

Guidance

ET2/ET3 Crossover Guidance and Submission Requirements Document

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Overview

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

The purpose of this document is to set out the general principles, methodologies and processes that the Authority will use when assessing the need for, and the value of, any amendments to RIIO-ET2/RIIO-ET3 ('ET2/ET3') Crossover adjustments as set out in Special Condition 3.23 of the ETO licences. It also sets out requirements in relation to applications and other submissions by the Electricity Transmission (ET) licensees that are required to support the Authority's assessments.

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Contents

Overview	1
1. Introduction.....	4
2. Definitions and scope of coverage of adjustments to allowances	6
Definition of an ET2/ET3 Crossover item	6
Scope of adjustments under the ET2/ET3 Crossover mechanism	7
3. General principles for ET2/ET3 Crossover adjustments	9
4. Approach to determining ET2/ET3 Crossover adjustments	10
5. Process for making adjustments under the ET2/ET3 crossover mechanism	15
Application for adjustments	15
Assessment of applications.....	16
Implementation of decisions	17

1. Introduction

- 1.1 This chapter sets out the background to the ET2/ET3 Crossover Submission Requirements and Guidance Document.
- 1.2 This document is issued by the Authority in accordance with Special Condition 3.23 of the ETO licences. This document applies exclusively to the ETO licensees.
- 1.3 As part of our Final Determinations for the RIIO-ET3 price controls we decided to create a ET2/ET3 Crossover mechanism through which we may adjust RIIO-ET3 allowances and, where appropriate, create new RIIO-ET3 outputs, for ET2/ET3 Crossover items, which are outputs, deliverables or activities that are funded in full or part by a RIIO-ET2 mechanism and where the TO efficiently incurs expenditure in the RIIO-ET3 period.
- 1.4 This document sets out:
 - Definitions and scope of coverage of adjustments to allowances under the ET2/ET3 Crossover mechanism.
 - The general principles that the Authority will have regard to when making amendments to allowances under the ET2/ET3 Crossover mechanism.
 - the timing and format of requests by the licensee for an amendment to allowances under the mechanism.
 - the details of information required to be provided by the licensee to the Authority to support a request for amendment to allowances.
 - the Authority's process for making amendments to any allowances.
- 1.5 This document is to be read in conjunction with the following documents:
 - Electricity Transmission Special Conditions
 - RIIO-ET3 Price Control Financial Handbook
- 1.6 Before directing any amendment to the ET2/ET3 Crossover Submission Requirements and Guidance Document, Ofgem will publish on its website:
 - the text of the amended ET2/ET3 Crossover Submission Requirements and Guidance Document;
 - the date on which the Authority intends the amended ET2/ET3 Crossover Submission Requirements and Guidance Document to come into effect;
 - the reasons for the amendments to the ET2/ET3 Crossover Submission Requirements and Guidance Document; and
 - the period during which representations may be made on the amendments to the ET2/ET3 Crossover Submission Requirements and Guidance Document, which will be up to 28 days.
- 1.7 In this Guidance, we use the terms 'Ofgem' and 'the Authority' as well as the terms 'we', 'us' and 'our' interchangeably. Ofgem is the Office of Gas and

Electricity Markets. The Authority is the Gas and Electricity Markets Authority and is the governing body of Ofgem, consisting of executive and non-executive members.

2. Definitions and scope of coverage of adjustments to allowances

This chapter sets out the general principles that the Authority will have regard to when making adjustments to allowances under the ET2/ET3 Crossover mechanism.

