

Network Price Controls Setting Team
Ofgem
Commonwealth House
32 Albion Street
Glasgow
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16 January 2026

NGET's Response to Ofgem's Statutory Consultation on proposed modifications to the NGET Transmission Licence to give effect to the RIIO-3 Final Determinations

Dear Steve,

We welcome the opportunity to respond to Ofgem's statutory consultation on proposed modifications to the National Grid Electricity Transmission plc (NGET) Transmission Licence and the related consultation on changes to the Associated Documents (ADs), issued on 16 December 2025. This consultation sets out the proposed changes to licence conditions, ADs and Price Control Financial Instruments (PCFI) intended to give effect to the RIIO-3 T3 Final Determinations (FD) Decision published on 4 December 2025.

Our response comprises this cover letter, a detailed Excel response sheet (2. NGET T3 Licence and AD Detailed Comments, with comments on each proposed licence condition, AD and elements of the PCFI, as well as other supporting documentation in some areas to help inform your review of our response. We have focused on providing constructive proposals, remedies and alternative drafting to correct errors and ensure the licence and associated documents accurately reflect the FD. Correct, clear and workable drafting is essential for both NGET and Ofgem to deliver RIIO-T3 investment plans at pace.

Taken collectively, the proposed licence modifications that have been consulted on contain a significant number of drafting issues which must be resolved to ensure a clear, robust and investable T3 framework. While our strong preference is for Ofgem to address *all* the detailed issues identified in our response by February's licence modification decision, we recognise the evident timing pressures and therefore welcome Ofgem's commitment to running a further "snagging consultation" shortly after the licence takes effect on 1 April 2026 to correct any remaining errors. We expect this snagging consultation to be published in early April 2026 so that the resulting modifications can take effect in the summer of 2026 - mirroring the approach taken at the start of T2.

Material Licence Issues

In addition to the detailed Excel response sheet (2. NGET T3 Licence and AD Detailed Comments), we outline the material licence issues that **must be addressed ahead of** the licence modification decision in early February 2026 in **Annex 1** to this letter, which provides a summary of these issues and our proposed solutions. These material issues are further summarised below:

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| Special Condition 3.23 | The drafting is unclear and leaves gaps in funding for projects spanning ET2 and ET3. Further work is needed to correct the licence drafting and finalise the Associated Document and ensure processes, principles, and investment categories are correctly captured. Consistency with relevant ET2 licence conditions must be maintained. Solutions have been discussed and agreed in principle with Ofgem during the consultation period and must be implemented as part of the licence modification decision. |
| ET2/ET3 Crossover adjustments | |

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| <p>Special Conditions 3.48–3.50</p> <p>NLRE Named, Volume and Combi Price Control Deliverable</p> | <p>The new asset-health PCD framework is unworkable as drafted in the published licence consultation. We have made representations in this response and bilaterally to Ofgem that these draft conditions are misaligned with intended policy. Outputs are wrongly established as licence obligations, baseline/pipeline asset interventions are inconsistently handled, agreed funding flexibility is lost, and the framework causes instances of systematic underfunding.</p> <p>We must see significant redrafting, the correction of errors, and the adoption of a workable portfolio PCD approach. From recent discussions between NGET and Ofgem, we believe we are converging on the solutions needed but we must work further with Ofgem on these proposed licence conditions in order that correct and workable licence drafting is agreed and can be implemented as part of the licence modification decision.</p> |
| <p>Special Condition 9.2</p> <p>Network Asset Risk Metric Methodology</p> | <p>The scope is unclear, the drafting does not address what happens if TOs cannot reach consensus, and deadlines are unrealistic and out of sequence. There is no consumer benefit for making an ET NARM methodology a licence obligation. An Associated Document and revised programme are required.</p> |
| <p>Special Condition 3.15</p> <p>Pre-Construction Funding Re-opener and Price Control Deliverable</p> | <p>The current drafting is unworkable: efficiency assessment beyond the 8.2% allowance is unclear, the allowance itself is not defined, outputs are incomplete, and links to Project Assessment (PA) are misaligned. A PA true-up, clearer definitions, updated allowances, and corrected formulas are required.</p> |
| <p>Special Conditions 3.19 and 4.8</p> <p>CSNP Re-opener and PCD and Major Projects ODI-F</p> | <p>Delivery dates and incentive design are inconsistent with the Major Projects ODI-F framework. Key risk events are excluded, weakening consumer protection. NGET requests alignment with ASTI mechanisms and corrections to algebra.</p> |
| <p>Special Condition 3.13</p> <p>Closely Associated Indirects use it or lose it allowance</p> | <p>The ex-post assessment introduces uncertainty due to no defined efficient spend level. We propose assessing efficiency primarily in-period, limiting ex-post review to identifying clearly inefficient spend, and making any adjustments through licence modification.</p> |
| <p>Special Condition 3.11 and 3.12</p> <p>Generation & Demand Connections Volume Drivers</p> | <p>Baseline outputs include projects that should not be subject to volume driver adjustments, risking underfunding. Definitions (e.g., GCONfix) and formulae misalign with the regression model and FD methodology. We have proposed corrections and alternative formulas that must be implemented.</p> |
| <p>Special Condition 4.4</p> <p>Connections Output Delivery Incentive</p> | <p>Ambiguity exists around incentive rate calculation, target dates, and acceptable reasons for changing delivery dates. Clearer drafting aligned with Final Determinations and TO construction agreements must be implemented.</p> |
| <p>Special Condition 3.3</p> | <p>This condition combines resilience and physical security reopeners but contains drafting errors, lacks necessary formulae, and should be expanded to include workforce resilience. These issues must be addressed.</p> |

