

Decision

RIIO-ET1 Closeout: Decision on proposed adjustments

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This document sets out our¹ decision following a consultation on the value of proposed adjustments to close out elements of the previous price control period for electricity transmission (RIIO² -ET1), which started on 1 April 2014 and ended on 31 March 2021.

We published a statutory consultation on 18 September 2023, setting out our minded-to position on the value of adjustments for each onshore electricity transmission owner (ETO) businesses under the previous price control period. We received responses from each ETO. After careful consideration, we have made decisions on the adjustments to the onshore electricity transmission licensees' price control allowances required under each of the RIIO-ET1 closeout areas.

¹ The terms 'we', 'us', 'our' refer to the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

² "RIIO" is Revenue = Incentives + Innovation + Outputs.

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1. Introduction

1.1. Network companies are natural monopolies. Effective regulation of privatised for-profit monopolies is essential to ensure they cannot unfairly exercise their monopoly power to the detriment of their customers. This is particularly important in the case of essential utilities, such as energy, where consumers have no choice about whether or not to pay what they are charged. It is therefore crucial that an effective regulator protects energy consumers by controlling how much network companies can charge their customers. Ofgem³ does this through periodic price controls that are designed to ensure network companies are properly incentivised to deliver the best possible outcomes for current and future energy consumers. This includes ensuring that consumers only pay for investments that are needed and do not overpay for those investments.

1.2. The RIIO-ET1 electricity transmission licence (the “ET1 Licence”) made 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.

1.3. On 18 September 2023, we published our minded-to position on the value of adjustments for each onshore electricity transmission owner (ETO) business⁴ under the RIIO-ET1 price control period, which ended on 31 March 2021 (the “Consultation Document”)⁵.

1.4. Alongside our Consultation Document we published a datafile summarising the result of our assessment for each ETO across each closeout area.⁶

1.5. This publication sets out our decision on adjustments to the onshore electricity transmission licensees’ price control allowances under the applicable RIIO-ET1 closeout areas.

³ The terms ‘the Authority’, ‘Ofgem’, ‘we’, ‘us’ and ‘our’ are used interchangeably in this document. The Authority is the Gas and Electricity Markets Authority. Ofgem is the office of the Authority.

⁴ National Grid Electricity Transmission (NGET), Scottish Power Transmission plc (SPT), and Scottish Hydro Electric Transmission plc (SHET).

⁵ For reference only - the document is located here: [RIIO-ET1 Close out: Consultation on proposed adjustments | Ofgem](#)

⁶ For reference only - the file is located here: [RIIO-T1 Closeout Data Tables datafile final.xlsx \(live.com\)](#)

Our decision-making process

Responses to the statutory consultation

1.6. We received three responses to the Consultation Document, one each from the three ETOs. All non-confidential responses are available on our website alongside this publication.

1.7. We have taken full account of all consultation representations. The responses, and our decisions to the points raised are detailed in Chapters 2 and 3.

Our decision-making

1.8. The decision-making stages are detailed below:

Date	Stage description
18/09/2023	Stage 1: Consultation opens.
16/10/2023	Stage 2: Consultation closes, deadline for responses.
26/10/2023	Stage 3: Responses reviewed.
14/11/2023	Stage 4: Decision published and responses published.

1.9. In reaching this decision on the value of adjustments, we have had regard to, and promoted, our principal objective to protect the interests of existing and future consumers, as well as to wider statutory consumer interests, functions, duties, considerations and needs, as variously set out under section 3A of the Electricity Act 1989.

Next steps

1.10. The final adjustments will be made through the RIIO-ET1 Legacy PCFM, which will be reflected in the RIIO-2 PCFM for the purpose of the 2023 Annual Iteration Process (AIP) via the closeout adjustment term (COA).

1.11. A separate process will confirm and advance a suite of revisions to the ET2 Licence to implement elements of the closeout methodology. A statutory consultation notice is being developed and will be forthcoming.

