the expenditure on system analysis was efficient and necessary, we will adjust allowances downwards by £3.9m so that the licensee retains the efficient costs incurred in undertaking those activities.

Hypothetical example 5 (Not Delivered):

Original defined PCD: £200m to deliver 1000MW boundary capability based on new build of OHL.

Construction is cancelled due to innovations in other areas of the network mitigating the need for new investment. £1m spent on desktop studies and system analysis that led to the decision to cancel the project.

If the licensee can demonstrate that the expenditure on desktop studies and system analysis was efficient and necessary, we will adjust allowances downwards by £199m so that the licensee retains the efficient costs incurred in undertaking those activities.

Hypothetical example 6 (new PCD following accepted re-opener application):

The Authority, following consultation, issues a direction on a licensee's re-opener application that includes a decision to provide allowances to establish 10 new transformers with associated infrastructure ahead of need, and to attach an evaluative PCD to the associated allowances.

The Authority modifies the licence to include the associated outputs and the delivery dates and amends the RIGs to include the relevant reporting requirements. If additional reporting requirements are necessary, the Authority modifies this document in accordance with the procedure set out in the licence to add an Appendix that sets out the additional reporting requirements that apply to the newly created PCD.

Appendix 3 – Gas Transmission: Supplementary PCD Reporting Requirements for Hatton - Compressor emissions Re-opener and Price Control Deliverable (CEPt)

Paragraph 6.4 of this document requires network companies to submit a Basic PCD Report.

With reference to Special Condition (SpC) 3.11 Compressor emissions Re-opener and Price Control Deliverable (CEPt), where the PCD output for Hatton is “an Emissions compliant compressor procured for 41MW mechanical output power,” we require that the Basic PCD Report includes the following additional information:

If the relevant status is Fully Delivered or Fully Delivered With An Alternative Specification, the Basic PCD Report must provide:

- an Asset Acceptance report for the new compressor unit from the National Grid Gas System Operator team⁹ in line with NGGT’s T/PM/RE/18 process¹⁰;
- confirmation of the capacity of the new compressor unit, either via a commissioning report or via specification documents or similar received during the procurement process; and
- confirmation from the relevant environmental regulator of the acceptance of the new unit as meeting emissions compliance requirements, ideally in the form of an operating licence issued for the site.

⁹ NGGT acts as both Transmission Owner (TO) and System Operator (SO) for the Gas Transmission sector. In its role as TO, NGGT owns and maintains the network assets. It is responsible for maintaining the integrity of the networks, developing asset replacement schedules and for providing transmission services to the SO. In its role as SO, NGGT is responsible for the day-to-day operation of the national transmission system, including balancing supply and demand, maintaining satisfactory system pressures and ensuring gas quality standards are met.

¹⁰ NGGT’s management procedure for NTS Commissioning, Operational and Asset Acceptance.

Appendix 4: Cyber Resilience IT and OT PCD Reporting Guidance

This appendix is confidential and has been issued directly to licensees.

Appendix 5 – Gas Transmission: Supplementary Re-opener Reporting Requirements - Final Option Selection Report

With respect to:

- Special Condition 3.10 Bacton terminal site redevelopment Re-opener and Price Control Deliverable (BTRt); and
- Special Condition 3.11 Compressor emissions Re-opener and Price Control Deliverable (CEPt);
- Special Condition 3.12 King's Lynn subsidence Re-opener and Price Control Deliverable (KLSt).

If the relevant status in each case is Fully Delivered or Fully Delivered With An Alternative Specification, NGGT must submit a Final Option Selection Report (FOSR) for the Bacton Terminal Site Redevelopment, Wormington, King's Lynn, St Fergus, Peterborough and Huntingdon and King's Lynn Subsidence projects to enable the Authority to make a determination for re-opener applications under the respective licence conditions. The FOSR should be based on the Engineering Justification Paper (EJP) document templates and guidance issued as part of the RIIO-2 Investment decision pack ¹¹. The FOSR should incorporate learning taken from the RIIO-2 process as well as the project specific points noted below in this document.