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| Resilience Re-opener, Physical Security PCD and Re-opener | |
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Material Cross-Cutting Issues

We have also identified several material cross-cutting issues that we consider **must be addressed ahead of** the licence modification decision in early February 2026. These are detailed in **Annex 2** to this letter with our proposed solutions, and are further summarised below:

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| Re-openers | The current drafting excludes recovery of funding for legitimate T2 spend since reopeners only cover costs after 1 April 2026, resulting in unfunded efficient T2 costs. |
| Missing Licence Conditions | Certain T2 Special Conditions (e.g., 3.10 Visual Impact Mitigation Re-opener, 3.13 LOTI, 3.14 MSIP) are missing and should be retained in amended form for ongoing delivery of outputs in T3. The retention of such conditions also forms part of our proposed solutions for addressing the material concerns with ET2/ ET3 Crossover. |
| Materiality Thresholds | The £57.6m threshold for reopeners is too high for mechanisms such as Resilience and Digital, limiting critical investments. These thresholds should be removed from conditions such as Special Condition 3.3 (Resilience) and 3.7 (Digital). |
| PCDEs Adjustments | Licence terms should clarify that upward allowance adjustments are negative values and downward adjustments positive for formula correctness. |
| Licence Obligations Proliferation | Establishing outputs resulting from the triggering of re-opener mechanisms as Licence Obligations in all circumstances is not appropriate and has not been consulted on. It will be appropriate to treat certain outputs as Licence Obligations and certain outputs as Evaluative Price Control Deliverables on a case-by-case basis and Ofgem must maintain such flexibility in the re-opener framework |

Price Control Financial Instruments (PCFI)

Annex 3 to this letter sets out our key issues relating to the PCFI, which include misalignments and incompleteness between the Licence and PCFI, including the PCFM. The PCFM contains variants and omissions not reflected in the Licence or PCFIs, causing inconsistencies especially in cost of debt formulas and inflation mechanics. We request continuation of the PCFM Working Group to resolve discrepancies and use of collaborative platforms for issue tracking during the proposed snagging process.

Associated Documents (ADs)

The ADs play an important role in ensuring an effective RIIO-T3 framework. For many of the ADs, further discussion is needed to help ensure they support a workable framework and so we welcome Ofgem's agreement in response to a joint TO proposal to extend the consultation deadline for several ADs to 9 February, including for those listed below (mostly new, or those with significant proposed amendments):

- Major Projects ODI Governance Document
- Load Re-opener Guidance

- SO:TO Governance Document
- ITA Guidance
- CAI UIOLI Governance Document
- BSC Re-opener Guidance (which exists as an appendix to the Re-opener Guidance)
- ET2/ET3 Crossover Guidance
- CSNP Co-ordination Governance Document
- CSNP Re-opener Guidance

We have agreed an iterative drafting process with Ofgem to ensure these ADs are suitably developed in advance of RIIO-T3. We agreed to provide initial comments on *all* proposed ADs (including those listed above) as part of this consultation response (see 2. NGET T3 Licence and AD Detailed Comments) and will continue to work with Ofgem where necessary to ensure *all* ADs, where relevant, are finalised by April.

