

# Consultation

Subject	RIIO-ET1 Closeout: Consultation on proposed adjustments
Publication date:	18 September 2023
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The previous electricity transmission price control (RIIO-ET1) ended on 31 March 2021. It had several elements which could not be settled until the price control had ended. We have now assessed company performance for these areas and have come to a view on the proposed adjustments.

We are consulting on our view under each of the RIIO-ET1 Close out mechanisms for each of the onshore electricity transmission owner (ETO) licensees. We would like views from people with an interest in electricity transmission. We would also welcome responses from other stakeholders and the public.

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## Executive Summary

This document summarises the value of adjustments for each onshore electricity transmission owner (ETO) businesses under the previous RIIO<sup>1</sup> price control period (RIIO-ET1), which ended on 31 March 2021.

The RIIO-ET1 electricity transmission licence (the “ET1 Licence”) makes provision in relation to several areas which, due to their uncertain nature, could only be settled once all costs and/or outputs are known or can be forecast with sufficient accuracy. This means that some elements of the price control need to be subject to “closeout” once the price control has ended and all the relevant information is available.

For the purposes of the closeout of RIIO-ET1, the following need to be addressed:

- True-up of connection activity funded directly by the connecting customer.
- Settlement of Transmission Provisions Wider Works (TPWW) claims.
- Closing out customer terminated connection projects.
- Adjustments for financial proceeds from the disposal of assets and land.
- Settlement of allowances for pre-construction works.
- Adjustments associated with crossover<sup>2</sup> volume driver projects where funding provision is made in related RIIO-ET1 volume driver mechanisms.
- Adjustments associated with specific projects that are not subject to adjustment through the RIIO-ET1 volume driver mechanisms.<sup>3</sup>
- Adjustments for Enhanced Physical Site Security projects.
- Generation connection volume driver ‘clawback’.
- Adjustments to fund Visual Impact of Scottish Transmission Assets (VISTA) projects.

We have assessed each ETO’s performance against these areas and have come to a minded-to position on proposed adjustments. We now seek stakeholder opinion on the results of the assessment.

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<sup>1</sup> “RIIO” is Revenue = Incentives + Innovation + Outputs.

<sup>2</sup> Associated with the delivery of outputs in the first two years of RIIO-ET2 where funding provision is made in related RIIO-ET1 volume driver mechanisms.

<sup>3</sup> Associated with the delivery of outputs in RIIO-ET2 and where a project has incurred spend across a price control boundary but the ET1 price control provided no allowance for spend incurred in the RIIO-ET1 period.

## Summary of our assessment

The result of our assessment of company performance under each mechanism is explained in more detail in the following chapters. The table below states the overall impact of the allowance adjustments we are proposing in accordance with the direction of the decision document.

**Table 1: RIIO-ET1 closeout – total value of proposed adjustments<sup>4</sup>**

Area	Cumulative value of adjustments across all ETOs (£m)
True-up of connection activity funded directly by the customer	-392.56 <sup>5</sup>
TPWW claims	70.72
Customer terminated connection projects	34.66
Adjustments for asset and related Land Disposals	-21.63
Settlement of allowances for pre-construction works	-8.13
Adjustments for crossover T1 volume driver projects	-86.34
Adjustments for Enhanced Physical Site Security Costs	-1.25
Generation Connection Volume Driver 'Clawback'	-29.69
VISTA policy	1.01
Crossover projects without volume driver: ET2 Opex Escalator	3.78
Adjustment for associated "sole-use" <sup>6</sup> works incurred in the delivery of crossover volume driver projects in the T1+2 period	120.90 <sup>7</sup>
Adjustment for crossover projects without T1 volume driver	-35.43 <sup>7</sup>
Adjustment to sole-use investments delivering an output in T1+2 timescales that have received RIIO-ET2 baseline funding	19.87 <sup>7</sup>
<b>Total value of proposed adjustment (2009/10 price base)</b>	<b>-324.09</b>

### Next Steps

We are inviting responses to this consultation following the Decision on the closeout methodologies for RIIO-ET1. Contact and deadline details are on page 1. After we have considered consultation responses, we will publish our decision by Autumn of 2023.

We will give licensees 28 days' notice of any associated revenue adjustments (if necessary) calculated in line with the methodology set out in the Price Control

<sup>4</sup> The table does not include the value of Excluded Services revenue ("Direct Allowed Revenue Terms")

<sup>5</sup> This is the cumulative true-up value between the forecast customer connection contributions included in Baseline Load Related Allowed Expenditure and the actual contributions received for "sole use entry" and "sole use exit" connection activity.

<sup>6</sup> The cost of assets provided solely for a particular customer are recovered directly from the relevant customer via connection charges and treated as excluded services.

<sup>7</sup> Applicable to the RIIO-ET2 PCFM.

Financial Handbook (PCFH). These revenue adjustments will be used in the calculation of revised allowed revenues as part of the Annual Iteration Process (AIP).<sup>8</sup>

Our final view of adjustments is subject to consideration of any further information submitted and views in response to this consultation.

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<sup>8</sup> We note that the June 2023 decision to modify the ET2, GT2 and GD2 Price Control Financial Instruments and Licence conditions amended the AIP timeline and process. Document link here: [Decision on modifications to the Price Control Financial Instruments and Licence conditions for Gas Transmission, Gas Distribution and Electricity Transmission | Ofgem](#).

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# 1. Introduction

## Electricity Transmission

- 1.1 The electricity transmission network in Great Britain (GB) consists of the high voltage electricity wires and cables, which convey electricity from generation sources to local distribution networks and large-scale customers directly connected to the system.
- 1.2 The providers of electricity transmission services (or ETOs) are natural regional monopolies. To ensure value for money for consumers, we regulate ETOs through periodic controls. The onshore ETO licensees are summarised in the table below.