- 2.1 Through our price control determinations, we set:
- outputs to reflect the attributes of network service quality that are of most value to current and future consumers; and
 - price control allowances that reflect our view of the efficient cost over the relevant price control period of delivering those outputs.
- 2.2 Our RIIO-2 price controls covered the period from 1 April 2021 to 31 March 2026, and our RIIO-3 price controls will cover the period from 1 April 2026 to 31 March 2031.
- 2.3 We recognise that the periodic price control review process is not necessarily aligned with the way in which licensees undertake activities required to deliver their outputs. There are circumstances in which the delivery of price control outputs or deliverables set for one price control period may involve the ETOs efficiently incurring expenditure in the next period.
- 2.4 The purpose of the ET2/ET3 Crossover mechanism is to provide an explicit route for the Authority to provide funding to ETOs for efficiently incurred expenditure in circumstances where outputs or deliverables set under the RIIO-ET2 price controls require some expenditure to be incurred in the RIIO-ET3 period.
- 2.5 The provisions of the Special Condition 3.23 ET2/ET3 Crossover Adjustments are complementary to the ET2 close out process, details of which will be set out separately by Ofgem. The ET2/ET3 Crossover mechanism is intended to act as a backstop, allowing the Authority, at its discretion, to remunerate efficiently incurred expenditure on qualifying items in accordance with the general principles set out in this guidance.

Definition of an ET2/ET3 Crossover item

- 2.6 An ET2/ET3 Crossover item is defined in Special Condition 3.23 of the RIIO-ET3 licences. This definition includes Outputs, Price Control Deliverables (PCDs) or activities that are funded in part or in full by a RIIO-ET2 mechanism and where the licensee has efficiently incurred (or will incur) expenditure in the RIIO-ET3 period.
- 2.7 This includes the following types of mechanisms:

- Outputs that are licence obligations, for example, LOTI Outputs created under Special Condition 3.13 Large onshore transmission investment Reopener (LOTIAt and LOTIREt) of the RIIO-ET2 licence.
- PCDs, for example, the Physical Security PCDs created under Special Condition 3.4 Physical Security Re-opener and Price Control Deliverable (PSUPt and PSUPREt).
- Volume driver mechanisms, for example the mechanism created under Special Condition 3.11 Generation Connections volume driver (GCET).
- Use it or lose it (UIOLI) mechanisms, for example the mechanism created under Special Condition 3.5 Net Zero and Re-opener Development Fund use it or lose it allowance (RDFt).

2.8 Although this definition could potentially include Accelerated Strategic Transmission Investment (ASTI) PCDs and UIOLI mechanisms created under SpC 3.40 and SpC 3.41 of the RIIO-ET2 licence, we have decided that expenditure related to these items would be remunerated in the RIIO-ET3 period through other dedicated provisions that we have included in the RIIO-ET3 licence. As such, we have not included explicit licence terms for RIIO-ET2 ASTI terms.

Scope of adjustments under the ET2/ET3 Crossover mechanism

2.9 Special Condition 3.23 of the RIIO-ET3 licence specifies two criteria (of which at least one must be met) for making adjustments to allowances.

2.10 The first is the part-funding criterion. We may make an adjustment to allowances under the ET2/ET3 mechanism if the funding provided for an ET2/ET3 Crossover item was only intended to cover part of the efficient cost of delivering the item in full.

2.11 For example, this might be the case where an output was due to be delivered during the RIIO-ET3 period, with expenditure expected to be incurred in both the RIIO-ET2 and RIIO-ET3 periods, and funding provided by the relevant mechanism in the RIIO-ET2 licence only covered costs expected to be incurred in the RIIO-ET2 period. In such circumstances, we may use the ET2/ET3 Crossover mechanism to provide funding for efficient costs incurred or expected to be incurred in the RIIO-ET3 period.

2.12 The second is the RIIO-ET2 close out criterion. We may make an adjustment to allowances under the ET2/ET3 mechanism if adjustments to allowances made through the provisions specified under Special Condition 7.1 Legacy Adjustments to Revenue (LART) of the licence would result in (or are expected to result in) a negative adjustment to allowances for a ET2/ET3 Crossover item such that the efficient cost of delivering the item is no longer fully remunerated as originally intended.

