



Making a positive difference
for energy consumers

Decision to modify the Price Control Financial Instruments and licence conditions for electricity and gas distribution and transmission

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1.Introduction

- 1.1 On 25 April 2025 the Gas and Electricity Markets Authority (the 'Authority') gave notice¹ (the 'Notice') that it proposed several amendments to the Price Control Financial Models (PCFMs), Price Control Financial Handbooks (PCFHs), Standard and Special Conditions. The Notice stated that any representations on the modification proposals must be made on, or before 24 May 2025.
- 1.2 We² received thirteen responses to the Notice, which we have carefully considered. We received responses from four Gas Distribution Networks (GDNs), three Electricity Transmission Operators (ETOs), five companies representing thirteen Distribution Network Operators (DNOs) and National Gas Transmission (NGT). Non-confidential responses and our detailed responses to all comments are published on our website alongside this decision at "SpCs and PCFI Issues Log".
- 1.3 Following the statutory consultation and our review of responses, we have decided to modify the following documents:
- RIIO-GD2, RIIO-GT2 and RIIO-ET2 Price Control Financial Model (PCFM);
 - RIIO-ED2, RIIO-GT2, and RIIO-ET2 Price Control Financial Handbook (PCFH);
 - RIIO-ED2, RIIO-GT2, RIIO-ET2 and RIIO-GD2 Special Conditions; and
 - RIIO-ED2 Standard Conditions.
- 1.4 Please find enclosed the Decision letters setting out our changes issued pursuant to the relevant Licence Conditions and PCFIs for each relevant sector.
- 1.5 As part of the enclosed Decisions, we provide the following documents with the modifications [marked up]:
- RIIO-GD2 PCFM;

¹ [Statutory consultation to modify the Price Control Financial Instruments and licence conditions for electricity and gas distribution and transmission | Ofgem](#)

² References to 'the Authority', 'GEMA', 'Ofgem', 'we', 'us' and 'our' are used interchangeably in this document. The Authority refers to GEMA, the Gas and Electricity Markets. Ofgem is the office of the Authority which supports GEMA.

- RIIIO-GT2 PCFM;
- RIIIO-GT2 PCFH: Version 1.5;
- RIIIO-ET2 PCFM;
- RIIIO-ET2 PCFH: Version 1.6;
- RIIIO-ED2 PCFH: Version 4.0;
- Special Conditions of the:
 - Gas Transporter Licence for:
 - National Gas Transmission plc
 - All Gas Distribution Networks (GDNs)
 - Electricity Transmission Licence for:
 - Scottish Hydro Electric Transmission plc
 - SP Transmission Ltd
 - National Grid Electricity Transmission plc
 - Electricity Distribution Licence for:
 - All Distribution Network Operators (DNOs)
- Standard Conditions of the Electricity Distribution licence

The modifications

1.6 Following our statutory consultation and review of responses, we have decided to make amendments to the PCFM, PCFH and Special Conditions.

1.7 These include the following modifications:

- New ET2 Special Licence conditions regarding Transitional Centralised Strategic Network Plan 2 (tCSNP2):
 - Addition of Special Condition: SpC 3.44 Development Funding Price Control Deliverable and Use It Or Lose It Adjustment (DfT) in the ET licences; and
 - Addition of Special Condition: SpC 3.45 Delivery Track Pre-Construction Funding, Re-opener, Price Control Deliverable and Use It Or Lose It Adjustment (DTPCFt) in the ET licences.
- Modification to Special Condition 1.1 Interpretation and definitions of the ET licence;
- Modification to the non-variant allowances in the GD2 PCFM;
- Modification to Special Condition 5.4 Vulnerability and carbon monoxide allowance (VCMt) in the GD licences;
- Addition of Special Condition: SpC 3.19 FSO transition allowance in the GT licence;
- Modification to Special Condition 9.8 Tax Reconciliation Assurance Statement in the ED licences;

- Modification to Special Condition 1.2 Definitions and references to the Electricity Distributors in the ED licences; and
- Modification of Electricity Standard Conditions 29 Restriction of activity and financial ring-fencing of the Distribution Business.

1.8 We set out the effect of and the reasons for these modifications below.

2. New ET2 Special Licence Conditions regarding the Transitional Centralised Strategic Network Plan 2 (tCSNP2)

- 2.1 We consulted on a number of proposed modifications to the special conditions (SpCs) in the Transmission Operators' (TO) electricity transmission licences. These modifications are required to implement the new funding framework set out in our Transitional Centralised Strategic Network Plan 2 (tCSNP2) funding decision.³
- 2.2 The tCSNP2,⁴ published by the National Energy System Operator (NESO) in 2024, set out NESO's recommendations for electricity transmission projects that it considered necessary to reinforce the onshore transmission network beyond 2030. Our tCSNP2 Decision introduced two new funding routes for projects recommended in this plan, with the funding options dependent on the size and maturity of the projects.
- 2.3 To give effect to our tCSNP2 Decision and to establish the two new funding routes, we consulted on the introduction of two new SpCs and a new associated guidance document:
- SpC 3.44 – Development Funding Price Control Deliverable and Use It Or Lose It Adjustment (DFt);
 - SpC 3.45 – Delivery Track Pre-Construction Funding Re-opener, Price Control Deliverable and Use It Or Lose It Adjustment (DTPCFt); and
 - Transitional Centralised Strategic Network Plan 2 Guidance and Submission Requirements Document (tCSNP2 Guidance).
- 2.4 We also consulted on a modification to SpC 1.1 (Interpretation and definitions) to incorporate new or revised defined terms in the TOs' licences

³ [Funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 projects: decision | Ofgem](#)

⁴ [Beyond 2030 | National Energy System Operator](#) (the tCSNP2 is also referred to as "Beyond 2030" by NESO).