Updates will also be required to several ADs that have not yet been published. This will be to correct referencing errors due to licence numbering changes between T2 and T3 to avoid confusion and missed obligations. We propose to work with Ofgem over the next few months to address this pre-April.

Notice of statutory consultation

We note the Reasons and Effects Document states that modifications to the ASTI conditions (Special Conditions 3.20, 3.21 and 4.7) are to give effect to the Project Assessment (PA) Decisions for EGL1, EGL2 and YG and the Material Scope Change (MSC) Decision for E4L5 (EGL3), TGDC (EGL4) and GWNC as statutory modifications under section 11A of the Electricity Act 1989 (Act). However, the notice of statutory consultation dated 16 December 2025 only refers to implementation of T3 Final Determinations and does not refer to the implementation of the PA Decisions or the MSC Decision.

The drafting implementing the PA Decisions also does not implement all the PA Decisions and further modifications will be required to implement other aspects of the PA Decisions such as those relating to the uncertain costs re-opener. It is therefore essential that the subsequent licence modification decision in early February 2026 refers to the partial implementation of the PA Decisions and the implementation of the MSC Decision (as well as T3 FD) to give proper statutory effect to these licence modifications under s11A of the Act.

Publication

Our response may contain confidential information (such as details of specific sites and associated investments) this response should be treated as **confidential**. We understand that Ofgem will want to publish non-confidential responses on its website in due course and to facilitate this we will undertake a further review of this response to identify which parts are confidential and should not be published.

Finally, our response to this consultation should not be viewed as the end of our engagement. Continued, iterative work between Ofgem and the TOs will be essential to ensure the final package of licence conditions and ADs fully and accurately transposes the FD. We remain committed to working closely with your teams over the coming weeks and beyond to achieve this.

For any specific queries please contact **[text redacted]**.

Yours sincerely,

Rob Salter-Church
Director of Regulation
National Grid Electricity Transmission

Please see the attached File List (3. NGET T3 Licence Consultation Response_File list) for a list of documents forming part of our response.

Annex 1 - Material Licence Issues

| 1. ET2/ET3 Crossover adjustments (T2ACAt) | |
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| Special Condition 3.23 | |
| Context | |
| <p>The proposed drafting creates unnecessary uncertainty affecting projects that are actively in the delivery phase currently given the lack of clarity over the requirement for these outputs and the funding to deliver these outputs where Ofgem has approved both the requirement and funding in previous decisions. Indeed, the proposed approach suggests retrospectively rewriting elements of the previously agreed RIIO-ET2 price control determinations.</p> <p>Fundamentally, Ofgem's current proposed approach risks compromising NGET's ability to achieve timely delivery of projects spanning multiple price control periods, which we do not believe to be in the consumer interest. Failure to make the suggested amendments to ensure that there is a clear path to funding of ET2/ET3 crossover projects would mean that this licence condition and associated document, among other things, would not achieve their stated effect and Ofgem would have failed to have regard to the principles under which regulatory activities should be transparent and consistent, and to have regard to best regulatory practice.</p> <p>As part of Ofgem engagement relating to this consultation process, we have constructively discussed our proposed solutions with Ofgem, both bilaterally and most recently at the Licence Drafting Working Group held on 13th January¹. We understood from that session that we have reached common ground with Ofgem on the treatment of key categories of investment that fall under this licence condition and which can be resolved through appropriate licence drafting ahead of 1st April 2026.</p> | |
| Material issues | Proposed solution(s) |
| <ol style="list-style-type: none"> 1. Allowances relating to efficient expenditure incurred in T3 that have identified efficient funding assessed previously through RIIO-ET2 reopener decisions have not been enacted in the licence condition being consulted on. 2. Allowances relating to delivery of outputs in T3 that have been triggered through RIIO-ET2 mechanisms such as Special Condition 3.11 Generation Connections volume driver and Special Condition 3.12 Demand Connections volume driver are not reflected in the licence condition being consulted on. | <p>Solutions for 1 – 3 have been discussed and agreed in principle with Ofgem during the Licence Drafting Working Group held on 13th January¹. We have provided additional information in the Excel file titled 11. NGET T3 Licence Consultation Response_Requested Additional Allowances accompanying this response which when introduced to the licence will reinstate previously agreed allowances in the RIIO-ET3 licence.</p> <p>We have also provided updated drafting for 3 RIIO-ET2 licence conditions that have been removed from the RIIO-ET3 licence being consulted on</p> |