General feedback

1.12. We believe that consultation is at the heart of good policy development. We are keen to receive your comments about this report. We'd also like to get your answers to these questions:

Decision – RIIO-ET1 Closeout: Decision on proposed adjustments

1. Do you have any comments about the overall quality of this document?
2. Do you have any comments about its tone and content?
3. Was it easy to read and understand? Or could it have been better written?
4. Are its conclusions balanced?
5. Did it make reasoned recommendations?
6. Any further comments

Please send any general feedback comments stakeholders@ofgem.gov.uk

2. Responses and our decisions

This section provides a summary of respondents' views, our responses and the final decisions.

Consultation responses

2.1. Three ETOs commented on the proposed value adjustments as part of their consultation responses on our assessment of the RIIO-ET1 closeout process. In coming to our decision, we carefully considered all responses and taken all comments into account.

2.2. The responses were in agreement with the majority of the proposed adjustment values included within the Consultation Document. However, points of clarification were raised on a limited number of specific technical elements, mostly focused on the calculation methods applied and the resolution of small typographical errors identified in the Consultation Document. The points included:

- a) An update and proposed revision to the clawback adjustment value applicable to SPT's generation connection volume driver mechanism.
- b) A clarification on the approach to be applied in the derivation of SPT's Enhanced Physical Security Costs adjustment value reported in Table 4.1 of the Consultation Document and accompanying datafile.
- c) Identification of a typographical error in Table 4.1 of the Consultation Document where the reported value did not reconcile with the adjustment value reported in the accompanying data file for SHET's Enhanced Physical Security Costs.
- d) A query related to the proposed treatment of legacy costs reported by SHET in the RIIO-ET2 period which relate to a RIIO-ET1 PSUP project.
- e) Views on the precise method to execute the proposed change to account for the associated indirect allowance, for specific SHET projects, to be incorporated into the Price Control Financial Model (PCFM).⁷
- f) A small revision to the transmission provision wider works (TPWW) adjustment value to remove a duplication in the TPWW assessment calculation and the Disposals adjustment.

⁷ See chapter 9 of the 2023 Proposed Adjustment document, specifically paragraph 9.4.

- g) Identification of a typographical error in Tables 8.5 and 8.6 of the Consultation Document where the reported values did not reconcile with the adjustment values reported in the accompanying data file.
- h) A clarification on the proposed adjustment value presented in Table 9.1 of the Consultation Document associated with the funding adjustment for specific load related “crossover” projects to which RIIO-ET1 volume drivers do not apply.⁸

2.3. Each of these points are discussed in turn below.

a. Generation Connection volume driver clawback (SPT)

2.4. The respondent noted that the calculation method currently applied did not take account of a reduction relating to the operating expenditure allowances contained in the algebra of the mechanism (COMk term) and the impact of the baseline allowed expenditure (BSUEk term) for sole-use generation connection capacity. Incorporating the calculation steps result in a further reduction in the value of the clawback allowance relating to the volume driver.

Ofgem response

2.5. We agree that the Consultation Document calculation was incomplete and we have decided to update the calculation. The result is a slight reduction in the clawback value adjustment in relation to SPT’s connection volume driver from £27.69 million⁹ to £24.72 million, as shown in the accompanying datafile.

b. Enhanced Physical Site Security Costs calculation method (SPT)

2.6. The respondent identified an error in the calculation of the proposed adjustment value for the programme of work to enhance physical security at specific sites, specifically that the proposed adjustment value (-£1.25 million) represents a combination of two scenarios listed out in SPT’s closeout submission. The proposed solution is to adopt “scenario 1” in the calculation of the proposed adjustment value.

⁸ The value in Table 9.1 of the Consultation Document erroneously represented the post-adjustment value under Special Condition 3.38 of the ET2 Licence. The adjustment will be taken forward as part of the suite of revisions to the ET2 Licence to implement elements of the closeout methodology.

⁹ All financial values in this document are stated in 2009/10 prices, unless stated otherwise.