- 2.13 For example, this might be the case where an evaluative PCD set as part of the RIIO-ET2 price control (with a delivery date in the ET2 period) is delayed and is now expected to be delivered in Year 3 of the RIIO-ET3 period. The assessment of PCD delivery, carried out in accordance with SpC 9.3 of the ET2 licence, might result in the PCD being assessed as not fully delivered, leading to a reduction in allowances to account for the non-delivery through the ET2 close out process. If the PCD is delivered in full after the close out process has been completed, and we consider that delivery of the PCD would still be beneficial to consumers, we may decide to reverse the reduction through an ET2/ET3 Crossover adjustment.
- 2.14 We do not intend to use the ET2/ET3 Crossover mechanism to provide funding to remunerate ETOs for costs incurred in the ET2 period for outputs or PCDs that were not created during the ET2 period.
- 2.15 Notwithstanding the above, and for the avoidance of doubt, nothing in Special Condition 3.23 of the RIIO-ET3 licence restricts our ability to make changes to allowances specified in Appendix 1 or introduce new outputs or deliverables in any event by modifying the licence using our powers under S11A of the Act if we consider such changes to be necessary.
- 2.16 We provide further information and guidance on our intended approach to the ET2/ET3 Crossover adjustment in Chapter 5.

3. General principles for ET2/ET3 Crossover adjustments

This chapter sets out the general principles that the Authority will have regard to when making adjustments to allowances under the ET2/ET3 Crossover mechanism.

3.1 When considering whether to make an adjustment to allowances, and the value of that adjustment, the Authority will have regard to the following principles.

- **Seamless transition.** We will aim to ensure that the transition from the RIIO-ET2 to RIIO-ET3 does not create unnecessary barriers to, or disincentives for, the efficient operation of the ET network or the efficient and timely delivery of outputs, deliverables or activities by the TO.
- **Appropriate remuneration of efficient costs.** We will aim to ensure that any shortfalls in funding for efficient costs associated with an ET2/ET3 Crossover item created as a consequence of the transition from the RIIO-ET2 to RIIO-ET3 price control are appropriately remunerated.
- **No undue benefit to TOs from delaying work into RIIO-ET3.** We will aim to ensure that TOs do not unduly benefit from delaying delivery of ET2/ET3 Crossover items into RIIO-ET3. This may include re-profiling past or future allowances and the transfer of allowances from the RIIO-ET2 period to the RIIO-ET3 period, to better align with actual delivery dates.
- **Accountability for delivery.** TOs will normally be held accountable for meeting outputs, deliverables, targets or delivery dates associated with ET2/ET3 Crossover items that are specified in the RIIO-ET2 licence. Where necessary, we will create new outputs, deliverables, targets and delivery dates in the RIIO-ET3 licence to support this. A decision by us to make adjustments under this mechanism does not imply our endorsement of any actions taken by the relevant TO in relation to the ET2/ET3 Crossover item.
- **Negative adjustments and clawback of RIIO-ET2 allowances.** Where appropriate and in line with these principles, ET2/ET3 Crossover adjustments could be negative and could have the effect of clawing back allowances associated with the ET2/ET3 Crossover item.

4. Approach to determining ET2/ET3 Crossover adjustments

This chapter sets out further guidance on the approach that the Authority intends to take when making adjustments to allowances under the ET2/ET3 Crossover mechanism.

4.1 The table below provide further information and guidance on our intended approach to the ET2/ET3 Crossover adjustments.