Bacton FOSR Specific Guidance– SpC 3.10 Bacton terminal site redevelopment Re-opener and Price Control Deliverable (BTRt)

The FOSR for Bacton should build upon the RIIO-T2 EJP and CBA, and must:

- Present credible Opex profiles for all options that incorporate efficiencies in site operation realised by the replacement or removal of assets. A document describing how the Opex profiles have been generated and the basis for all assumptions used must be provided as part of the submission.
- Investigate options that minimise the number of valve interventions for all asset health options in line with predicted UKCS decommissioning dates. This work must demonstrate that all of the equipment retained, refurbished or replaced is required to meet the predicted flows from the upstream supplying terminals. This work should be submitted at a "per incomer" level to ensure that all incomer connections are required to meet the

¹¹ <https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-data-templates-and-associated-instructions-and-guidance>

predicted flows and should demonstrate the value in retaining the current number of incomers to the site. Use updated FES and Network Capability modelled flows in the CBAs.

- Provide an updated breakdown of the capital costs and associated risk, project management, and other such contingencies in line with the RIIO-T2 EJP guidance, along with the basis of any calculations and details of any assumptions.

It is recognised that the NTS pipeline infrastructure could be repurposed in the future as parts of the system are decommissioned. Currently the belief is that the assets could be re-purposed for use in Hydrogen or Carbon Capture and Storage systems. With the potential for the repurposing of Bacton post Cessation of Production (COP), the project team should consider if low cost/no cost decisions can be made during this phase of the project to help enable future repurposing of the site. For clarity the intention of this guidance is not to change the design intent of the project but where it is possible, attempts should be made to select materials or equipment that are compatible with increased Hydrogen in Methane or CO₂ compositions if there is little/no cost or schedule impact on the project.

To help inform the discussion around future re-purposing of the site it is requested as part of the FOSR to deliver the following documents/information to help inform future investment decisions at the site:

- A review of the potential upper concentration limits for Hydrogen in Methane if no changes to metallurgy or equipment are made and the terminal is specified for Methane only service.
- The potential cost implications to increase the Hydrogen in methane concentration from what could be achieved by a standard methane service design to higher purity levels. This should be completed in a stepwise manner selecting sensible break points based on equipment tolerance.
- The issues that would arise if the terminal is designed for methane service only and subsequently re-purposed to transport CO₂.
- A summary of any other potential options identified to allow the equipment onsite to be repurposed post COP.

This work that considers future repurposing of assets should be a “light touch” review of the proposed options given the unknown future usage case for the site and this activity should not lead to any significant cost increases or schedule challenges for the project. A decision on the project direction and spend associated with equipment changes to support future re-use of the site will be made as part of the options selection review process by Ofgem.

Common Compressor Emissions Requirements - SpC 3.11 Compressor emissions Re-opener and Price Control Deliverable (CEPt)

Each FOSR should build upon the existing material for the RIIO-2 submission in terms of EJP and Cost Benefit Analysis (CBA). The FOSR and supporting documents for compressor project submission must address the items below, alongside any further information provided.

Project Options

- Consider options that look to repurpose existing equipment with the aim of minimising capital costs and improving the CBA. The project should consider as a minimum:
 - options to retrofit a modern engine to the non-compliant units;
 - options that build on unused or decommissioned slots at compressor sites;
 - variations on de-rating and/or applying abatement on the existing non-compliant units.

These items are particularly relevant when future compressor usage is predicted to be marginally above or below the IED derogation limit of 500hrs/yr on a 5 yr rolling average, however as with other options the application of the above options is subject to the approval of the relevant environmental regulator.