Ofgem response

2.7. We agree with the respondents' comments. The value in Table 4.1 of the Consultation Document was incorrectly stated as a result of our misunderstanding of the scenarios presented in the closeout submission. We have decided to apply "scenario 1", the outcome of which is an overspend of £1.21 million against the cumulative value of allowances to protect operational assets on behalf of UK consumers. This replaces the previous value (-£1.25 million) and is shown in the accompanying datafile.

c. Typographical error (SHET)

2.8. The respondent identified a typographical error in Table 4.1 of the Consultation Document, specifically that the proposed adjustment value presented (£0 million) was inconsistent with the value in the accompanying datafile (£4.08 million).

Ofgem response

2.9. We agree that the value in Table 4.1 of the Consultation Document was incorrectly stated as a zero value. The calculation of the final adjustment value has been updated and the outcome presented in the accompanying datafile (see next point).

d. Treatment of specific legacy costs incurred in RIIO-ET2 (SHET)

2.10. The respondent noted that a small amount of cost has been incurred in the RIIO-ET2 period relating to the delivery of a RIIO-ET1 PSUP project, and asked for clarity as to how this will be dealt with.

Ofgem response

2.11. We understand that the costs incurred are the result of work that was forecast to be complete by March 2021 being delayed into the RIIO-ET2 price control period due to the impact of the Covid-19 pandemic. We also note that no allowance has been provided for the project within the RIIO-ET2 settlement.

2.12. We have considered additional details provided through the closeout submission and consultation response. Based on the information provided, we are satisfied that the costs have been efficiently incurred.

2.13. We have decided to accept and fund the value of cost incurred in RIIO-ET2 associated with the RIIO-ET1 project. To enable funding and to give effect to the adjustment we have decided to allocate the value of incurred costs (£0.28 million) against the final year of the RIIO-ET1 period. This approach removes the need for an additional cost submission for the T2 costs, and offers a proportionate regulatory solution to the level of cost incurred.

2.14. The outcome is a final adjustment value of £4.35 million, which replaces the previous value £4.08 million. This is shown in the accompanying datafile.

e. Recovery of associated indirect costs for specific projects (SHET)

2.15. As noted in Chapter 9 of the Consultation Document, an adjustment is needed to account for the associated additional indirect costs for four applicable crossover projects¹⁰ based upon the agreed RIIO-ET2 Opex Escalator rate of 10.8%. Views were invited on the precise method to execute this change within the PCFM.

2.16. One respondent recommended that the adjustment should be executed in the same way as the direct cost for named projects agreed through the RIIO-ET2 settlement.

Ofgem response

2.17. We have considered the matter and have decided to adopt the approach advocated by the respondent as this offers a proportionate and consistent regulatory solution. To give effect to the adjustment we will amend the RIIO-ET1 Legacy PCFM in the row for Special Licence Condition 6I (Baseline and Strategic Wider Works) against the final year of the RIIO-ET1 period. The outcome is a final adjustment value of £3.79 million. This is shown in the accompanying datafile.

2.18. We note that any adjustment to revenue will need to be reflected in the RIIO-ET2 PCFM and AIP.

f. TPWW adjustment (NGET)

2.19. One respondent noted that the calculation of the proposed TPWW adjustment value duplicated the return of the financial gain associated with land ownership of a specific project, resulting in an unintended distortion of the total adjustment value.

Ofgem response

2.20. We have reviewed the information provided and agree that a claim that is captured through the Disposals adjustment should not be duplicated by also including it as part of the TPWW adjustment.

¹⁰ East coast 275kV Upgrade, Kinardochy, North East 400kV Upgrade and Tealing 275kV Busbar. £35.08 million (2009/10 prices) has already been moved into the final year of RIIO-ET1 (2020/21) through the ET1 Legacy PCFM for the November AIP process 2021 for projects that had advanced construction in RIIO-ET1.