SpC 3.44 – Development Funding Price Control Deliverable and Use It Or Lose It Adjustment (DfT);

Consultation position

- 2.5 We consulted on the introduction of a new SpC 3.44 to give effect to our tCSNP2 Decision to introduce a new funding route to award Development Funding (DF) to larger and less mature projects recommended in the tCSNP2. The proposed DF condition was intended to enable TOs to develop projects within the Development Track up to completion of NESO maturity rating 2 (strategic optioneering),⁵ in advance of the tCSNP2 Refresh,⁶ which NESO is expected to publish in 2026.
- 2.6 Projects recommended by NESO for inclusion in the Government's Clean Power Plan⁷ (CP2030) were excluded from the Development Track.
- 2.7 DF was proposed as a flexible funding pot, available across all Development Track projects. It was to be set at 0.5% of estimated project costs and subject to a Use It Or Lose It (UIOLI) adjustment mechanism. We proposed that funding would be allocated with an associated Price Control Deliverable (PCD) for each project, with the output being the development of each project to the Minimum Maturity Requirement (as per the new defined term in SpC 1.1) by the date specified in Appendix 2 of the condition. TOs must also submit to Ofgem a with a Basic PCD report setting out how this requirement has been reached (including the criteria set out in Chapter 3 of the tCSNP2 Guidance), and to submit these matured options (along with any alternatives) to the NESO via the System Requirements Form in time for their tCSNP2 Refresh.

Effect of introducing SpC 3.44

- 2.8 The effect of introducing SpC 3.44 is to provide TOs with funding to develop projects included in the Development Track and deliver the PCD described above, with the SpC applying to recommended tCSNP2 projects that:
- Had an estimated cost greater than £60 million;
 - Received a "Proceed" or "Hold" signal, or were identified as "HNDFUE enabling work" in the tCSNP2; and
 - Had a NESO maturity rating of Level 1 or 2.

⁵ [NESO's tCSNP2 Refresh Methodology System Requirements annex page 3.](#)

⁶ The tCSNP2 Refresh is the next iteration of the annual Network Options Assessment carried out by the NESO, in which options from the tCSNP2 will be reassessed against the latest energy generation and demand forecasts. From this plan there will be a recommended set of options to be taken forward into delivery.

⁷ [Clean Power 2030 | National Energy System Operator](#)

Summary of consultation responses

2.9 We received three responses from the incumbent TOs. The TOs supported the introduction of the new SpC 3.44, however they requested several clarifications to the PCD requirements and highlighted some minor drafting errors to be addressed. These clarifications are addressed in the consultation responses log published as part of this decision, and minor drafting changes are shown in tracks in the attached SpC 3.44.

2.10 Key clarifications / requests included:

- i. NGET requested that two of its projects (THRE and E4L6) be removed from the Development Track, as one was now expected to be funded via an alternative mechanism and the other had been confirmed by the NESO as no longer required (further detail in paragraph 2.12). NGET suggested a third (RANC) had been partially developed but does not require further development to continue at this time due to significant uncertainty as to the need for the project and suggested an alternative output for the PCD is set;
- ii. for the PCD delivery date to fairly reflect any changes to the tCSNP2 Refresh timing;
- iii. whether multiple options need to be submitted for the same scheme; and
- iv. a request to remove obligations on TOs to provide assessment of the expected impact of the connections queue reform on their options submissions.

Our Decision to introduce SpC 3.44

2.11 We have decided to introduce SpC 3.44 with some minor changes to address drafting discrepancies. These can be found in the attached tracked changes copy of the SpC.

2.12 As per NGET's request referenced in 2.10-i, we have decided to remove the projects THRE and E4L6 from the Development Track. Project THRE we understand will be funded via an alternative route as its need is driven primarily by connections requirements. Project E4L6 is no longer being considered by NESO as an option and so there is no need to develop the project further. We have also decided to remove the project RANC, as we agree with NGET's position that it is not in consumers' interest to continue its further development while there is so much uncertainty as to the need for the project. We will revisit any need for further development for this project when there is more clarity on its drivers. Therefore, we have decided to reduce the DF allowance for NGET by an amount equal to 0.5% of the forecasted cost of these three projects in question. We will

engage further with NGET regarding recovery of efficient costs incurred to date developing RANC.

- 2.13 The Development Track PCD is designed to ensure that projects are submitted on time to the NESO for its tCSNP2 Refresh exercise, and to the required level of maturity (to have met the Minimum Maturity Requirement as defined in SpC 1.1, and to have met the criteria listed in Chapter 3 of the of the tCSNP2 Guidance) so we can have confidence in the needs case for any projects recommended.
- 2.14 The need for well-developed and mature options to be submitted is hugely important, to ensure that Ofgem can have the confidence in awarding further funding for projects and therefore enable projects to be delivered as early as possible. In turn, this has significant impacts on reducing the cost to consumers through reducing constraint charges on the network and enables timely delivery of net zero obligations. We will assess delivery of the Development Track PCD in accordance with the Price Control Deliverable Reporting Requirements and Methodology and may adjust allowance where any PCD has not been Fully Delivered.
- 2.15 A list of each TO's Development Track projects and associated PCDs can be found in the TO-specific annexes attached to this publication.

SpC 3.45 – Delivery Track Pre-Construction Funding Re-opener, Price Control Deliverable and Use It Or Lose It Adjustment (DTPCFt);

Consultation position

- 2.16 We consulted on the introduction of a new SpC 3.45 to give effect to our tCSNP2 funding decision.⁸ This decision introduced a new funding route to award Delivery Track Pre-Construction Funding (DTPCF) to larger and more mature projects recommended in the tCSNP2. The proposed DTPCF condition was intended to enable TOs to undertake Pre-Construction Works on projects within the Delivery Track.
- 2.17 We proposed that DTPCF be allocated with an associated PCD for each project. The expected output was the submission of all material planning consents by the date specified in Table 2.2 of the consultation, or for two projects that do not require planning consents: the completion of all necessary Pre-Construction

⁸ [Funding and approval framework for onshore transitional Centralised Strategic Network Plan 2 projects: decision | Ofgem](#)

Works. DTPCF was proposed to be set as a flexible funding pot available across all Delivery Track projects, calculated at 2.5% of estimated project costs (of all projects within the condition), and subject to a Use It Or Lose It (UIOLI) adjustment.