¹ Cross TO / Ofgem ET-specific Licence Drafting Working Group 13/01/26

3. Associated Indirect allowances relating to the above categories where they are assessed separately through the RIIO-ET2 licence mechanisms are not provided through the licence condition being consulted on.
4. No clarity is provided on how efficient spend will be treated for both the RIIO-ET2 and ET3 periods for delivery of outputs where full allowances have been awarded in RIIO-ET2 period with mechanisms that will recover in full the allowances where delivery has been delayed into T3 period.

and should be reintroduced – 8. NGET T3 Licence Consultation Response_ T3 Licence VIM and LOTI and MSIP conditions. These conditions contain specific provisions for how allowances and/or output deliverables are measured and specific provisions governing the delivery of such outputs and as such the RIIO-ET3 licence would benefit from retaining this consistency for those projects that are continuing from RIIO-ET2 until their planned completion in RIIO-ET3 period. In addition, in the case of two conditions there is the prospect of Ofgem adding new outputs to these conditions in T2 that will be delivered in T3.

To satisfactorily resolve material issues 1 - 4, the AD related to this condition (ET2/ET3 Crossover Guidance and Submission Requirement Document) needs to capture correctly and in sufficient clarity the approach to be taken on remaining allowances during the T3 period. This must include the general principles, methodologies and processes to be used when assessing the need for, value of and timing of any adjustments to be made through this adjustment term.

The AD requires a full review and redrafting to ensure it provides the required level of clarity on both the principles to be followed, the method of identifying appropriate adjustments to be made and timing of such adjustments. As part of our response, we have provided a marked-up copy of the related ET2/ET3 Crossover Guidance and Submission Requirement Document – 7. NGET T3 Consultation Response_ET2ET3 Crossover Guidance Document.

The AD will need to provide clarity and comfort over how the value of allowances is to be derived and how and when such allowances and associated output deliverables will be incorporated into the licence during the RIIO-ET3 period for the following categories of investment:

- Projects where full allowances were awarded in RIIO-ET2 period with an Evaluative PCD mechanism attached allowing reprofiling of allowances where necessary; and

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| | <ul style="list-style-type: none"> Projects where full allowances were awarded in RIIO-ET2 period with mechanisms that will recover in full the allowances where delivery has been delayed into T3 period. <p>Our particular concern is that the RIIO-ET2 licence will automatically operate as part of normal price control processes and recover previously identified efficient allowances where outputs are still to be delivered in the RIIO-ET3 period. Without modification, the Associated Document suggests that only the spend incurred in the RIIO-ET3 period will be provided. The Associated Document must confirm that (subject to an economic test) the previously agreed efficient allowances will be provided.</p> <p>As a minimum, the AD should preserve the established principles set out in RIIO-ET2, along with those efficient allowances already determined.</p> |
| 2. NLRE Named, Volume and Combi Price Control Deliverable | |
| Special Conditions 3.48 – 3.50 | |
| Context | |
| <p>As consulted on, these three conditions are unworkable, and do not represent the intent of the PCD mechanisms as designed by Ofgem; Prior to implementation the conditions must therefore be modified. These three conditions are intended to fund much of our asset health programme and represent a replacement mechanism for NARM (for lead assets). The successful design of these licence conditions is of critical importance to consumers to ensure there is funding for asset maintenance, as well as NGET. It should be noted that these Special Conditions together represent a new PCD framework for NLRE which was not consulted on at Draft Determination, nor did these Special Conditions form part of any earlier Licence Consultation or policy discussions.</p> <p>Ofgem proposed its PCD mechanism and the removal of NGET from NARM on 23 September 2025 and this was followed by a series of conversations (Teams calls and emails) between NGET and Ofgem during which the operation of these proposed PCDs was developed.</p> <p>Without a consultation to respond to, NGET issued a statement setting out our position on Ofgem's proposals which was shared and agreed with Ofgem between 28 - 30 October 2025. FD then introduced the concept of the three NLRE PCDs at a principal level. There is currently no accompanying guidance which could have supported the interpretation and implementation of these new mechanisms.</p> | |

We do acknowledge the complexity of this area² and the level of work which has contributed to the development of this replacement regulatory mechanism, but this cannot be a substitute for due process. Therefore, in lieu of a formal consultation, NGET has in this licence consultation had to revert to commenting on what we believe to be Ofgem's policy intent and its interpretation into these special conditions. Failure to make the suggested amendments would mean that these licence conditions, among other things, would not achieve their stated effect, and Ofgem would have failed to have regard to the principles under which regulatory activities should be transparent, proportionate, and consistent, and to have regard to best regulatory practice.