Type of RIIO-ET2 mechanism	Intended approach to ET2/ET3 Crossover adjustments
NARM Outputs SpC 3.1 Baseline Network Risk Outputs (NARMt)	<p>In some circumstances, the delivery of RIIO-ET2 NARM outputs may be delayed into the ET3 period.</p> <p>In such circumstances, and depending on the extent of delay, the RIIO-ET2 NARM close out process may result in a downward funding adjustment through the NARM Funding Adjustment and Penalty Mechanism (FAPM).</p> <p>If the RIIO-ET2 NARM output is subsequently delivered after the NARM FAPM assessment is complete, and the Authority considers that the delivery is beneficial for consumers, the Authority may use the ET2/ET3 Crossover mechanism to provide appropriate funding to remunerate the licensee for efficient costs associated with the delivery of the delayed NARM output (taking account of the benefits delivered).</p> <p>If the adjustment to allowances under the ET2/ET3 Crossover mechanism is done on an anticipatory basis before the relevant NARM output is delivered, the Authority may introduce new outputs or PCDs in the RIIO-ET3 licence to hold the ETO accountable for delivery.</p>
Outputs that are licence obligations SpC 3.13 Large Onshore Transmission Investment Reopener	<p>Delayed outputs</p> <p>In some circumstances, RIIO-ET2 outputs with delivery dates in the RIIO-ET2 period may be delayed into the RIIO-ET3 period. Ofgem may decide to re-profile the allowances associated with the output to align more closely with actual delivery. This could involve moving allowances from the ET2 period into the ET3 period, using the ET2/ET3 Crossover adjustment to provide allowances in the ET3 period.</p> <p>For the avoidance of doubt, Ofgem reserves the right to take enforcement action if there is considered to be a breach of licence obligations.</p>

Type of RIIO-ET2 mechanism	Intended approach to ET2/ET3 Crossover adjustments
(LOTIA _t and LOTIRE _t)	<p>Applications made under provisions in the RIIO-ET2 licence</p> <p>A licensee may submit (or have submitted) a valid application for additional funding or changes to outputs under the mechanisms in the RIIO-ET2 licence:</p> <ul style="list-style-type: none"> • The large onshore transmission investment reopener mechanism, as set out in Part B of SpC 3.13 of the ET2 licence. • The Cost and Output Adjusting Event mechanism as set out in Part G of SpC 3.13 of the ET2 licence. <p>Provided a valid and complete application is made on or before 31 March 2026, Ofgem will assess these applications in accordance with the provisions contained in the relevant conditions at the time of application.</p> <p>If, following its assessment of the application, Ofgem decides to make adjustments to allowances, we will do so by making an adjustment to the relevant allowance term under the ET2/ET3 Crossover mechanism.</p> <p>If Ofgem decides to amend existing outputs or create new outputs, we will do so through a modification to the RIIO-ET3 licence using our S11A powers.</p> <p>Outputs with delivery dates in ET3</p> <p>Some RIIO-ET2 outputs may have delivery dates in the ET3 period. In such cases, and if these costs have not been funded through the ET3 baseline allowance or through another ET3 mechanism, Ofgem may use the ET2/ET3 Crossover mechanism to provide allowances for efficient costs incurred (or expected to be incurred) in the ET3 period.</p> <p>Ofgem may introduce new outputs or PCDs in the ET3 licence to hold the ETO accountable for delivery, and in any event will hold TOs accountable for the outputs agreed in RIIO-ET2 where these continue to be delivered in RIIO-ET3.</p> <p>Where provisions such as Cost and Output Adjusting Events (COAE) were applicable to projects established during RIIO-ET2, equivalent arrangements established in the RIIO-ET3 licence will now apply instead (eg COAE under LOTI will now be COAE under the Load Re-opener).</p>