**Table 1.1:** ETO names and geographic area of activity

Licensee (document reference)	Onshore transmission network area
National Grid Electricity Transmission (NGET)	England & Wales
Scottish Hydro Electric Transmission (SHET)	North of Scotland and Scottish island groups
ScottishPower Transmission (SPT)	South of Scotland

## Background

- 1.3 The previous electricity transmission price control (RIIO-ET1) ran from 1 April 2013 to 31 March 2021. The price control set outputs that ETOs must deliver relating to network investment, and revenues they are allowed to collect from customers.
- 1.4 Within RIIO-ET1 there are several areas of expenditure that require information about actual efficient costs incurred, revenue received and the extent to which outputs have been delivered before RIIO-ET1 can be fully settled (or “closed out”).
- 1.5 We have not included closeout of the Network Output Measures (NOMs) and Capacity Utilisation in this consultation. NOMs are being consulted on separately due to the cross-sector scope and Capacity Utilisation is accounted for within the NOMs closeout assessment.
- 1.6 The areas needed to be closed out after the RIIO-ET1 price control ended are:
- True-up of connection activity funded directly by the connecting customer.
  - Settlement of Transmission Provisions Wider Works (TPWW) claims.



- Closing out customer terminated connection projects.
- Adjustments for financial proceeds from the disposal of assets and land.
- Settlement of allowances for pre-construction works.
- Adjustments associated with crossover volume driver projects where funding provision is made in related RIIO-ET1 volume driver mechanisms.
- Adjustments associated with specific projects that are not subject to adjustment through the RIIO-ET1 volume driver mechanisms.
- Generation connection volume driver 'clawback'.
- Adjustments for Enhanced Physical Site Security projects.
- Adjustments to fund VISTA projects.

1.7 At RIIO-ET2 Final Determinations, we stated that we would work with stakeholders to develop methodologies to closeout these areas. In October 2022<sup>9</sup>, we modified the RIIO ET2 Price Control Financial Handbook ("the PCF Handbook") to incorporate the RIIO ET1 Close out methodologies. The methodologies, associated decision documents, consultations and responses are all on our website<sup>10</sup>.

1.8 The companies provided an initial 'performance assessment submission' in July 2022 detailing the value of the closeout adjustments to be made and to provide further information to explain and justify their performance in each closeout area.

1.9 We carried out an assessment of the qualitative and quantitative information provided by the ETOs in line with the process and agreed methodologies. We sought further engagement to resolve points of calculation and explanation and, where necessary, the ETOs provided supplementary information and updated information to assist in our deliberations. We have consulted bilaterally on our views in each closeout area. We are now seeking views on the results of our assessment.

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<sup>9</sup> [Decision on modifications to the RIIO-2 Price Control Financial Instruments and Licence conditions to implement the closeout of RIIO-1 | Ofgem](#)

<sup>10</sup> See Related Documents section.

- 1.10 Our final view of each ETO's performance and any associated revenue adjustments is subject to consideration of any further information submitted and views in response to this consultation.

## Other considerations

- 1.11 On 24 May 2022 we published our decision on the closeout methodologies for each of the elements of the RIIO-ET1 price control (the "Closeout Methodology Decision").<sup>11</sup> The final closeout methodologies (appendices 1-9 of the Closeout Methodology Decision document) are included in the PCF Handbook and are not repeated here.
- 1.12 We will consult on amendments to the Price Control Financial Model (PCFM) and final revenue adjustments ahead of the Annual Iteration Process (AIP) and will engage with the ETOs to implement the detail of these adjustments.
- 1.13 Separately, we will initiate a process to consult on proposed drafting changes to the existing RIIO-ET2 electricity transmission licence (the "ET2 Licence") to update, where necessary, the text to reflect our closeout adjustment decision and to enable the impact on RIIO-ET2 baseline allowances to be accurately executed and represented. The amendments are intended to ensure the accuracy of the ongoing reporting requirements for the remainder of the price control period.
- 1.14 We will develop and set out our proposals in a forthcoming statutory consultation on changes to the ET2 Licence. This will be issued after the conclusion of this process on the proposed adjustments.

## Structure of this document

- 1.15 Each chapter of the document provides a summary of each area of the price control where a closeout funding provision was required, briefly recaps the assessment process under each mechanism, and summarises our view of company performance for each ETO (where applicable).
- 1.16 Further details of the adjustment values can be found in the data file, which has been published alongside this consultation document.

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<sup>11</sup> <https://www.ofgem.gov.uk/publications/decision-closeout-methodologies-riio-et1>

## Related documents

RIIO-T1 Strategy Decision: [Decision on strategy for the next transmission price control - RIIO-T1 | Ofgem](#)

RIIO-T1 Final Proposals for Scottish Power (SPT) and Scottish Hydro Electric Transmission (SHET): [RIIO-T1: Final Proposals for SP Transmission Ltd and Scottish Hydro Electric Transmission Ltd | Ofgem](#)

RIIO-T1 Final Proposals for National Grid Electricity Transmission (NGET): [RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas – Overview | Ofgem](#)

Supplementary documents to the RIIO-T1 Final Proposals: [RIIO-T1: Final Proposals for National Grid Electricity Transmission and National Grid Gas \(ofgem.gov.uk\)](#)

RIIO-ET1 Price Control Financial Handbook: [Appendix 3 ET1 Handbook V1.4 \(ofgem.gov.uk\)](#)

RIIO-2 Final Determinations Transmission and Gas Distribution Network Companies: [RIIO-2 Final Determinations for Transmission and Gas Distribution network companies and the Electricity System Operator | Ofgem](#)

RIIO-ET2 Financial Instruments:

- [Notice of proposed modifications to the Regulatory Instructions and Guidance and Regulatory Reporting Packs for RIIO-2 | Ofgem](#)
- [Proposed direction to make modifications to the ESO and ET2 Price Control Financial Instruments | Ofgem](#)
- [Direction to make modifications to the ESO and ET2 Price Control Financial Instruments | Ofgem](#)

Decision on modifications to the RIIO-2 Price Control Financial Instruments and Licence conditions to implement the closeout of RIIO-1: [Decision on modifications to the RIIO-2 Price Control Financial Instruments and Licence conditions to implement the closeout of RIIO-1 | Ofgem](#)

Decision on modifications to the Price Control Financial Instruments and Licence conditions for Gas Transmission, Gas Distribution and Electricity Transmission: [Decision on modifications to the Price Control Financial Instruments and Licence conditions for Gas Transmission, Gas Distribution and Electricity Transmission | Ofgem](#)

## Consultation stages

Stage	Date
Consultation Open	18/09/2023
Consultation closes (awaiting decision). Deadline for responses	16/10/2023
Responses published and under review	Autumn 2023
Decision	Autumn 2023

## How to respond

- 1.17 We want to hear from anyone interested in this consultation. Please send your response to the person or team named on this document's front page.
- 1.18 We've asked for your feedback in each of the questions throughout. Please respond to each one as fully as you can.
- 1.19 We will publish non-confidential responses on our website at [www.ofgem.gov.uk/consultations](http://www.ofgem.gov.uk/consultations).

## Your response, data and confidentiality

- 1.20 You can ask us to keep your response, or parts of your response, confidential. We'll respect this, subject to obligations to disclose information, for example, under the Freedom of Information Act 2000, the Environmental Information Regulations 2004, statutory directions, court orders, government regulations or where you give us explicit permission to disclose. If you do want us to keep your response confidential, please clearly mark this on your response and explain why.
- 1.21 If you wish us to keep part of your response confidential, please clearly mark those parts of your response that you do wish to be kept confidential and those that you do not wish to be kept confidential. Please put the confidential material in a separate appendix to your response. If necessary, we'll get in touch with you to discuss which parts of the information in your response should be kept confidential, and which can be published. We might ask for reasons why.

- 1.22 If the information you give in your response contains personal data under the General Data Protection Regulation 2016/379 (GDPR) and domestic legislation on data protection, the Gas and Electricity Markets Authority will be the data controller for the purposes of GDPR. Ofgem uses the information in responses in performing its statutory functions and in accordance with section 105 of the Utilities Act 2000. Please refer to our Privacy Notice on consultations, see Appendix 4.
- 1.23 If you wish to respond confidentially, we'll keep your response itself confidential, but we will publish the number (but not the names) of confidential responses we receive. We won't link responses to respondents if we publish a summary of responses, and we will evaluate each response on its own merits without undermining your right to confidentiality.

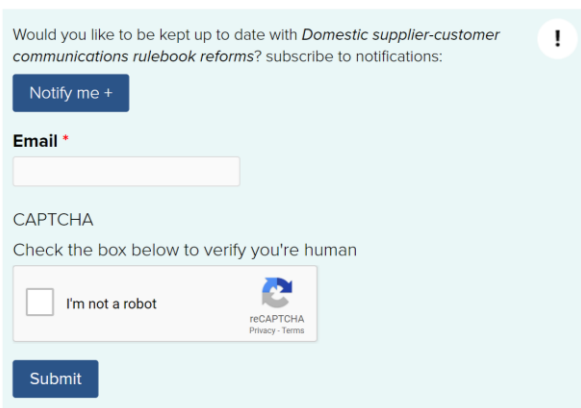
## General feedback


- 1.24 We believe that consultation is at the heart of good policy development. We welcome any comments about how we've run this consultation. We'd also like to get your answers to these questions:
- Do you have any comments about the overall process of this consultation?
  - Do you have any comments about its tone and content?
  - Was it easy to read and understand? Or could it have been better written?
  - Were its conclusions balanced?
  - Did it make reasoned recommendations for improvement?
  - Any further comments?
- 1.25 Please send any general feedback comments to [stakeholders@ofgem.gov.uk](mailto:stakeholders@ofgem.gov.uk)

## How to track the progress of the consultation

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).

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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:

- a) Upcoming
- b) Open
- c) Closed (awaiting decision)
- d) Closed (with decision)

## 2. Adjustments to true-up with connection payments

This section details our proposed adjustments for closing out connection activity funded directly by the connecting customer. This process applies to all the ETOs.

### Summary of Closeout Methodology

- 2.1 A process is required to ensure that any variance between the total payment received by each ETO across RIIO-ET1 and the assumptions made to establish the RIIO-ET1 baseline is trued up.
- 2.2 In our Closeout Methodology Decision we established an adjustment calculation to reconcile the difference between the actual income received by each of the ETOs, across RIIO-ET1, and confirmed the assumptions to apply when establishing the total allowed revenue to be recovered from annual charges at the start of the price control period.
- 2.3 Two adjustments were included in our Closeout Methodology Decision:
  - i. A true-up between the forecast customer connection contributions (listed as negative capital expenditure) included in Baseline Load Related Allowed Expenditure and the actual contributions received for the investment categories relevant to "sole use entry" and "sole use exit" connection activity.
  - ii. An update to the current annual charges forecast in the PCFM to the actual values for the RIIO-ET1 period (not discussed further).

### Proposed adjustment values

- 2.4 We will implement the methodology as provided in Appendix 2 of our Closeout Methodology Decision.
- 2.5 Using the information provided by the ETOs in their data submissions, and in accordance with our Closeout Methodology Decision, we have calculated proposed adjustment inputs to be made to the ET1 Legacy PCFM.