| Material issues | Proposed Solution(s) |
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| <p>1. Drafting does not correctly establish the outputs as PCDs. If not corrected, these PCD mechanisms would become Licence Obligations. Given that there are many thousand NLR PCDs, we do not believe this is Ofgem's intent; this was confirmed in a bilateral on 14 January 2026.</p> <p>2. Baseline and pipeline investments are subject to different regulatory treatment. This is a direct shift from the policy intent, which was to create one interoperable asset health portfolio, collapsing the concept of an asset health pipeline. This has the effect of:</p> <ul style="list-style-type: none"> a. In the case of Special Condition 3.48 (Named PCDs), any assets which originated in the pipeline which are partially delivered would be 100% unfunded. However, had the same type of asset been identified in the baseline this would be subject to PCDE reporting provisions and funded accordingly. b. In the case of Special Condition 3.49 (Volume PCDs), this has the effect of: <ul style="list-style-type: none"> (i) Inhibiting flexible delivery of the asset health portfolio, a cornerstone element of policy design; and (ii) Making pipeline interventions subject to ex-post review, rather than being funded automatically based on an agreed unit cost as was intended. <p>3. The proposed drafting does not result in an annual adjustment of allowances to match our delivery profile. Instead, a single funding adjustment in the T4 period is proposed which means there would be:</p> | <p>Solutions for issues 1 – 6 need to be resolved through updated licence drafting. NGET has previously made workable proposals in draft licence conditions prepared with Ofgem's backing (first shared with Ofgem on 24 November 2025). The attachments to this response</p> <p>[4. NGET T3 Licence Consultation Response_ 2026-01-15 annotated 2025-11-24 Portfolio licence condition.docx,</p> <p>5. NGET T3 Licence Consultation Response_ 2026-01-15 annotated 2025-11-24 Volume licence condition.docx &</p> <p>6. NGET T3 Licence Consultation Response_ 2026-01-15 updated 2025-11-24 Named PCD licence condition.docx] include updates to those drafts.</p> <p>Ofgem must provide an updated version of these Special Conditions no later than the 20 January so we can assess the workability of these critical parts of the Licence and, where necessary, work with Ofgem to ensure the necessary changes are incorporated into the relevant licence drafting that is included in Ofgem's licence modification decision on 3 February 2026.</p> |

² Letter from Steve McMahon (Director Network Price Controls) to Matthew Braovac (ET General Counsel) 31 December 2025 RE: RIIO-3 statutory consultation on the proposed licence modifications and associated documents

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| <ul style="list-style-type: none"> a. an annual mismatch between spend and allowances, creating a false view of performance within T3, b. a potentially large adjustment in T4 that adversely affects revenue recovery and customer charging, and c. The introduction of funding uncertainty as spend will be assessed as part of T4 closeout. <p>4. The formula does not permit trading between replacement and refurbishment for approved assets (and vice versa), even though this principle has been established practice in RIIO-T2. Without this flexibility, NGET could be incentivised to stick rigidly to a fixed plan as submitted in 2024, rather than being able to choose an asset health intervention commensurate with consumer value at the time of delivery.</p> <p>5. Drafting does not allow funding for outputs to be completed in Year 1 of T4 despite Ofgem indicating that this would be appropriate.</p> <p>6. Special Condition 3.50 creates more than 1,000 low-value evaluative PCDs that could be funded automatically. Ofgem has indicated that it wishes to retain a separate Special Condition for these asset categories, however it could be drafted to operate in a more efficient and proportionate manner.</p> | |
| <p>7. Substation Energy Efficiency category has not been treated as proposed. Although Ofgem indicated that it was amenable to volumetric treatment of draught proofing and Solar PV site trading, it has kept Substation Energy Efficiency as a Named PCD without explanation. This removes NGET's ability to invest in solar panels at alternative sites and reduces flexibility, despite energy efficiency benefiting both the environment and consumers.</p> | <p>Ofgem to move Substation Energy Efficiency PCDs from Special Condition 3.48 to Special Condition 3.50 to create volumetric treatment of draught proofing and Solar PV site trading.</p> |
| <p>8. Approach to setting Named PCDs for substation cable projects from the Pipeline log systematically underfunds interventions by assigning them allowed costs based on statistically invalid unit costs.</p> | <p>Ofgem to remove the Pipeline substation cable projects from Special Condition 3.48 (Named PCDs) and include them in the scope of Special Condition 3.10 Non-Load Re-opener (NLRt).</p> |
| <p>9. The Redacted Information Document must be updated to correctly reflect agreed deliverables and associated funding.</p> | <p>Provide updated and consistent versions of the (i) NGET Redacted Information Document – NLR PCDs, (ii) Non-Load Related Project Assessment Model and (iii) EJP_Project_Tracker_NGET_PCDs so that the funding position is accurately reflected.</p> |