2.21. The outcome is an increase to the final adjustment value from £70.72 million to £70.84 million. This is shown in the accompanying datafile.

g. Typographical error (NGET)

2.22. One respondent identified a typographical error in Tables 8.5 and 8.6 of the Consultation Document, specifically that the values duplicated those presented in Tables 8.3 and 8.4.

Ofgem response

2.23. We agree that the values in Tables 8.5 and 8.6 of the Consultation Document were incorrectly stated. The values erroneously replicated the values reported in Tables 8.3 and 8.4 of the Consultation Document and did not reconcile with the adjustment values reported in the accompanying data file.

2.24. Further bilateral engagement has produced a minor change to areas of the source data used in these calculated values (specifically, customer contribution values for a limited number of generation and demand connection projects in financial years 2021/22 and 2022/23). The impact of this has been reflected in the calculation of the final adjustment value in the cost category of “Cross Over Projects (T1+2 related projects) Sole Use Connections”.

2.25. The outcome is an increase to the value from £26.09 million to £30.06 million.¹¹ This has been updated in the accompanying datafile.

2.26. This will be taken forward separately as part of the suite of revisions to the ET2 Licence to implement elements of the closeout methodology.¹²

h. Clarification of the adjustment value for crossover projects without volume driver (NGET)

2.27. One respondent sought clarification on the value of the proposed adjustment presented in Table 9.1 of the Consultation Document.

Ofgem response

2.28. The value in Table 9.1 was intended to represent the adjustment value to the collective expenditure incurred in the RIIO-ET1 period for the specific load related

¹¹ The financial values are in 2018/19 price base.

¹² In this area and also the profile entitled “Cross Over Volume Projects (RRP17 T1+2 related projects)” set out in the “NGET PCFM summary” worksheet of the accompanying datafile.

crossover projects. However, the value in Table 9.1 erroneously reflected an adjustment to the current provisional RIIO-ET2 baseline allowance value¹³ under Special Condition (SpC) 3.38 of NGET's ET2 Licence.

2.29. The adjustment to the allowance value under SpC 3.38 will be taken forward separately as part of the suite of revisions to the ET2 Licence to implement elements of the closeout methodology.

2.30. For the avoidance of doubt, the RIIO-ET1 closeout adjustment value for the specific load related crossover projects identified by NGET at the time of Final Determinations is £23.26 million (2009/10 price base).

Decision

2.31. We will implement the adjustments detailed above.

2.32. With regards to the assessment against the remaining proposed adjustments, we retain our position as set out in the Consultation Document, given that there were no objections.

2.33. The amended allowance adjustment for each ETO under each of the RIIO-ET1 close out areas is shown in Appendix 1.

2.34. The datafile accompanying this publication provides further detail of these allowance adjustments. For transparency, the datafile also includes provisional adjustment values to be advanced through the ET2 Licence statutory consultation process, although this is not intended to be a final comprehensive record of the suite of revisions to the ET2 Licence to implement elements of the closeout methodology. A statutory consultation notice is being developed and will be forthcoming.

¹³ The current provisional value (-£78.84 million) reflects a negative adjustment based on our calculation of excess non-load related capex allowance in RIIO-ET1 that was offset by the expenditure incurred in the RIIO-ET1 period for the crossover projects identified by NGET at the time of Final Determinations. See RIIO-2 Final Determinations – NGET annex (published 3 February 2021) – paragraphs 3.35- 3.36, and also page 38, Table 7 and footnote of the same document.

3. Responses relating to other areas

This section provides an overview of respondents' views in other areas and our responses.

3.1. In addition to the comments on the proposed adjustments and clarifications outlined above, NGET and SPT also provided responses relating to other areas. SHET provided no further comment.

From NGET

3.2. NGET raised the following points relating to other areas of the closeout process:

- NGET agreed that a statutory consultation process for changes to the ET2 Licence is required; and
- NGET have agreed to a work collaboratively to agree the full set of ET2 Licence changes required to conclude the closeout process prior to the statutory consultation process.