- 2.18 In the same consultation we also proposed to change a project's classification (from the classification set out in our tCSNP2 Decision). The project previously known as PPUP was removed from the Development Track and reclassified into the Delivery Track under the new code name LPUP. This change was based on additional information provided by the TO, demonstrating that the project met the Delivery Track criteria and was better suited to receive Pre-Construction Funding rather than DF.
- 2.19 The PCD output for each project was proposed to be defined as: Submission of all material planning consents, other than for the projects EHRE and VERE which do not require planning consents and had a proposed PCD of "completion of all necessary Pre-construction Works".

Effect of the Proposed Modification

- 2.20 The effect of introducing SpC 3.45 is to provide TOs with PCF to undertake Pre-Construction Works on projects included in the Delivery Track, and to deliver the PCD described above. The SpC provides TOs with PCF for recommended tCSNP2 projects that:
- had an estimated cost greater than £60 million;
 - received a "Proceed" signal or were identified as "HNDFUE⁹ enabling work" in the tCSNP2; and
 - had a NESO maturity rating of Level 3 or greater, except for projects included in the Clean Power Plan 2030 (CP2030), which were included irrespective of maturity rating.

Summary of consultation responses

- 2.21 We received three responses to the consultation from the incumbent TOs. The TOs supported the introduction of the new SpC 3.45, however they requested several clarifications to the PCD requirements and highlighted some minor drafting errors to be addressed. These clarifications are addressed in the

⁹ Holistic Network Design Follow Up Exercise (which formed the offshore element of the tCSNP2)

consultation responses log published alongside this decision, and minor drafting changes are shown in tracks in the attached SpC 3.45.

2.22 Key clarifications requested included:

- whether projects in the delivery track are exempted from competition;
- a request for further clarity on provisional access to PCF post-tCSNP2 Refresh;
- whether TOs can continue spending PCF allowances on Pre-Construction Works after the submission of consent applications and delivery of the PCD; and
- whether Pre-construction Works activities can be extended to other works e.g. hearings, potential appeals for DCO submissions, and Early Enabling Works.

Our Decision to introduce SpC 3.45

2.23 We have decided to introduce SpC 3.45 with some minor changes to aid the clarity of the licence drafting. These can be found in the attached tracked changes copy of the SpC.

2.24 In response to the key clarifications raised in the consultation our positions are:

- Projects listed in the Delivery Track are exempted from early competition.
- Provisional PCF: Due to possible changes to the tCSNP2 Refresh timeline, and the anticipated RIIO-ET3 funding arrangements for Development Track projects, we have decided to remove reference to Provisional PCF. This is explained in the subchapter below titled “Provisional Pre-Construction Funding and RIIO-ET3”.
- We agree that Pre-Construction Works may continue beyond submission of planning consent applications for Delivery Track (and ASTI) projects (as they do for LOTI projects). We have adjusted the drafting accordingly to ensure there is no implied funding gap.
- We are not increasing the list of activities included in the definition of Pre-Construction Works as part of this Decision, however the definition will be reviewed for RIIO-ET3 and any amendments to the definition will apply to tCSNP2 projects once implemented.

2.25 Our lists of each TO’s Delivery Track projects can be found in the TO-specific annexes attached to this publication.

HNDFUE Onshore “Asset Classification” Projects

- 2.26 Our December tCSNP2 Decision stated that we would progress the three onshore “asset classification” projects from the HNDFUE into the Delivery Track once the offshore impact assessments being undertaken by the NESO concluded (originally anticipated being Spring 2025).
- 2.27 At the time of publishing this licence decision, the offshore impacts assessments are yet to conclude, and as such there remains uncertainty as to the design of the projects. Following engagement with the TOs that would be involved in the delivery of the projects (as proposed in the original HNDFUE design), we have bilaterally agreed that the most prudent approach is to wait until the offshore impact assessments have concluded before awarding any funding to these projects. Once concluded, we will engage with the TOs again as to the best way to fund such projects.

Decision to introduce the Transitional Centralised Strategic Network Plan 2 Guidance and Submission Requirements Document.

- 2.28 We also consulted on the introduction of the Transitional Centralised Strategic Network Plan 2 Guidance and Submission Requirements Document. This document sets out supplementary information as to the functioning of the two new SpCs 3.44 and 3.45.

Key Consultation feedback and our consideration of the feedback

- 2.29 We received specific commentary on the drafting of this document from NGET, who’s response is confidential. In general, the commentary was for correcting drafting errors or asking for additional clarity to be added in places. We agreed with the majority of proposals and have updated the guidance accordingly.
- 2.30 We received feedback from SPT and SHET. Both of these TOs requested that we clarify in the guidance document that projects in the Delivery Track are exempt from delivery through the onshore competition model. We agree that this clarity is helpful and have updated the guidance accordingly.
- 2.31 SHET requested that Ofgem confirm that the price base in the guidance and associated conditions SpCs 3.44 and 3.45 is listed in 2018/19 prices. We confirm that this is the price base being used throughout. We have however removed tables containing allowances from the guidance document as we consider this is more appropriate to sit only within the TOs’ licences.
- 2.32 SPT highlighted that there was no supporting guidance for SpC 3.45 Part C. This has now been added to the guidance document at paragraphs 4.6 to 4.7.

- 2.33 Other minor changes were also requested, these are listed and addressed in the attached Issues Log. All changes made since our consultation can be found in the attached track changes copy of the guidance document.