- 2.6 **Table 2.1:** Row 84 of the PCFM, "Non-variant allowed load related capex expenditure" under the "Expenditure", for the customer contributions component (£m, 2009/10 prices)

Licensee	T1 TOTAL
NGET	-213.57
SHET	-156.72
SPT	-22.28

- 2.7 Further detail can be found in the datafile accompanying this publication.



### 3. Adjustments for terminated wider works projects

This section explains our proposed adjustments for terminated wider works projects through the TPWW term in Special Condition 6J of NGET's T1 licence. This chapter applies to NGET only.

#### Summary of Closeout Methodology

- 3.1 Under the RIIO-ET1 framework, an explicit volume driver mechanism was established to provide funding to NGET to deliver electricity transmission projects that meet Network Development Policy criteria, strengthen specific network boundaries in England and Wales, and increase their transfer capability. The projects and associated outputs are referred to as Incremental Wider Works (IWW).
- 3.2 It was recognised that conditions could change leading to delay or disappearance of the needs case. In some cases completed infrastructure work could not be used subsequently to contribute to other outputs delivered by NGET within the RIIO-ET1 period. The RIIO-ET1 framework introduced a mechanism to allow NGET to recover the efficient construction costs incurred.
- 3.3 Transmission Provisions Wider Works (TPWW) is a term within Special Condition ("SpC") 6J of NGET's T1 Licence. The term allows NGET to recover costs efficiently incurred in progressing construction activities in the delivery of an IWW output, up to the point of the cancellation of the project<sup>12</sup>, where conditions have changed and it is no longer aligned with consumers' needs to continue the project to completion.
- 3.4 As part of its ongoing monitoring, NGET identified specific investments that fall under the remit of this definition and require settlement through the RIIO-ET1 closeout process.
- 3.5 The evaluation process and the cost assessment template that we have used was previously established to support the review of NGET's 2017 TPWW claim (the North London Reinforcement Project methodology<sup>13</sup>). The methodology, developed jointly between NGET and Ofgem, enables NGET to report the construction costs

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<sup>12</sup> Pre-construction costs for IWW projects were separately provided in NGET's baseline allowances. Costs incurred on associated pre construction activity will be allocated against existing RIIO-ET1 allowances.

<sup>13</sup> [Assessment of request under the Transmission Provisions for Wider Works mechanism | Ofgem](#)

of each project and the effect of spend in the previous price control period and/or any prior funding (where applicable).

- 3.6 In May 2022 we concluded the process that we would apply in assessment and evaluation of each TPWW claim - based on documentation to be submitted by NGET in support of its claims – and confirmed our decision to use the agreed cost assessment methodology developed jointly between NGET and Ofgem.

## Proposed adjustment values

- 3.7 We will implement the methodology as provided in Appendix 3 of our Closeout Methodology Decision.
- 3.8 Using the information provided by the ETOs in their data submissions, we have established the value of efficiently incurred expenditure on construction activity recoverable through the TPWW mechanism across all outstanding claims.
- 3.9 The following input is proposed to be made to the ET1 Legacy PCFM to the relevant company input tab.

**Table 3.1:** row 19, "Network development and wider works volume driver (NGET only)" under the heading PCFM Variable Values Table (£m, 2009/10 prices)

Licensee	T1 TOTAL
NGET	70.72

- 3.10 Further detail can be found in the datafile accompanying this publication.

## Potential revision to the ET2 Licence

- 3.11 In the Closeout Methodology Decision (paragraph 4.18), we decided in principle to proceed with an amendment to the ET2 Licence (to SpC 3.30.10) to clarify that recoverable costs associated with terminated projects in RIIO-ET2 include costs efficiently incurred from the period commencing 1st April 2013 i.e. start of RIIO-ET1.
- 3.12 We will develop and set out our proposals in the forthcoming statutory consultation on potential amendments to the text of the ET2 Licence.

## 4. Enhanced physical security

This section details our proposed adjustments relating to the ETOs Physical Security Upgrade Programme (PSUP). This process applies to all ETOs.

### Summary of Closeout Methodology

- 4.1 The UK Government's Physical Security Upgrade Programme (PSUP) is a cross-sector programme that requires each of the ETOs to implement physical security enhancements at sites listed as Critical National Infrastructure . The Department for Business, Energy and Industrial Strategy (BEIS<sup>14</sup>) determines which sites require upgrades.
- 4.2 At RIIO-ET1 FPs, network companies were provided baseline funding for known PSUP projects, and PSUP outputs and allowances were adjusted following re-openers in 2015 and 2018.
- 4.3 In May 2022 we confirmed the principles to be applied in our methodology governing the assessment and recovery of costs<sup>15</sup>, noting that we reserved the right to recover any allowances in the context of RIIO-ET1 closeout if the outputs in question were not delivered.
- 4.4 Our Closeout Methodology Decision also recognised that ETOs may have incurred costs during RIIO-ET1 on projects, for which they have not received funding (ie the UK Government has directed that work is required) and proposed to make adjustments as part of RIIO-ET1 closeout to facilitate the recovery of efficiently incurred costs and outputs delivered (e.g. claw back all unused allowances for projects that are no longer required and for non-delivery of agreed outputs and to provide allowance for efficiently incurred costs, supported by ETO evidence, on projects where the needs case later fell away).<sup>16</sup>

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<sup>14</sup> BEIS existed until 2023 when it was split to form the Department for Business and Trade, the Department for Energy Security and Net Zero and the Department for Science, Innovation and Technology. Responsibility for national security and investment policy has gone to the Cabinet Office.

<sup>15</sup> Paragraphs 5.11 and 5.12 of the Decision document.