Type of RIIO-ET2 mechanism	Intended approach to ET2/ET3 Crossover adjustments
Mechanistic PCDs	<p>All mechanistic PCDs will be assessed and any adjustments to allowances will be made in line with the process set out in Part A of SpC 9.3 of the ET2 licence.</p> <p>Delayed delivery</p> <p>The delivery of RIIO-ET2 mechanistic PCDs may be delayed into the ET3 period.</p> <p>In such circumstances, and depending on the extent of delay, the PCD assessment process may result in a downward funding adjustment for non-delivery of the mechanistic PCD volumes.</p> <p>If some of these mechanistic PCD volumes are subsequently delivered (after the close out assessment is complete) and the Authority considers that delivery is beneficial to consumers, the Authority may use the ET2/ET3 Crossover mechanism to provide appropriate funding to remunerate the licensee for efficient costs associated with the delivery of the delayed mechanistic output, taking account of the benefits delivered.</p> <p>If the adjustment to allowances is done on an anticipatory basis before the mechanistic PCD volumes are delivered, the Authority may introduce new outputs or PCDs in the ET3 licence to hold the ETO accountable for delivery.</p>
Evaluative PCDs and reopeners	<p>All ET2 evaluative PCDs will be assessed as part of the ET2 close out in line with Part A of SpC 9.3 of the ET2 licence.</p> <p>Delayed delivery</p> <p>In some circumstances, the delivery of some RIIO-ET2 evaluative PCDs may be delayed into the RIIO-ET3 period.</p> <p>In such circumstances, and depending on the extent of delay, the RIIO-ET2 evaluative PCD assessment process may result in a downward funding adjustment for non-delivery of the PCD.</p> <p>If part or all of the PCD is subsequently delivered (after the evaluative assessment is complete) and the Authority considers that delivery is beneficial to consumers, the Authority may use the ET2/ET3 Crossover mechanism to provide appropriate funding to remunerate the licensee for efficient costs associated with the delivery of the delayed evaluative PCD, taking account of the benefits delivered.</p>

Type of RIIO-ET2 mechanism	Intended approach to ET2/ET3 Crossover adjustments
	<p>If the adjustment to allowances is done on an anticipatory basis before the PCD is delivered, the Authority may introduce new outputs or PCDs in the RIIO-ET3 licence to hold the ETO accountable for delivery.</p> <p>Reopener submissions made before 31 March 2026</p> <p>A licensee may submit (or have submitted) a valid application for additional funding or adjustments to outputs under a reopener mechanism in the RIIO-ET2 licence (eg MSIP or PCF)</p> <p>Provided a valid and complete application is made on or before 31 March 2026, Ofgem will assess these applications in accordance with the provisions contained in the relevant conditions at the time of application.</p> <p>If, following its assessment of the application, Ofgem decides to make adjustments to allowances, we will do so by making an adjustment to the relevant allowance term under the ET2/ET3 Crossover mechanism. This does not apply to ASTI projects.</p> <p>If Ofgem decides to amend existing outputs or create new outputs, we will do so through a modification to the ET3 licence using our S11A powers.</p>
Volume drivers	<p>Funding for T2+2 volumes</p> <p>RIIO ET2 volume drivers are intended to fund volumes delivered in the ET2 period and in Years 1 and 2 of the ET3 period. Our intention is to fund volumes delivered in Years 1 and 2 of the ET3 period through the RIIO-ET2 close out process. Any adjustments to allowances may be made through the ET2/ET3 Crossover mechanism.</p> <p>Delayed delivery (beyond T2+2)</p> <p>If the delivery of these volumes is delayed beyond Year 2 of the ET3 period, and the Authority considers that delivery is beneficial to consumers, the Authority may use the ET2/ET3 Crossover mechanism to provide appropriate funding to remunerate the licensee for efficient costs associated with the delivery of the delayed volumes.</p> <p>In such circumstances, we intend to apply the RIIO-ET2 unit costs (or lower) to calculate the adjustment as customers should not be worse off as a result of delays to delivery.</p>

Type of RIIO-ET2 mechanism	Intended approach to ET2/ET3 Crossover adjustments
UIOLI	<p data-bbox="416 356 794 389">Unused UIOLI allowances</p> <p data-bbox="416 421 1394 622">In some circumstances, ETOs may not have fully utilised allowances provided on a use it or lose it basis (UIOLI) in the RIIO-ET2 price control period. In these circumstances, there may be benefits in allowing ETOs to transfer the unused funding into the RIIO-ET3 period, though we consider this unlikely.</p> <p data-bbox="416 654 1331 768">If the Authority considers that there are benefits to transferring the unused funding to the ET3 period, we intend to use the ET2/ET3 Crossover mechanism to provide the funding for the ET3 period.</p> <p data-bbox="416 799 1378 913">The Authority may apply conditions to such ET3 allowances, including by setting outputs or price control deliverables, or a use it or lose it condition.</p>

5. Process for making adjustments under the ET2/ET3 crossover mechanism

- 5.1 As set out in Special Condition 3.23, we intend to make any amendments to allowances specified in Appendix 1 of the condition and, where appropriate, introduce new outputs or deliverables using our powers under Section 11A of the Act.
- 5.2 These adjustments are intended to be complementary to the ET2 close out process. Therefore, our expectation is that we would only make adjustments under the ET2/ET3 Crossover mechanism after the completion of the ET2 close out process.