Provisional Pre-Construction Funding and RIIO-ET3

- 2.34 Our tCSNP2 Guidance and Submissions Requirements Document, as consulted on, included a section titled "*Provisional Pre-Construction Funding*". This outlined how TOs could immediately start to incur PCF costs on Development Track projects recommended in the tCSNP2 Refresh that had met the Development Track PCD requirement. We have removed this section from the guidance for the following reasons:
- 2.35 NESO was expected to publish its tCSNP2 Refresh plan January 2026, however Ofgem and NESO are currently discussing the prospect of extending the tCSNP2 Refresh timeline, which would result in projects being submitted to the NESO at a later date than previously proposed as well as the publication of the tCSNP2 Refresh outcome being delayed. Ofgem expects to publish an update to this timeline in July 2025.
- 2.36 Our proposals, as previously consulted on, relied on the outcome of the tCSNP2 Refresh being published before we awarded the next stage of funding (provisional PCF). DF, however, has been calculated based upon the spend in the last two years of the RIIO-ET2 Price Control for Development Track projects and can continue to be incurred until the end of RIIO-ET2. This leaves a potential funding gap from the start of RIIO-ET3 until the Refresh is published.
- 2.37 To account for any funding uncertainty within this period, we have set out proposals in the RIIO-ET3 Draft Determinations which set out how projects in the Development Track may continue to incur efficient expenditure on Development Funding activities, or Pre-Construction Works (where critical to project delivery timelines) from the start of RIIO-ET3, with formalised PCF allowances being introduced once the tCSNP2 Refresh has been published.
- 2.38 This proposal set out in the RIIO-ET3 Draft Determinations to allow TOs to incur funding on the Development Track projects supplants the need for "provisional PCF" as described in the tCSNP2 Guidance and Submissions Requirements Document, as such we have decided to remove this section from the guidance document.
- 2.39 Also set out in the RIIO-ET3 Draft Determinations is our proposal for projects currently funded for Pre-construction Funding via SpC 3.45 to be transferred into the RIIO-3 PCF condition once the RIIO-3 price control period begins in April

2026. This aim of this proposal is to simplify the RIIO-ET3 licence and ensure that equivalent ET projects are treated on an equal basis. We are welcoming feedback from the TOs and other stakeholders as part of the RIIO-ET3 Draft Determinations consultation and licence drafting process.

Introduction of the Transitional Centralised Strategic Network Plan 2 Guidance and Submission Requirements Document.

- 2.40 Following our statutory consultation, by direction under Part E of Special Condition 3.44 we are introducing the Transitional Centralised Strategic Network Plan 2 Guidance and Submission Requirements Document. This document will come into effect on the same date as the two new SpCs 3.44 and 3.45, on 26 August 2025.

Modifications to Special Condition 1.1 Interpretations and Definitions

- 2.41 We proposed a number of modifications to existing terms within SpC 1.1, as well as several new terms to be added for the purpose of incorporating the two new SpCs 3.44 and 3.45 into the TOs' licences.
- 2.42 TOs proposed several minor drafting changes to the proposed terms and definitions. Key changes proposed by TOs included:
- Removal of "Development Track Report" and to replace the use of this term with the existing term "Basic PCD Report".
 - Ensuring the term Pre-Construction Works does not imply that for Delivery Track projects (or ASTI¹⁰ projects) that Pre-Constructions Works should cease at the point of consent submission.
 - Including a definition for "System Requirements Form", a NESO term that is referenced in the PCD output for Development Track projects.
 - Using TO Redacted Information Documents for confidential information, includes creating a new term in SPT and SHET's licence Special Conditions. For NGET this term already exists.
 - Adding a definition for the tCSNP2 Guidance and Submissions Requirements Document.

¹⁰[Decision on accelerating onshore electricity transmission investment | Ofgem](#) ¹¹ [Final determination order](#)

- Revising the definition of Development Funding to reflect the tCSNP2 policy decision that this funding is to develop projects until the end of RIIO-ET2 rather than just to deliver the Development Track PCD.
- 2.43 We agree with the majority of suggested drafting changes proposed by TOs. All changes can be seen below in Tables 1 and 2 with new text double underlined, new text added since the consultation double underlined and yellow highlighted and deleted text struck-through.
- 2.44 Of the key changes proposed by respondents our decision is as follows:
- We agree to the replacement of the term "Development Track Report" with the existing term "Basic PCD Report" and have updated the use of this term throughout the condition and guidance document.
 - We agree with the proposal to modify the term "Pre-Construction Works" so that there is no ambiguity to when expenditure on such works should cease for Delivery Track and ASTI projects.
 - We agree with the need to introduce the new term "System Requirements Form" and informally consulted with TOs on its definition ahead of this publication.
 - We agree with the proposal to use "Redacted Information Documents" for the holding of confidential information. We are introducing this as a new term to SSENT and SPT's licences, having informally consulted with the two TOs on the definition ahead of this publication. Due to the confidential nature of these documents we will issue to them to the TOs directly and they will not be published in our website.
 - We agree that a definition of Transitional Centralised Strategic Network Plan 2 Guidance and Submissions Requirement Document is required.
 - We agree the definition of Development Funding needs to be broadened beyond funding just to deliver the Development Track PCD.

Table 1: New defined terms relating to this decision to be added to SpC 1.1

Term	Definition
<u>Development Track</u>	<u>means the projects listed in Appendix 2 of Special Condition 3.44.</u>

<u>Development Funding</u>	<u>means the funding required to complete the works required on Development Track projects for the completion of their associated PCD requirements and for further project development until the end of RIIO-ET2.</u>
<u>Development Track Report</u>	<u>means a report setting out how a Development Track project has met the requirements set out in Chapter 3 of the Transitional Centralised Strategic Network Plan 2 Guidance and Submission Requirements Document</u>
<u>Delivery Track</u>	<u>means the projects listed in Appendix 2 of Special Condition 3.45.</u>
<u>Delivery Track Pre-Construction Funding</u>	<u>means the funding required to complete the Pre-Construction Works on a Delivery Track project.</u>
<u>Minimum Maturity Requirement</u>	<p><u>means to have completed level 2 maturity rating (strategic optioneering) as detailed in the ISOP's methodology developed in accordance with licence condition C13 of the ISOP's electricity system operator licence known as the tCSNP2 Refresh Methodology, and to have delivered the outputs outlined in Chapter 3section 3.17i-vii of the Transitional Centralised Strategic Network Plan 2 Guidance and Submission Requirements Document</u></p> <p><u>For the project NHNC means to have developed multiple feasible options to be entered into the ISOP's networks options assessment referred to as the tCSNP2 Refresh.</u></p>
<u>System Requirement Form</u>	<u>Has the meaning given to that term by the ISOP in its tCSNP2 Refresh methodology.</u>
<u>SPT Redacted Information Document</u>	<u>means the latest version of the document of that name sent by the Authority to the licensee containing information redacted from this licence.</u>
<u>SHET Redacted Information Document</u>	<u>means the latest version of the document of that name sent by the Authority to the licensee containing information redacted from this licence.</u>
<u>Transitional Centralised Strategic Network Plan 2 Guidance and Submission Requirements Document</u>	<u>means the guidance document issued by the Authority in accordance with Part E of Special Condition 3.44 (Development Funding Price Control Deliverable and Use It Or Lose It Adjustment (DFt)).</u>