<sup>16</sup> Noting that no additional allowance will be provided in RIIO-ET2 in relation to PSUP projects funded in RIIO-ET1, although ETOs can submit a claim through the Re-opener mechanism under SpC 3.4 "Physical security Re-opener and Price Control Deliverable" where the project meets the specified criteria.

- 4.5 The final methodology incorporated a proportionate approach to encompass projects that do not have pre-agreed funding but where costs have been incurred within RIIO-ET1 as a result of UK Government direction.

## Proposed adjustment values

- 4.6 We will implement the methodology as provided in Appendix 4 of our Closeout Methodology Decision.
- 4.7 Using the information provided by the ETOs in their data submissions, we have established a proposed adjustment to allowances to reflect updated needs cases for the PSUP programme of work, as required by the UK government.
- 4.8 The following input is proposed to be made to the ET1 Legacy PCFM to the relevant company input tab.

**Table 4.1:** row 14, "Uncertain costs - enhanced security" under the heading PCFM Variable Values (£m, 2009/10 prices)

Licensee	T1 TOTAL
NGET	0
SHET	0
SPT	-1.25

## 5. Adjustments for terminated connection projects.

This section explains our proposed adjustments for terminated connection projects, taking into account total income from termination receipts received directly from customers within the RIIO-ET1 period. This chapter applies to NGET only.

### Summary of Closeout Methodology

- 5.1 Users of the transmission system can terminate their bilateral agreements (or agree a capacity reduction) prior to commencing use of the requested connection.
- 5.2 It is difficult to identify which projects will ultimately terminate (or reduce capacity) and when this might occur. There was no ex-ante or baseline allowance set in RIIO-ET1 for terminations/reductions.
- 5.3 In the event a demand or generation customer terminated their connection agreement with the Electricity System Operator, prior to commencing use of the connection, the RIIO-ET1 framework introduced mechanisms for NGET to recover any deficit or return any surplus termination payments as compared to costs efficiently incurred on such connections.
- 5.4 Special Condition 6F of NGET's ET1 Licence<sup>17</sup> ensured that the costs efficiently incurred in progressing construction activities in the delivery of a user terminated generation connection (licence term 'TPG') and the income from termination receipts from user terminated generation connections (licence term 'TPRG') during the RIIO-ET1 period are reported. Similar provisions existed in SpC 6L of NGET's ET1 Licence<sup>18</sup> relevant to the reporting of user termination of demand bilateral connection agreements within the RIIO-ET1 period.
- 5.5 In May 2022 we set out the adjustment calculation we would apply to enable NGET to recover costs efficiently incurred on investments for terminated connection works, net of settlement of the termination payments received from users within the RIIO-ET1 price control period.

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<sup>17</sup> Paragraph 8 in Part A of SpC 6F.

<sup>18</sup> Paragraph 8 in Part A of SpC 6L.

## Proposed adjustment values

- 5.6 We will implement the methodology as provided in Appendix 5 of our Closeout Methodology Decision.
- 5.7 Using the information provided by the ETOs in their data submissions, we have established a proposed true-up adjustment to enable recovery of efficiently incurred costs on terminated connection works across the RIIO-ET1 price control period.
- 5.8 The following input is proposed to be made to the ET1 Legacy PCFM to the relevant company input tab.

**Table 5.1:** row 23, "Generation connections volume driver" under the heading "PCFM Variable Values Table" in respect of Generation Connections (£m, 2009/10 prices)

Licensee	T1 TOTAL
NGET	35.73

**Table 5.2:** row 21, "Demand related infrastructure volume driver" under the heading "PCFM Variable Values Table" in respect of Demand works (£m, 2009/10 prices)

Licensee	T1 TOTAL
NGET	-1.07

- 5.9 Further detail can be found in the datafile accompanying this publication.

## Potential revisions to the ET2 Licence

- 5.10 The drafting of SpCs 3.11.4 and 3.12.4 of NGET's ET2 Licence allow the recovery of efficiently incurred expenditure in respect of Generation and Demand terminations (via the 'TPGt' and 'TPDt' terms, respectively). The allowance adjustment accounts for termination receipts received (via the 'TPRGt' and 'TPRDt' terms). However, by referring to the term "Regulatory Year", the precise definition of this term in the ET2 Licence (as it applies under SpCs 3.11 and 3.12) only permits costs incurred in RIIO-ET2 to be recovered.
- 5.11 In the Closeout Methodology Decision (paragraph 6.19), we decided in principle to proceed with an amendment to the ET2 Licence to enable the recovery of costs from the beginning of RIIO-ET1.

- 5.12 We will develop and set out our proposals in the forthcoming statutory consultation on potential amendments to the text of the ET2 Licence.

## 6. Settlement of allowances for pre-construction works.

This section explains our proposed adjustment to RIIIO-ET1 baseline allowances associated with the delivery of specified pre-construction activity under SpC 3L of the T1 Licence. This chapter applies to all ETOs.

### Summary of Closeout Methodology

- 6.1 The RIIIO-ET1 settlement contained a 'use it or lose it' ex-ante allowance for each ETO to progress pre-construction engineering works where these are preparatory for Strategic Wider Works projects. These pre-construction works were referred to as Pre-Engineering Outputs ('PE Outputs') under SpC 3L of the T1 Licence.
- 6.2 Under the provisions of paragraph 9 of SC 3L of the T1 Licence, an ETO could raise a request to amend the details of the PE Outputs prescribed in the T1 Licence through an output substitution (OS).
- 6.3 Paragraph 17 of SpC 3L enabled the Authority to adjust the baseline expenditure, in the event that the licensee did not deliver or only partially deliver a PE Output on or before 31 March 2021.
- 6.4 In the Decision document we established the adjustment calculation to reconcile the difference between the actual costs incurred and the value of fixed allowances associated with the delivery (or non-delivery) of pre-construction activities related to 'named' outputs specified in the T1 Licence across the price control period (against the post-substitution position of allowances).