- Consider variations on spend for options that derogate the non-compliant units to 500hrs/yr with the aim of minimising overall capex spend and maximising CBA value.
- Consider options that look to boost the availability of the compliant units at or linked to the site to minimise the number of hours the non-compliant unit would have to operate. Improving the availability of the machines at the site may reduce the requirement for the non-compliant units to run and allow derogations to be put in place. This approach could avoid significant new build projects for compressors that would operate close to the derogation limit of 500 hrs.
- Provide a detailed site availability model for each proposed option that can be audited by a third party to ensure that the assumptions built into this key metric are inline with accepted values for Gas Transportation and wider Industrial users of Gas Turbine Compressor units. The availability model should be based on run hour predictions based on the Network Capability Model.
- Provide an updated breakdown of the capital costs and associated risk, project management, and other such contingencies in line with the RIIO-T2 EJP guidance.
- Provide core engineering documents used to build the Capex estimates for the options considered at the site, such as material takeoff for bulk materials, OEM package quotes, Process Flow Diagrams and manpower estimates. A document detailing the cost

estimating method alongside the input data, “norms” and calculations must also be supplied to allow the estimates to be scrutinised.

CBA Development

- Use the most recently published Network Capability modelled flows in the CBAs. This must include localised flow predictions for each site as well as information on the wider system impacts.
- Compare and justify the frequency, magnitude, and cost of constraints forecast for each option against RIIO-2 and RIIO-1 outturn data.

St Fergus Specific Requirements - SpC 3.11 Compressor emissions Re-opener and Price Control Deliverable (CEPt)

St Fergus FOSR must be supported with the following:

- A detailed statement setting out the steps taken by NGGT to ensure a fair outcome for current and future consumers in terms of the impact of the proposed investment on charges, including any modifications to the UNC charging provisions put forward and progressed by NGGT.
- A re-worked constraints model that gives levels of Section I costs incurred that are comparable with the historical operation of the site. This must use the Network Capability Model as the basis to build a view on Section I costs and follow a common method used across the network.
- Provide the core engineering documents (e.g. layout drawings, Process Flow Diagrams (PFDs), Material Take Offs (MTO), manpower estimates etc) used to build the Capex estimates for the options considered at the site. A document detailing the cost estimating method alongside the input data, “norms” and calculations must also be supplied to allow the estimates to be scrutinised.
- A clear breakdown of how the specific works proposed for the compressor emissions, subsidence and asset health projects for the site differ to avoid double-counting between these projects.

It is recognised that the NTS pipeline infrastructure could be repurposed in the future as parts of the system are decommissioned. Currently the belief is that the assets could be re-purposed for use in Hydrogen or Carbon Capture and Storage systems. With the potential for the repurposing of St Fergus post (COP), the project team should consider if low cost/no cost decisions can be made during this phase of the project to help enable future repurposing of the site. For clarity the intention of this guidance is not to change the design intent of the

project but where it is possible, attempts should be made to select materials or equipment that are compatible with increased Hydrogen in Methane or CO₂ compositions if there is little/no cost or schedule impact on the project.

To help inform the discussion around future re-purposing of the site it is requested as part of the FOSR to deliver the following documents/information to help inform future investment decisions at the site:

- A review of the potential upper concentration limits for Hydrogen in Methane if no changes to metallurgy or equipment are made and the terminal is specified for Methane only service.
- The potential cost implications to increase the Hydrogen in methane concentration from what could be achieved by a standard methane service design to higher purity levels. This should be completed in a stepwise manner selecting sensible break points based on equipment tolerance.
- The issues that would arise if the terminal is designed for methane service only and subsequently re-purposed to transport Hydrogen or CO₂.
- A summary of any other potential options identified to allow the equipment onsite to be repurposed post COP

This work that considers future repurposing of assets should be a “light touch” review of the proposed options given the unknown future usage case for the site and this activity should not lead to any significant cost increases or schedule challenges for the project. A decision on the project direction and spend associated with equipment changes to support future re-use of the site will be made as part of the options selection review process by Ofgem.