Table 2: Modification to existing defined terms within SpC 1.1:

Term	Definition
Pre-Construction Works	<p>means:</p> <ul style="list-style-type: none"> (a) surveys, assessments and studies; (b) project design; (c) engineering development; (d) stakeholder engagement and consultation; (e) tasks associated with wayleaves; (f) planning applications; (g) tender activities; and/or (h) other activities as may be approved by the Authority undertaken for the purposes of developing a LOTI, <u>ASTI or Delivery Track project</u> to the point where all material planning consents have been obtained and the project is ready to begin construction, or developing an ASTI, or Delivery Track project to the point of submission of all material planning consent applications.
Price Control Deliverable	means the outputs, delivery dates and associated allowances in Special Conditions 3.2 to 3.4, 3.6, 3.7, 3.9, 3.10, 3.14, 3.15, 3.20 to 3.25, 3.27, 3.35, 3.40, and 3.41, 3.44 and 3.45.
Re-opener	means the mechanisms created by:

	<p>(a) Special Conditions 3.8, 3.13, 3.16, 3.31 to 3.34 and (b) Parts C and D of Special Condition 3.2 (Cyber resilience operational technology Re-opener, Price Control Deliverable and use it or lose it adjustment), Parts C and D of Special Condition 3.3 (Cyber resilience information technology Re-opener and Price Control Deliverable), Parts C and D of Special Condition 3.4 (Physical security Re-opener and Price Control Deliverable), Part C of Special Condition 3.6 (Net zero Re-opener and Price Control Deliverable), Part C of Special Condition 3.7 (Non-operational IT Capex Re-opener and Price Control Deliverable), Part D of Special Condition 3.10 (Visual Impact Mitigation Re-opener and Price Control Deliverable and Enhancing Pre-existing Infrastructure Projects allowance), , Part C of Special Condition 3.14 (Medium Sized Investment Projects Re-opener and Price Control Deliverable), Part C of Special Condition 3.15 (Pre-Construction Funding Re-opener and Price Control Deliverable), Parts C and D of Special Condition 3.27 (SF6 asset intervention Re-opener and Price Control Deliverable), Part C of Special Condition 3.40 (Accelerated strategic transmission investment Pre-Construction Funding Reopener, Price Control Deliverable and Use It Or Lose It Adjustment), Parts C, D and E of Special Condition 3.41 (Accelerated strategic transmission investment Re-opener and Price Control Deliverable), <u>and Part C of Special Condition 3.45 Delivery Track Pre-Construction Funding Re-opener, Price Control Deliverable and Use It Or Lose It Adjustment (DTPCft).</u></p>
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3. Modification to Special Condition 5.4 Vulnerability and carbon monoxide allowance (VCMt) in the GD licences

- 3.1 We received four responses to the proposed modification to SpC 5.4. All four responses, representing each GDN, were supportive of our proposed modification.

Reason

- 3.2 The reason for the amendment to SpC 5.4 is to enable greater levels of collaboration between the Gas Distribution Networks (GDNs) beyond the ringfenced 25% minimum originally set in the Gas Transporters Licence. Currently, the licence does not provide GDNs with the flexibility to achieve this. We believe the amendment better reflects our policy goal of fostering collaboration among GDNs, provided that individual licensees do not exceed their total expenditure cap as outlined in Appendix 1 of the Gas Transporter Licence.

Effect

- 3.3 This amendment modifies the formula in SpC 5.4.5 of the Gas Transporters Licence. The intention is to allow GDNs the flexibility to allocate some of their VCM allowance from their Company Specific VCM project expenditure cap to their Collaborative VCM allowance expenditure cap, as specified in Appendix 1 of the gas transporters licence, ensuring that individual licensees do not exceed their total expenditure cap.
- 3.4 We have decided to modify Special Condition 5.4 in the GD licences as we proposed in the Notice without further changes.

4. Proposal to Incorporate DRS (Directly Remunerated Services) into the determination of Calculated Revenue in the GD2 PCFM

4.1 We received responses from all GD licensees regarding our proposed modification of the PCFM to align with the formula detailed in Part E of Special Condition 2.1, which incorporates DRS in the calculation of calculated revenue in the GD2 PCFM.

4.2 In their representations, licensees have requested a further review before implementing this modification. See a summary of the views provided by GD licensees below:

- The consultation did not provide sufficient justification for the proposed change, as the rationale relies only aligning the PCFM with Part E of Special Condition 2.1 but does not explain why the licence should be changed;
- Special Condition 9.7.4 explicitly states that DRS revenue should not be included in the calculation of calculated revenue;
- Including DRS revenue in calculated revenue could create perverse incentives, such as discouraging networks from performing alterations or connections, potentially reducing competition and customer choice;
- The treatment of DRS revenue as part of allowed revenue does not adequately reflect the operation of the Totex Incentive Mechanism, which already ensures customers share the benefits of network efficiencies;
- There has been insufficient engagement with the GDNs resulting in a lack of clarity and inconsistencies between the ways in which the different networks deal with DRS; and
- Coming at the end of a price control, these changes could be seen as retrospective. It is more appropriate to consider them in the development of the RIIIO-3 price control.

4.3 The full responses from licensees are published alongside this decision.

Our View

4.4 The proposed changes incorporated in special condition 9.7 of the Gas Transporter licence were intended to address the misinterpretation of that

condition's effect on Special Condition 2.1. Furthermore, it is important to note that the calculated revenue formula in Special condition 2.1 is consistent across all sectors and includes DRS (Directly Remunerated Services) as a component of calculated revenue.