Application for adjustments

- 5.3 If a licensee considers that an adjustment to allowances or outputs under the ET2/ET3 crossover mechanism is required, it must submit a request in writing to Ofgem. Requests under this condition should be submitted after the publication of Ofgem's decision on the final adjustments to allowances under the provisions of SpC 7.1 Legacy Adjustments to Allowances, or 1 April 2028, whichever is earlier.
- 5.4 Any requests for adjustments under the ET2/ET3 crossover mechanism must include the following:
- A detailed explanation of the need for the requested adjustment to allowances specified in Appendix 1 of Special Condition 3.23, including as a minimum:
 - An explanation of how the requested adjustment meets the definition of an ET2/ET3 Crossover item as specified in Special Condition 3.23.
 - Demonstration, along with supporting evidence, that without the requested adjustment, the licensee would not be adequately remunerated for the efficient cost of delivering the ET2/ET3 Crossover item.
 - Demonstration, along with supporting evidence, that the requested adjustment is beneficial and in the interests of current and future consumers.
 - A detailed explanation of the calculation of the requested adjustment to allowances specified in Appendix 1 of Special Condition 3.23, including as a minimum:
 - Demonstration, along with supporting evidence, that the costs intended to be remunerated by the requested adjustment are economic and efficient.

- Where forecasts are relied upon, a demonstration with evidence that the forecasts are based on reasonable evidence and are robust under different scenarios.
 - Demonstration along with supporting evidence that the costs intended to be remunerated by the requested adjustment are not (and will not be) remunerated otherwise by a mechanism in the licence.
 - A detailed explanation of how consumers' interests will be protected as a result of implementing the requested adjustment, including where appropriate:
 - Proposals for new outputs or deliverables that can be used to hold the licensee accountable for the intended benefits to consumers of the requested adjustment.
- 5.5 Licensees must provide high-quality information in applications to support our assessments of those applications. To this end, and as far as reasonably possible, applications from licensees must be accurate, unambiguous, complete, and concise.
- 5.6 All applications must be accompanied by written confirmation from a suitable senior person within the company that the application has been prepared and submitted, such that:
- it is accurate and robust, and that the requested adjustments are in the interests of consumers.
 - there were quality assurance processes in place to ensure the licensee has provided high-quality information to enable Ofgem to make decisions which are in the interests of consumers.
 - the application has been subject to internal governance arrangements and received sign off at an appropriate level within the licensee.
- 5.7 A point of contact must be provided for each application, including name, position, email, and phone number.

Assessment of applications

- 5.8 Ofgem will assess applications from licensees under the ET2/ET3 Crossover mechanism in accordance with our principal objective and statutory duties. In doing so, we will also have regard to the general principles set out in Chapter 3 above.
- 5.9 We will aim to complete our assessment of applications and publish our decision in a timely manner. We recognise that unnecessary delays in reaching a decision could have detrimental impacts. However, the timeline for our decision on individual applications may vary and depends on several factors including the

complexity of the issues raised, the quality and completeness of information provided in the application and whether there are inter-related matters being concurrently assessed.

Implementation of decisions

- 5.10 If, following our assessment of an application under the ET2/ET3 Crossover condition, we decide to make an adjustment to allowances set out in Appendix 1 of the condition, we will seek to implement this as soon as practical afterwards through a modification to the licence using our powers under S11A of the Act.
- 5.11 Where necessary to protect the interests of consumers and to ensure licensees remain accountable for delivery of funded work, we may decide to create new outputs or PCDs using our powers under S11A of the Act.