King’s Lynn Subsidence FOSR Guidance – SpC 3.12 King’s Lynn subsidence Re-opener and Price Control Deliverable (KLSt)

The FOSR for King’s Lynn Subsidence should build upon the RIIO-T2 EJP and CBA, and must:

- Quantify the rate of deterioration and the probability of failure to demonstrate the need for a major investment rather than mere ongoing monitoring.
- Demonstrate a thorough optioneering process to address the risks posed by the current King’s Lynn bi-directional pipework, including reference to the probability of failure. All options considered must have a cost estimate built to an equivalent accuracy to allow a fair comparison to be made.
- Use updated FES and Network Capability modelled flows in the CBAs.
- Include consideration of the probability of failure of the King’s Lynn bi-directional pipework.

- The CBA must also consider all key drivers of investment including safety and environmental risks and clearly set out any assumptions.

Provide an updated breakdown of the capital costs and associated risk, project management, and other such contingencies in line with the RIIO-T2 EJP guidance, and provide the basis of any calculations and key assumptions.

Appendix 6 – Electricity Transmission: ASTI Pre-construction funding

With respect to:

- Special Condition 3.40 Accelerated Strategic Transmission Investment Pre-Construction Funding Re-opener, Price Control Deliverable and Use It Or Lose It Adjustment (APCft)
- ASTI Guidance and Submissions Requirements Document, Section 3 ASTI Pre-Construction Funding.

Reporting requirements

The following paragraphs set out details of how the ASTI PCF PCDs will be reported and assessed. In general, the PCD assessment for ASTI PCF PCDs follows the same principles as set out within chapter 6 of this document. The main difference is that because allowances for ASTI PCF PCDs are substitutable across each Transmission Owner's (TO) portfolio of ASTI projects, we need to undertake an assessment of delivery of all PCDs simultaneously rather than consider them each individually, as allowances for one PCD could have been used to deliver a different PCD.

The PCF PCD delivery dates for all ASTI projects subject to Special Condition 3.40 were initially set to 31st March 2026 upon implementation in the electricity TOs' licences. These dates may be modified following a re-opener application, and any new projects added to the ASTI framework may have different PCD delivery dates.

It is possible that all PCD delivery dates in a TO's portfolio of ASTI projects remain as 31st March 2026. If so, the PCD assessment will follow the process set out in Outcome 1 below. Alternatively, it is possible PCD delivery dates for one or more projects are pushed back and set within the following price control period. If this is the case, our PCD assessment will follow the process set out in Outcome 2.

Outcome 1: If all a licensee's evaluative ASTI PCF PCD delivery dates remain as 31 March 2026, the licensee must by 31 July 2026, or such later date directed by the Authority, send to the Authority a Basic PCD Report covering every evaluative ASTI PCF PCD, as per the process outlined in section 6 of this document. In this circumstance we will assess all of the TOs' ASTI PCF PCDs collectively as part of the RIIO-2 close-out procedure. In practice this means one evaluative assessment of delivery across all ASTI PCF outputs followed by a Use-It-Or-Lose-It (UIOLI) adjustment to return any unspent allowances to consumers.

The UIOLI adjustment will be made on a portfolio rather than project by project basis, so it will be the net underspend against a TO's total ASTI PCF allowance that is returned to consumers rather than underspends against each project (which could have been substituted and spent on other projects).

Outcome 2: If PCD delivery dates for one or more projects are pushed back and set within the following price control period, we will make our assessment in two parts:

Part a) the licensee must by 31 July 2026, or such later date directed by the Authority, send to the Authority a Basic PCD Report covering every evaluative ASTI PCF PCD, as per section 6 in this document. We will then assess all PCDs with delivery dates of 31st March 2026 as part of the RIIO-2 close-out procedure, as per the description under Outcome 1.