- 4.5 Additionally, licensees played a significant role in developing the GD2 licence through the RIIIO-2 price control setting process. As such, the inclusion of Directly Remunerated Services in the calculated revenue in SpC 2.1 reflects a considered decision.
- 4.6 Special Condition 9.7.4 does not explicitly state that DRS should not be included in the calculation of calculated revenue, and we view this as a misinterpretation of the licence by the GD licensees.
- 4.7 However, in light of the concerns raised, we have decided to not proceed with this proposed modification at this time, and consider it further following a future review. Accordingly, no changes will be made to the GD2 PCFM or licence in relation to DRS at this stage. Further to this, we intend to undertake a comprehensive review of DRS at a future date. This review will enable us to reassess the current approach, engage with stakeholders, and determine whether modifications should be made as part of a subsequent consultation.

5. Non-variant allowances to be amended in the GD2 PCFM

- 5.1 We received responses from all GD licensees regarding our proposal to modify the non-variant allowances in the PCFM. This modification reflects adjustments incorporated into the remedy files used to calculate the non-variant allowances, following the order of the CMA in relation to Joined Ground C ongoing efficiency¹¹.
- 5.2 Three of the four respondents expressed agreement with this modification. Of these three, one suggested corrections to update the disaggregated allowances, however, these corrections do not impact the final figures reflected in the GD2 PCFM published during consultation.
- 5.3 The remaining respondent neither supported nor opposed the proposal, but raised a concern about a discrepancy in the non-variant allowances between the regulatory reporting pack (RRP) and the PCFM published in January 2025 following the 2024 AIP.
- 5.4 Our view is that the issue relates to the RRP and not the non-variant allowances contained within PCFM. We will continue to work with the licensee to resolve this issue in the RRP, any changes required can be resolved formally through the RRP consultation in early 2026.

Reason

- 5.5 We have corrected formulae in the allowances file for calculating the proportions of connections allocated to Price Control Deliverables (PCDs) such that the calculation now makes use of net figures instead of gross figures. Additionally, the mains element of FPNES (Fuel Poor Network Extension Scheme) was incorrectly mapped as a volume driver rather than load capex in the finance remedy file. These revisions were derived through engagement with the networks, ensuring alignment with the appropriate methodology. To address these issues, we have updated the remedy files to incorporate these adjustments in the calculation of non-variant allowances ensuring accurate inputs into the GD2 PCFM.

¹¹ [Final determination order](#)

Effect

- 5.6 This modification will update the GD2 PCFM to reflect the corrected non-variant allowances generated from the revised remedy files.
- 5.7 Based on the feedback received, we have decided to proceed with our proposal to update the GD2 PCFM with the newly generated non-variant allowances as published in our consultation.

6. New GT2 Special Licence condition relating to National Energy System Operator (NESO) transition cost recovery

- 6.1 We received one response to the proposed new Special Licence Condition. The response was supportive of the introduction of this new licence condition. The response also suggested some amendments to the condition which we have responded to in the issue log accompanying this decision.
- 6.2 We have decided to introduce a new licence condition 3.19 FSO transition allowance to the Special Conditions of the National Gas Transmission (NGT) Licence. We have decided to not proceed with our modification to Special Condition 1.1 (Interpretation and definitions) given that a suitable definition already exists within the licence.

Reason

- 6.3 This modification provides an adjustment to totex in order to allow NGT to recover efficient FSO transition costs, in line with our decision published on 28th September 2023¹².

Effect

- 6.4 This modification will introduce a new licence term to the Special Conditions of the National Gas Transmission Licence. The text of the new licence term can be found in the documents published alongside this decision.

¹² [Decision on the funding of the transition to a Future System Operator](#)

7. Modification to Special Condition 1.2 Definitions and references to the Electricity Distributors in the ED licences

- 7.1 We received four responses to the proposed modification to SpC 1.2. All were supportive.
- 7.2 We have decided to modify special condition 1.2 to amend the definition of “Annual Iteration Process” in order to replace the reference to “ED2 Price Control Financial Handbook” with “PCFM Guidance”.

Reason

- 7.3 This modification corrects an error in the licence.

Effect

- 7.4 This modification will ensure that readers are directed to the correct document for the definition of the Annual Iteration Process.

8. Modification to Special condition 9.8 Tax Reconciliation Statement for ED

- 8.1 We received five responses to the proposed modification to SpC 9.8. All were supportive.
- 8.2 We have decided to modify special condition 9.8 Tax Reconciliation Statement to change the date of submission from 31 July to 30 September.

Reason

- 8.3 This modification corrects an error in the licence.

Effect

- 8.4 This modification will correct the date for submission of the Tax reconciliation Assurance Statement.

9. Modification to ED Standard Condition 29 Restriction of activity and financial ring-fencing of the Distribution Business

- 9.1 We received four responses to the proposed modification to SC29. All were supportive.
- 9.2 We have decided to modify standard conditions 29.9 and 29.10 to replace the reference to "Regulatory Accounts" with "historical cost accounting statements" in relation to the de minimis threshold calculation.

Reason

- 9.3 Networks have an enduring derogation in place in relation to the preparation of Regulatory Accounts so the de minimis calculation should be based on audited historical cost accounting statements.

Effect

- 9.4 This modification enables the de minimis threshold to be calculated based on audited historical cost accounting statements.

10. General updates

- 10.1 We have also included other housekeeping updates and corrections to the PCFIs. For further details on the updates and corrections please see the tracked changes showing the amendments within the documents published alongside this Notice. A comprehensive list of the updates to the PCFIs can be found in Appendix 1 and Appendix 2 to this Notice.

11. Notice for the Gas Sector

To:

**Cadent Gas Limited
Northern Gas Networks Limited
Scotland Gas Networks plc
Southern Gas Networks plc
Wales and West Utilities Limited
National Gas Transmission Plc**

Gas Act 1986 Section 23(1)(a)

Modification of the special conditions of the Gas Transporter licence held by the licensees listed above

1. Each of the licensees to whom this document is addressed is the holder of a Gas Transporter Licence ('the Licence') granted or treated as granted under section 7 of the Gas Act 1986 ('the Act').
2. Under section 23(2) of the Act, the Gas and Electricity Markets Authority (the 'Authority')¹³ gave notice¹⁴ on 25 April 2025 (the 'Notice') that it proposed to modify the special conditions of the Gas Transporter licence. We stated that any representations to the modification proposal must be made on or before 23 May 2025.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 23(4)(b) of the Act, and we have not received a direction that the changes should not be made.
4. We received five responses to the Notice, which we have carefully considered. Nonconfidential responses and our response to these comments are published on our website at "SpCs and PCFI Issues Log".
5. The purpose, reasons for, and effect of these modifications are described in the cover letter to this decision.
6. Schedule 1 and 2 to this notice contain the modifications to the GT2 and GD2 Price Control Financial Instruments (PCFIs) which form part of Special Condition 8.1 (Governance of the Price Control Financial Instruments).