### Proposed adjustment values

- 6.5 We will implement the methodology as provided in Appendix 6 of our Closeout Methodology Decision.
- 6.6 Using the information provided by the ETOs in their data submissions, we have established a proposed adjustment to reflect the pre-construction costs incurred



on engineering works associated with the above-mentioned PE Outputs within the RIIO-ET1 period.<sup>19</sup>

- 6.7 The following input is proposed to be made to the ET1 Legacy PCFM for each of the relevant company input tabs.

**Table 6.1:** row 84 of the PCFM, "Non-variant allowed load related capex expenditure" under the heading "Expenditure" (£m, 2009/10 prices)

Licensee	T1 TOTAL
NGET	0
SHET	-3.06
SPT	-5.07

- 6.8 Further detail can be found in the datafile accompanying this publication.

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<sup>19</sup> Our analysis confirms that NGET has overspent against the post substitution allowances for the named projects across the T1 period and, in line with the RIIO-T1 framework, will not receive additional funding for this overspend. Both SPT and SHET have underspent against the post substitution allowances for the named projects across the T1 period and is required to return the value of unspent allowances.

## 7. Adjustments for asset and land related disposals

This section details our proposed adjustments to close out RIIO-ET1 disposals. This chapter applies to all ETOs.

### Summary of Closeout Methodology

- 7.1 Under the RIIO framework, when a licensee sells an asset that was originally funded by consumers, the proceeds of that asset sale should be passed to consumers.
- 7.2 Where network assets are no longer required, ETOs may dispose of such assets or relinquish operational control of them, subject to the consent of stakeholders (e.g., landowners). Some of these transactions may include the disposal of land.
- 7.3 The approach to the treatment of Disposals was set out in RIIO-ET1 FPs<sup>20</sup>, and the Decision document confirmed the application of this approach in the RIIO-ET1 closeout process, using the following formula for the true-up:

$$\text{True-up value} = (\text{proceeds of disposal} - \text{cost of disposal}) \times (1 - \text{tax rate})$$

- 7.4 The Decision document also confirmed that we will identify any specific financial gains that NGET derive from land ownership associated with the North London Reinforcement TPWW project (whether through leasing out or sales)<sup>21</sup>, proposing that any value identified through the closeout process will be returned to consumers by application of the above-mentioned formula.

### Proposed adjustment values

- 7.5 We will implement the methodology as provided in Appendix 7 of our Closeout Methodology Decision.
- 7.6 Using the information provided by the ETOs in their data submissions, we have established the following:

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<sup>20</sup> RIIO1 Finance supporting document, paragraph 2.16. Published on 17 December 2012.

<sup>21</sup> Paragraph 8.13.

- For NGET, an adjustment value of £21.24m (2009/10 price base) is required net of the application of tax over the RIIO-T1 period. The proceeds from the sale of land associated with the North London Reinforcement Project is included in this value.
- For SPT, an adjustment value of £0.39m (2009/10 price base) is required net of the application of tax over the RIIO-T1 period.
- No adjustment is required for SHET.

## 8. Adjustments for crossover volume driver projects

This section details our proposed adjustments for closing out allowances associated with the delivery of outputs in the first two years of RIIO-ET2 where funding provision is made in related RIIO-ET1 volume driver mechanisms. This chapter applies to SHET and NGET.

### Summary of Closeout Methodology

- 8.1 The RIIO-ET1 framework contained uncertainty mechanisms for load-related projects that included an automatic trigger to adjust allowances through an extension of the volume drivers into the first two years of the RIIO-ET2 period (1 April 2021 to 31 March 2023). This period is referred to as “T1+2” and is applicable to relevant “crossover” projects. The RIIO-ET1 mechanisms include:
- Generation connection works, for NGET and SHET.
  - Demand connection works for NGET only.
  - Incremental Wider Works (or IWW) that deliver an increase in the capability of specific transmission boundaries for NGET only.
  - Installation of underground cables for planning purposes, for NGET only.
- 8.2 There are other company-specific features in the RIIO-ET1 framework that need to be reflected in the closeout in relation to relevant crossover projects. These are set out in paragraph 9.2, 9.27 and 9.28 of the Decision document.
- 8.3 For NGET, we have considered details provided through the performance submission to establish:
- a proposed true-up adjustment to reconcile the difference between the forecast of expenditure expected to be incurred for outputs expected to be delivered in T1+2, discharged as part of NGET’s regulatory reporting submission in July 2017, against the best available forecast output delivery in T1+2 for each of the mechanisms detailed above, provided through the closeout performance submission.

- a proposed adjustment for associated “sole-use”<sup>22</sup> works incurred in the delivery of crossover volume driver projects in the T1+2 period reflecting the expected costs. This seeks to remove the potential underfunding of these sole-use investments and is consistent with the treatment for other T1+2 allowances.<sup>23</sup>
- proposed adjustments to sole-use investments delivering an output in T1+2 timescales that have received funding in the RIIO-ET2 baseline to remove the risk of double funding projects.

8.4 For SHET, we have considered details provided through the performance submission to:

- confirm the final list of crossover projects that commenced in RIIO-ET1 and have delivered, or are scheduled to deliver, outputs in T1+2 timescales<sup>24</sup>.
- establish proposed adjustments to the level of funding applicable to the RIIO-ET2 component of the agreed crossover projects that are already included in RIIO-ET2 baseline. This potentially includes:
  - removal of any RIIO-ET2 allowance provision where an original crossover project has not completed within the T1+2 period and the volume driven RIIO-ET1 mechanisms do not apply.
  - netting off the allowance provided by the application of the T1 mechanism where an original crossover project has completed within the T1+2 period against any RIIO-ET2 baseline allowance given for that same project.
  - offsetting the allowance due under the volume driven T1 mechanism by the value of any RIIO-ET2 allowances given for that same project, where delivery has been completed within the eight-year RIIO-ET1 period (not T1+2 period).