Part b) For remaining projects where the delivery date for the ASTI PCF PCD is in the next price control period, we will then set efficient ASTI PCF allowances to deliver these outputs as part of the next price control settlement on a project-by-project basis. These total allowances will also be substitutable across each TO's portfolio of ASTI projects, as per the RIIO-ET2 ASTI PCF allowances. The total allowances in the next price control will also be UIOLI, and after delivering all PCD outputs any remaining allowances will be returned to consumers through the UIOLI mechanism, as set out above. The allowances set for the next price control will also be subject to the re-opener mechanism set out in SpC 3.40. Tables 1 and 2 below set out examples of how this second pot for the subsequent price control may be set up.

In the next price control, by 31 July in the regulatory year following the final PCD's delivery date, or such later date directed by the Authority, the licensee must send to the Authority a Basic PCD Report covering the remaining ASTI PCF PCDs, following the process set out in section 6 of this document. The PCD assessment for outputs delivered in the next price control will be assessed following the same methodologies and principles as those that are assessed as part of RIIO-2 close-out.

Table 1 – Example of PCF PCDs being across price controls where there is an underspend at the end of RIIO2.

Project	Allowance in RII02 (£m)	Expenditure in RII02 (£m)	PCD Date	PCD Delivered by end of RII02?	Allowance (£m) Next price control
Project A	10	14 (+£4m)	31 March 2026	Yes	0
Project B	16	20 (+£4m)	31 March 2026	Yes	0
Project C	12	14 (+£2m)	31 March 2026	Yes	0
Project D	18	8 (-£10m)	1 June 2028	No	2.5
Project E	10	5 (-£5m)	1 June 2028	No	2.5
Total	66	61 (£5m under)			5

Assessment at RII02 closeout shows £61m incurred (£5m underspend) has been spent efficiently across projects. Projects D and E's PCDs have not been delivered and are due two years later in the next price control.

A new PCF pot will be created for project D and E to be used during the next price control. The pot is created using the unspent allowance remaining from the RII02 pot, although we will consider the final value when setting TOs' allowances for the next price control. This pot will remain subject to the same conditions set out in SpC 3.40: flexibility, UIOLI, and the re-opener mechanism.

Table 2 – Example of PCF PCDs being split across price controls where the full allowance is spent by the end of RII02, and additional allowances are required in the next price control.

Project	Allowance in RII02 (£m)	Expenditure in RII02 (£m)	PCD Date	PCD Delivered by end of RII02?	Allowance (£m) Next price control
Project A	10	12 (+£2m)	31 March 2026	Yes	0
Project B	16	19 (+£3m)	31 March 2026	Yes	0
Project C	12	10 (-£2m)	31 March 2026	Yes	0
Project D	18	14 (-£4m)	1 June 2028	No	tbc
Project E	10	11 (+£1m)	1 June 2028	No	tbc
Total	66	66 (equal)			tbc

Assessment at RII02 closeout shows that the full allowance had been spent efficiently across projects. Projects D and E's PCDs have not been delivered and are due two years later in the next price control and will require additional funding.

A new PCF pot will be created for project D and E to be used during the next price control. This pot will be created for projects D and E when setting TOs' allowances for the next price control. This pot will remain subject to the same conditions set out in SpC 3.40: flexibility, UIOLI, and the re-opener mechanism.

Assessment Principles

We will assess ASTI PCF PCDs collectively across each TO's portfolio of projects, albeit this may be in two-stages if ASTI PCF PCD outputs are delivered over two price controls, as set out above under Reporting Requirements.

Although substitutable, ASTI PCF PCD allowances specified in the licence are allocated to the individual projects in a TO's portfolio for the purposes of assessing the PCD. This project-specific value ("Associated PCF Allowance £m" in Table 1 and Table 2 below) represents the maximum downwards adjustment that Ofgem may make per project for any PCDs that are not Fully Delivered. Efficiently incurred expenditure across the portfolio of ASTI projects and the materiality of the UIOLI adjustment will be important considerations before making any allowance adjustment following our PCD assessment.