¹³The terms "the Authority", "we" and "us" are used interchangeably in this document.

¹⁴ [Statutory consultation to modify the Price Control Financial Instruments and licence conditions for electricity and gas distribution and transmission | Ofgem](#)

7. The documents published alongside this decision contain the modifications to the special conditions of the Gas Transporter licence held by National Gas Transmission Plc and the GDNs.
8. An overview of the modifications being made to the special conditions of the Gas Transporter licences is set out below:
 - Modification to Special Condition 5.4 Vulnerability and carbon monoxide allowance (VCMt) in the GD licences ;and
 - Addition of Special Condition 3.19 FSO transition allowance in the GT licence.
9. An overview of the modifications being made to the GT2 Price Control Financial Models (PCFM) is set out below:
 - We have made an amendment to accommodate the new Special Condition 3.19 FSOTAt licence term.
10. An overview of the modifications being made to the GD2 Price Control Financial Models (PCFM) is set out below:
 - We have amended the non-variant allowances within the company specific input tabs of the GD2 PCFM.
11. Please see Appendix 1 to this direction for a list of the PCFM modifications.
12. An overview of the modifications being made to the GT2 Price Control Financial Handbook (PCFH) is set out below:
 - Addition of the new Special Condition 3.19 FSOTAt licence term in Table 3.2.
13. Please see Appendix 2 to this decision for a list of the PCFH modifications.
14. Having carefully considered the responses received to the Notice, we have decided to proceed with the modifications to the Special Licence Conditions and the GD2 and GT2 PCFIs set out in the Notice, with alterations to reflect the feedback in the responses received. These alterations are highlighted in yellow in the modified Special Licence Conditions. These alterations are highlighted in yellow in the modified GD2 and GT2 Price Control Financial Models as shown in Schedule 1 and 2.
15. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 23B of the Act, Rule 5.7 of

the Energy Licence Modification Appeals: Competition and Markets Authority Rules¹⁵ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. Section 23(10) of the Act sets out the meaning of 'relevant licence holder'.

16. Under the powers set out in section 23(1)(a) of the Act, we hereby modify the GD2 and GT2 Price Control Financial Instruments and the Special Licence Conditions of the Gas Transporter Licence of the licensees in the manner specified in Schedules 1 and 2 and documents published alongside this decision. This decision will take effect from 26 August 2025.
17. This document is notice of the reasons for the decision to modify the gas transporter licence held by the licensees as listed above as required by section 38A of the Act.
18. A copy of the modifications and other documents referred to in this document have been published on our website (www.ofgem.gov.uk). Alternatively, they are available from foi@ofgem.gov.uk.

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Mick Watson
Deputy Director Of Regulatory Finance
Duly authorised on behalf of the Gas and Electricity Markets Authority

¹⁵ CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

12. Notice for the Electricity Sector

To:

Scottish Hydro Electric Transmission plc
SP Transmission Ltd
National Grid Electricity Transmission plc
Electricity North West Limited
Northern Powergrid: Northeast
Northern Powergrid: Yorkshire
SP Energy Networks: Distribution
SP Energy Networks: Manweb
Scottish and Southern Energy Power Distribution: Scottish Hydro Electric Power Distribution
Scottish and Southern Energy Power Distribution: Southern Electric Power Distribution
UK Power Networks: London Power Networks
UK Power Networks: South East Power Networks
UK Power Networks: Eastern Power Networks
National Grid Electricity Distribution (West Midlands) plc
National Grid Electricity Distribution (East Midlands) plc
National Grid Electricity Distribution (South Wales) plc
National Grid Electricity Distribution (South West) plc

Electricity Act 1989
Section 11A(1)(a) and 11A(1)(b)

Modification of the standard and special conditions of the Electricity Transmission and Electricity Distribution licence held by the licensees listed above

1. Each of the licensees to whom this document is addressed is the holder of a Electricity Transmission or Electricity Distribution Licence ('the Licence') granted or treated as granted under section 6(1)(b) of the Electricity Act 1989 ('the Act').
2. Under section 11A(2) of the Act, the Gas and Electricity Markets Authority (the 'Authority')¹⁶ gave notice¹⁷ on 23 April 2025 (the 'Notice') that it proposed to modify the standard and special conditions of the Electricity Transmission and Electricity Distribution licence. We stated that any representations to the modification proposal must be made on or before 23 May 2025.
3. A copy of the Notice was sent to the Secretary of State in accordance with section 11A(4)(b) of the Act, and we have not received a direction that the changes should not be made.
4. We received eight responses to the Notice, which we have carefully considered. Non-confidential responses and our response to these comments are published on our website at "SpCs and PCFI Issues Log".

¹⁶The terms "the Authority", "we" and "us" are used interchangeably in this document.

¹⁷ [Statutory consultation to modify the Price Control Financial Instruments and licence conditions for electricity and gas distribution and transmission | Ofgem](#)