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<sup>22</sup> The cost of assets provided solely for a particular customer are recovered directly from the relevant customer via connection charges and treated as excluded services.

<sup>23</sup> This is applicable to NGET only; a similar change was not made to the calibration of the connection volume driver mechanisms of SPT and SHET between RIIO-ET1 and RIIO-ET2.

<sup>24</sup> Including those previously expected to be delivered in T1 but are now T1+2 crossover schemes due to their outturn delivery.

## Proposed adjustment values

8.5 We will implement the methodology as provided in Appendix 8 of our Closeout Methodology Decision.

8.6 Using the information provided by the ETOs in their data submissions, we have established a range of proposed adjustments.

8.7 The following inputs are proposed to be made to the ET1 Legacy PCFM to the relevant company input tab.

**Table 8.1:** row 19, "Network development and wider works volume driver (NGET only)" under the heading "PCFM Variable Values Table" (£m, 2009/10 prices)

Licensee	T1 TOTAL
NGET	-27.56

**Table 8.2:** row 21, "Demand related infrastructure volume driver" under the heading "PCFM Variable Values Table" (£m, 2009/10 prices)

Licensee	T1 TOTAL
NGET	24.66

**Table 8.3:** row 23, "Generation connections volume driver" under the heading "PCFM Variable Values Table" (£m, 2009/10 prices)

Licensee	T1 TOTAL
NGET	-73.72

**Table 8.4:** row 22, "Undergrounding volume driver" under the heading "PCFM Variable Values Table" (£m, 2009/10 prices)

Licensee	T1 TOTAL
NGET	-9.72

8.8 For SHET, no adjustment change is applied to crossover schemes.

8.9 The Decision document (paragraphs 9.27 and 28) noted our intention to address elements of the funding provision for works associated with crossover volume driver projects caused by the different calibrations of the connection volume driver mechanisms.

8.10 The following inputs are proposed to be made to the RIIO-ET2 PCFM.

**Table 8.5:** Cross Over Volume Projects (T1+2 related projects), (£m, 2018/19 prices)

Licensee	T1 TOTAL
NGET	-73.72

**Table 8.6:** Cross Over Projects (T1+2 related projects) Sole Use Connections, (£m, 2018/19 prices)

Licensee	T1 TOTAL
NGET	-9.72

## Potential revisions to the ET2 Licence

- 8.11 As noted above, the volume driven mechanisms in the T1 Licence provide funding for outputs delivered in the T1+2 period.
- 8.12 For NGET, the level of output and linear delivery in the T1+2 period, incorporated in the prescription of applicable baseline thresholds within the connection volume driver mechanisms of the ET2 Licence,<sup>25</sup> was based on the projects and expected delivery profile available at the time of Final Determinations. Based on the updated information received through the closeout process and our bilateral discussions, we understand that the licence profiles include projects which have been subject to remuneration through the existing respective RIIO-1 volume drivers.
- 8.13 There is a need to update and adjust the applicable T2 baseline thresholds of the connection volume driver mechanisms in NGET's ET2 Licence to provide allowances consistent with Final Determinations and close-out methodology.
- 8.14 This includes adjusting the baseline outputs currently prescribed in the applicable licence mechanisms to ensure that these projects are appropriately funded without adjustment by the T2 volume driver, should the outputs be delivered as expected, and to not double-fund elements of investments. Amendments will therefore seek to remove baseline RIIO-T2 outputs (and allowances) for projects where delivery has advanced and the project has completed within the T1+2

<sup>25</sup> See Appendix 2 of Special Condition 3.11: Generation Connection Volume Driver and Appendix 2 of Special Condition 3.12: Demand Connection Volume Driver of NGET's ET2 Licence. The following volume metrics are all measured relative to the defined baseline levels: the number of generation or demand connection projects the incremental capacity (increase in the offtake capacity at grid exit points for demand connections), length of new build OHL, length of reconductoring OHL, length of new underground cables <1km, length of new underground cables => 1km.

period and been subject to remuneration through the T1 volume driver mechanism.

- 8.15 Similar adjustment is not required to the baseline thresholds prescribed in the T1+2 period within the volume driver mechanism of SHET (see Appendix 3 of SpC 3.11), where the thresholds have been set at zero.
- 8.16 We will develop and set out our proposals in the forthcoming statutory consultation on changes to the ET2 Licence.



## 9. Adjustments for crossover projects without volume driver

This section presents our proposed adjustments to fund 'crossover' projects where the delivery of outputs is expected in RIIO-ET2, or beyond, and for which the RIIO-ET1 price control provided no allowances for spend incurred in the RIIO-ET1 period.

### Summary of Closeout Methodology

- 9.1 In our RIIO-ET2 Final Determinations (FD), we stated our decision<sup>26</sup> that for load related (LR) projects which span RIIO-ET1 and RIIO-ET2, we will carry out the true-up of the RIIO-ET1 funding as part of the RIIO-ET1 closeout. The previous chapter set out our proposed adjustments to close out the funding for LR "crossover" projects to which RIIO-ET1 volume drivers apply. This chapter deals with specific crossover LR projects identified by SHET & NGET that are not subject to adjustment through the arrangements described in chapter 8.
- 9.2 The funding provision detailed in the FD for NGET and SHET is summarised in paragraphs 10.3 to 10.7 of the Decision document.
- 9.3 For NGET, we have considered details provided through the performance submission to establish a proposed adjustment to the allowance value of £87m<sup>27</sup> (2018/19 price base) that was included within the RIIO-ET2 baseline allowance<sup>28</sup> (see SpC 3.38 of NGET's ET2 Licence)<sup>29</sup>.
- 9.4 For SHET, we have considered additional details provided through the performance submission to determine the value of proposed adjustments for four applicable projects,<sup>30</sup> including the need to account for the associated indirect allowance based on the T2 Opex Escalator rate of 10.8%.<sup>31</sup>
- 9.5 Based on the information provided, no changes to the ET1 Legacy PCFM are proposed in relation to the value of the RIIO-ET1 component of the four projects (£46.1m in 2018/19 price base).