For the avoidance of doubt, the allowance allocated against ASTI PCF PCD does not restrict how TOs may spend across their portfolio of projects, it is only a means of attributing funding to an output for the purposes of assessing PCDs.

Before making any allowance adjustment in the event of an ASTI PCF PCD output not being Fully Delivered, we will consider efficient expenditure across the TO's full portfolio of projects as allowances on a project not Fully Delivered could have been substituted and spent efficiently on a different project.

Where a TO Fully Delivers all the ASTI PCF PCD outputs, there will be no ex-post efficiency assessment of the costs incurred delivering the outputs. In this circumstance any underspend against allowances would be returned to consumers through a UIOLI adjustment.

Table 1: Example PCD assessment 1 (overspend)

Project	PCD delivered?	Associated PCF Allowance £m	PCF Spent on project £m	Associated PCF allowance spent on project (%)
A	Yes	3.8	4.0	105%
B	Yes	12.5	15.0	120%
C	Yes	11.3	9.0	80%
D	Yes	5.0	10.0	200%
E	No	6.9	8.0	116%
Totals		39.5	46.00	116%
Over / under spend			6.5	16%

Table 1 above is an example of how a TO may have delivered its portfolio of projects. In this example there is an overall overspend of £6.5m above the ASTI PCF allowance. Project E's PCD in this example has not been delivered (e.g. because the project was cancelled). Ofgem would assess this TO's portfolio of projects simultaneously and look at spend across the whole portfolio.

As the PCD for project E has not been delivered, Ofgem would consider clawing back allowances. The maximum amount Ofgem could claw back in this example is £6.9m (the allowance associated with project E) even though the TO has spent more than this amount.

The only allowances clawed back in this example would be those that Ofgem determined were spent inefficiently following the PCD assessment. Assuming the £8m spent on project E had been spent efficiently, or substituted and spent efficiently on a different project in the portfolio, Ofgem would not look to claw back any of this allowance. If this was the case, in this example there would be no claw-back or UIOLI adjustment, and the £6.5m overspend would be subject to the Totex Incentive Mechanism (TIM).¹²

¹² Assumes £6.63m is lower than the TO's Materiality Threshold; any overspend above the Materiality Threshold could be recovered through the Re-opener mechanism set out in Special Condition 3.40.

Table 2: Example PCD assessment 2 (underspend)

Project	PCD delivered?	Associated PCF Allowance £m	PCF Spent on project £m	Associated PCF allowance spent on project (%)
A	Yes	3.8	4.0	107%
B	Yes	12.5	15.0	120%
C	Yes	11.3	9.0	80%
D	Yes	5.0	10.0	200%
E	No	6.9	1.0	15%
Totals		39.5	39.0	99%
Over / under spend			-0.5	-1%

Table 2 above is another example of how a TO may have delivered its portfolio of projects. In this example there is an overall underspend of £0.5m below the ASTI PCF allowance. Project E's PCD in this example has not been delivered (e.g. because the project was cancelled). Ofgem would assess this TO's portfolio of projects simultaneously and look at spend across the whole portfolio.

As the PCD for project E has not been delivered, Ofgem would consider clawing back allowances. The maximum amount Ofgem could claw back in this example is £6.9m (the allowance associated with project E); this maximum clawback could only occur if Ofgem determined the £1m spent on project E was spent inefficiently, and if Ofgem determined that the remaining allowance (£5.6m) had been spent inefficiently elsewhere across the portfolio of projects.

Assuming the £1m spent on project E had been spent efficiently, and the remaining £5.6m had been spent efficiently elsewhere, Ofgem would not look to claw back any of this allowance. If this was the case, in this example there would be no clawback, and the overall underspend across the portfolio of £0.5m would be returned to consumers via a UIOLI adjustment.