Our views

3.3. We confirm our intention to proceed with statutory consultation process.

3.4. We welcome NGET's commitment to ongoing engagement and we will continue to work directly with each ETO to provide additional clarity on the relevant requirements and licence changes that will be consulted on through the statutory consultation process.

From SPT

3.5. SPT sought further clarification on our thinking to their request for consideration of allowance adjustments for schemes that spanned RIIO-ET1 and RIIO-ET2 price control boundaries, where such schemes had no other means to be funded (in RIIO-ET1).

Our views

3.6. We note that the volume driver mechanism that governed the funding of new generation connection schemes was introduced for RIIO-ET1 as Special Condition 6F of the ET1 Licence. Whilst there are acknowledged differences in the ET1 mechanisms for the three ETO's (due to ETO choice) a number of schemes incurred expenditure across a

price control boundary, some of which had no means to be funded in RIIO-ET1 through the established mechanisms.

3.7. We also note that the scope of the RIIO-ET1 closeout (and what is permissible in the context of closeout) was determined by the ETI Licence and did not accommodate the adjustment exercise being sought by SPT (an adjustment to allowances between RIIO-T1 and RIIO-T2 for named schemes).

3.8. We have therefore decided to make no adjustments.

3.9. In terms of the RIIO-ET2 price control framework, our key consideration remains the ongoing monitoring of projects (in receipt of allowance) to track whether they progress and complete as expected and the delivery of anticipated outputs.

Appendix 1

The result of our assessment under each mechanism is summarised below for each ETO.

Table 1: NGET RIIO-ET1 Closeout – total adjustments (£ million, 09/10 prices)

Methodology decision reference	Area	Cumulative value of adjustments
Chapter 2	True-up of connection activity funded directly by the customer (entry and exit)	-213.57
Chapter 3	Adjustment for customer terminated wider works projects (TPWW)	70.84
Chapter 4	Adjustment for Enhanced Physical Site Security Costs	0
Chapter 5	Adjustment for customer terminated connection projects	TPG: 35.73 TPD: -1.07
Chapter 6	Settlement of allowances for pre-construction works	0
Chapter 8	Adjustment for crossover T1 volume driver projects (all mechanisms)	-86.34
Chapter 9	Adjustment for crossover T1 volume driver projects without volume driver	23.26
	Total Allowance Adjustment	-171.16
Chapter 2	Excluded Services Revenue	19.22
Chapter 5	TPRG & TPRD Load Related spend adjustment	-35.12
Chapter 7	Adjustment for asset and related Land Disposals (adjustment to RAV)	-21.24

Table 2: SHET RIIO-ET1 Closeout – total adjustments (£ million, 09/10 prices)

Methodology decision reference	Area	Cumulative value of adjustments
Chapter 2	True-up of connection activity funded directly by the customer (entry and exit)	-156.72
Chapter 4	Adjustment for Enhanced Physical Site Security Costs	4.35
Chapter 6	Settlement of allowances for pre-construction works	-3.07
Chapter 9	Adjustment for indirect costs	3.79
Chapter 11	Adjustment for VISTA	1.01
	Total Allowance Adjustment	-150.63
Chapter 2	Excluded Services Revenue	-84.06
Chapter 7	Adjustment for Disposals (adjustment to RAV)	0

Table 3: SPT RIIO-ET1 Closeout – total adjustments (£ million, 09/10 prices)

Methodology decision reference	Area	Cumulative value of adjustments
Chapter 2	True-up of connection activity funded directly by the customer (entry and exit)	-22.28
Chapter 4	Adjustment for Enhanced Physical Site Security Costs	1.21
Chapter 6	Settlement of allowances for pre-construction works	-5.07
Chapter 10	Clawback adjustment for connection volume driver	-24.72
	Total Allowance Adjustment	-50.86
Chapter 2	Excluded Services Revenue	8.82
Chapter 7	Adjustment for Disposals (adjustment to RAV)	-0.39