5. The purpose, reasons for, and effect of these modifications are described in the cover letter to this direction.
6. Schedule 1 and 2 to this notice contain the modifications to the ET2 and ED2 Price Control Financial Instruments (PCFIs) which form part of Special Condition 8.1 (Governance of the Price Control Financial Instruments).
7. The documents published alongside this decision contain the modifications to the standard and special conditions of the Electricity Distribution licences held by DNOs, and the Electricity Transmission Licences held by the ETOs.
8. An overview of the modifications being made to the special conditions of the Electricity Transmission licences is set out below:
 - Introducing new ET2 Special Licence conditions terms regarding the Transitional Centralised Strategic Network Plan 2 (tCSNP2):
 - Addition of Special Condition: SpC 3.44 Development Funding Price Control Deliverable and Use It Or Lose It Adjustment (DFt) ;
 - Addition of Special Condition: SpC 3.45 Delivery Track Pre-Construction Funding, Re-opener, Price Control Deliverable and Use It Or Lose It Adjustment (DTPCFt); and
 - Modification to Special Condition 1.1 Interpretation and definitions.
9. An overview of the modifications being made to the special and standard conditions of the Electricity Distribution licences is set out below:
 - Modification to Special Condition 9.8 Tax Reconciliation Assurance Statement;
 - Modification to Special Condition 1.2 Definitions and references to the Electricity Distributors; and
 - Modification of Electricity Standard Conditions 29 Restriction of activity and financial ring-fencing of the Distribution Business.
10. An overview of the modifications being made to the ET2 Price Control Financial Model (PCFM) is set out below:
 - We are adding lines to accommodate the following new licence condition allowances:
 - Special Condition 3.43 Advanced Procurement Mechanism (APMt);
 - Special Condition 3.44 Development Funding (DFt); and
 - Special Condition 3.45 (Delivery Track Pre Construction Funding) (DTPCFt).

11. Please see Appendix 1 to this decision for a list of the PCFM modifications.
12. An overview of the modifications being made to the ED2 Price Control Financial Handbook (PCFH) are set out below:
- Made various general housekeeping updates to the ED2 PCFH relating to:
 - Changes within the lists of related documents in paragraphs 1.4 and 1.5; and
 - Change to list of items excluded from totex expenditure in paragraph 3.7.
13. Please see Appendix 2 to this decision for a list of the PCFH modifications.
14. Having carefully considered the responses received to the Notice, we have decided to proceed with the modifications to the ET2 and ED2 PCFIs as well as the Standard and Special Licence Conditions set out in the Notice. We have made slight alterations to reflect the feedback in the responses received in the ET2 PCFM and ET2 Special Conditions 1.1, 3.44, and 3.45, these alterations are highlighted in yellow in the modified ET2 PCFM and Special Conditions.
15. Where an application for permission to appeal our decision is made to the Competition and Markets Authority (CMA) under section 11C of the Act, Rule 5.7 of the Energy Licence Modification Appeals: Competition and Markets Authority Rules¹⁸ requires that the appellant must send to any relevant licence holders who are not parties to the appeal a non-sensitive notice setting out the matters required in Rule 5.2. Section 11A(10) of the Act sets out the meaning of 'relevant licence holder'.
16. Under the powers set out in section 11A(1)(a) and 11A(1)(b) of the Act, we hereby modify the ET2 and ED2 Price Control Financial Instruments and the Standard and Special Licence conditions of the Electricity Transmission and Electricity Distribution Licences in the manner specified in Schedule 1 and 2 and the documents published alongside this decision. This decision will take effect from 26 August 2025.
17. This document is notice of the reasons for the decision to modify the electricity transmission and electricity distribution licence held by the licensees as listed above as required by section 49A(2) of the Act.
18. A copy of the modifications and other documents referred to in this document have been published on our website (www.ofgem.gov.uk). Alternatively they are available from foi@ofgem.gov.uk.

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Mick Watson
Deputy Director Of Regulatory Finance
Duly authorised on behalf of the Gas and Electricity Markets Authority

¹⁸ CMA70 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/655601/energy-licence-modification-appeals-rules.pdf

Appendix 1 - Changes to the RIIIO-2 Price Control Financial Models (PCFMs)

The PCFMs containing the modifications are attached as schedules to this decision. The changes have been highlighted in yellow. A summary of the changes follows below.

Part A: Modifications in the ET PCFM

- We are adding lines to accommodate the following new licence terms:
 - DF_t (Development Funding) - Company sheets line 40, Input sheet line 42;
 - APM_t (Advanced Procurement Mechanism)¹³ - Company sheets line 77, Input sheet line 79; and
 - $DTPCF_t$ (Delivery Track Pre Construction Funding) - Company sheets line 78, Input sheet line 80.
- Since the statutory consultation we have added additional lines to accommodate the above licence terms:
 - Added additional rows in licensee input sheets from rows 592-603 to include line items for the totex variant allocation percentages;
 - Added additional rows in "Input" sheet from rows 686-697 to ensure data correctly flows into totex;
 - Dragged formula in "Input" sheet in cells BC80:BF81 to ensure the correct meta data is assigned to the relevant variable values; and
 - Amended rows 358-363 in licensee input sheet to blue to allow for licensees to input the totex allocation percentages.

Part B: Modifications in the GD PCFM

- We have made corrections to the non-variant allowances (row 8 to 14) within the company specific input tabs. These values can be seen in the GD PCFM available alongside this decision.

Part C: Modifications in the GT PCFM

- We are adding a line to accommodate the new licence term $FSOTAt$ (Future Systems Operator Transition Allowance) - line 27 of the NGT System Operator input sheet; and
- Changed "NGGT SO" rows 171-172 in totex variant allowance allocation percentages to blue.

Appendix 2 - Changes to the RIIIO-2 Price Control Financial Handbooks (PCFHs)

The PCFHs containing the modifications are attached as schedules to this decision. The changes have been tracked. A summary of the changes follows below.

Part A: Addition of variable values in Table 3.1 of the ET2 PCFH

- Price Control Deliverables:
 - Special Condition 3.44 Development Funding - DF_t .
- Uncertainty Mechanisms:
 - Special Condition 3.43 Advanced Procurement Mechanism – APM_t ; and
 - Special Condition 3.45 Delivery Track Pre-Construction Funding – $DTPCF_t$.

Part B: Addition of variable values in Table 3.2 of the GT2 PCFH

- Uncertainty Mechanisms:
 - Special Condition 3.19 Future Systems Operator Transition Allowance - $FSOTA_t$.

Part C: Changes within the lists of related documents in paragraphs 1.4 and 1.5 of the ED2 PCFH

- Separating the Regulatory Instructions and Guidance (including the PCFM Guidance) from Associated Documents.

Part D: Change to list of items excluded from totex expenditure in paragraph 3.7 of the ED2 PCFH

- Addition of the sentence “and any subsequent appeals against the CMA” to bullet point o) which excludes from totex “any costs or legal fees incurred relating to an application for a judicial review or appeal to the CMA in respect of a decision made by Ofgem”.