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<sup>26</sup> RIIO-2 Final Determinations – ET annex (published 3 February 2021) – paragraph 3.32.

<sup>27</sup> The provisional value reflected the expenditure to be incurred in the RIIO-ET1 period for the LR crossover projects identified by NGET at the time of FD.

<sup>28</sup> RIIO-2 Final Determinations – NGET annex (published 3 February 2021) – paragraphs 3.35- 3.36. See also page 38, Table 7 and footnote of the same document.

<sup>29</sup> The value of the negative adjustment was based on our calculation of excess non-load related capex allowance in RIIO-ET1 (£166m in 2018/19 price base). See RIIO-2 Final Determinations – NGET annex (published 3 February 2021) – paragraphs 3.72- 3.74.

<sup>30</sup> East coast 275kV Upgrade, Kinardochy, North East 400kV Upgrade and Tealing 275kV Busbar.

<sup>31</sup> See paragraph 10.31 of the Decision document.

## Proposed adjustment value

- 9.6 We have implemented the approach set out in Chapter 9 of our Closeout Methodology Decision.
- 9.7 Using the information provided by NGET's data submissions, we have established the following inputs to be made to the RIIO-ET2 PCFM.

**Table 9.1:** Proposed adjustment to row 69 of the RIIO-ET2 PCFM (2018/19 price base)

Licensee	T1 TOTAL
NGET	-48.30

- 9.8 For SHET, to address the issue noted in paragraph 9.4 above, we propose an additional allowance of £4.96m (2018/19 price base) to be made to the relevant company input tab. We invite views on the precise method to execute this change within the PCFM.

## Potential revisions to the ET2 Licence

- 9.9 The Decision document (paragraphs 10.29 and 30) noted our intention to establish new RIIO-ET2 PCDs in NGET's ET2 Licence. These are to capture the crossover projects reflecting our assessment of the total efficient costs for the project, and the anticipated output delivery timescale.
- 9.10 NGET performance submission has provided updated information on the relevant project list status which we will further consider. We will set out our further thinking and potential proposals in the forthcoming statutory consultation on potential changes to the RIIO-ET2 Licence.

## 10. Adjustment for SPT's connection volume driver clawback

This section details our proposed adjustment for implementing a 'clawback' of RIIO-ET1 baseline allowance through the operation of the SPT's sole-use generation connection volume driver mechanism within the T1 Licence. This chapter applies to SPT only.

### Summary of Closeout Methodology

- 10.1 The RIIO-ET1 arrangements included a volume driver funding mechanism for SPT which provides additional funding for the connection of generation stations and the associated increase in capacity connected to SPT's network, measured by the increase in megawatt.
- 10.2 RIIO-ET1 provided SPT with a baseline allowance for works to connect new generation stations with an associated level of generation capacity (2503MW) .
- 10.3 The output delivered by SPT under the RIIO-1 mechanism is significantly lower than the baseline output threshold due to the reduction in the number and size of customer connections observed across the period. A clawback of allowance is required.

### Proposed adjustment value

- 10.4 We will implement the methodology as provided in Appendix 9 of our Closeout Methodology Decision.
- 10.5 Using the information provided by the ETOs in their data submissions, we have established a proposed adjustment to be made to the ET1 Legacy PCFM to the relevant company input tab.

**Table 10.1:** row 23, "Generation connections volume driver" under the heading PCFM Variable Values Table (£m, 2009/19 prices)

Licensee	T1 TOTAL
SPT	-27.692

## 11. Proposed adjustments for SHET's VISTA allowance

This section details our proposed adjustment value applicable to RIIO-ET1 allowed expenditure for costs incurred by SHET on projects under SpC 6G of the T1 Licence. This chapter applies to SHET only.

### Summary of Closeout Methodology

- 11.1 RIIO-ET1 provided funding for works to assess and mitigate the visual impact of existing electricity infrastructure on national parks and National Scenic Areas. For the Scottish ETOs, this is known as VISTA (Visual Impact of Scottish Transmission Assets).
- 11.2 We approved funding for SHET to deliver three projects (Sloy, Glen Falloch and Killin) to reduce the impact of its electricity transmission infrastructure on the visual amenity of the Loch Lomond and the Trossachs National Park.
- 11.3 The Decision document confirmed that no close out is required for the three VISTA projects identified in the consultation (Sloy, Glen Falloch and Killin) which are designated to be delivered in 2022-2024.
- 11.4 However, the Decision document (paragraph 12.12) confirmed that an adjustment is necessary to SHET's RIIO-T1 allowed expenditure by £1.01m (in 2009/10 prices) for costs incurred on the Killin project in 2020/21, as part of the ET1 closeout.<sup>32</sup>

### Proposed adjustment value

- 11.5 The following input is proposed to be made to the RIIO-ET1 Legacy PCFM for the relevant company input tab.

**Table 11.1:** row 20 of the PCFM, "Enhancements to Pre-existing Infrastructure" (£m, 2009/19 prices)

Licensee	T1 TOTAL
SHET	1.01

<sup>32</sup> Killin mitigation project licence direction.pdf (ofgem.gov.uk). Due to the timing of the decision there was no provision to make the adjustment to T1 allowances at the time.