| 3. Network Asset Risk Metric Methodology | |
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| Special Condition 9.2 | |
| Context | |
| <p>It is not necessary to make the production of a common ET NARM Methodology and the associated documents a licence obligation. All licensees have been working together for more than a decade to develop, test and implement NARM methodologies under Ofgem's direction. This would continue without a licence obligation to do so.</p> <p>However, if Ofgem persists in having dated obligations or deliverables in the licence, there are several issues (as set out below) that must be addressed. Failure to make the suggested amendments would mean that this licence condition, among other things, would not achieve its stated effect, and Ofgem would have failed to have regard to the principles under which regulatory activities should be proportionate and consistent, and to have regard to best regulatory practice.</p> | |
| Material issues | Proposed solution(s) |
| <p>1. Requirements are not clearly defined. For example, there is no definition for 'asset data systems' which is drafted as being a Licence Obligation to deliver by 1 April 2027, and the scope of the ET NARM Methodology is not specified (e.g. asset families to be covered).</p> | <p>Draft and consult on an AD to set out in detail the scope of the deliverables required to introduce an ET NARM Methodology.</p> |
| <p>2. Drafting does not state what Ofgem will do if the licensee is unable to submit deliverables which are Licence Obligations. For example, the TOs may not reach consensus on a final ET NARM Methodology for valid reasons, noting that a common methodology requires cross-TO consensus and no individual TO can control this. The licence condition must be clear on the consequences if the licensee cannot comply with the relevant obligations. It is unreasonable to place a licence obligation on TOs to achieve consensus.</p> | <p>Remove licence obligations where it is unclear what exactly is required of the licensee. Set out the consequences for TOs a deadline is not achieved, e.g. if we are unable to reach consensus or if in Ofgem's view the ET NARM Methodology does not fully meet the NARM Objectives.</p> |
| <p>3. The dates specified in Special Condition 9.2 are not achievable or sequenced correctly. For example, the draft licence condition requires TOs to have asset data systems in place by 1 April 2027. TOs cannot achieve this until the type and scope of asset condition data to be collected is known, and this is dependent upon the ET NARM Methodology. However, the ET NARM Methodology is to be submitted by 1 April 2028 (a year later) and this then</p> | <p>Remove the deadlines for deliverables from Special Condition 9.2 or, if deliverable dates are to be retained, work with licensees to establish a realistic and correctly sequenced programme considering the new AD.</p> |

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| has to be approved by Ofgem or Ofgem may designate its own version up to as late as 1 April 2029 (two years later). | |
| 4. Pre-Construction Funding Re-opener and Price Control Deliverable | |
| Special Condition 3.15 | |
| Context | |
| The current drafting is unworkable: efficiency assessment beyond the 8.2% allowance is unclear, the allowance itself is not defined, outputs are incomplete, and links to Project Assessment are misaligned. A PA true-up, clearer definitions, updated allowances, and corrected formulas are required. Failure to make the suggested amendments would mean that this licence condition, among other things, would not achieve its stated effect, and Ofgem would have failed to have regard to the principles under which regulatory activities should be transparent and consistent, and to have regard to best regulatory practice. | |
| Material issues | Proposed solution(s) |
| <p>1. The proposed licence condition is unworkable for RIIO-T3 projects for the following reasons:</p> <ul style="list-style-type: none"> a. The licence condition does not state explicitly that spend on PCF and EEW activities above 8.2% can be assessed for efficiency during Project Assessment (PA). This assessment is essential at PA due to 8.2% being an average allowance and the inclusion of EEW into pre-construction works introducing greater variability and uncertainty on activities to be undertaken under Pre-Construction Funding. A true up at PA would ensure a well-rounded assessment of the efficient whole project costs is made at the transition point between pre-construction and construction phases which is well before the T3 closeout. b. The initial PCF allowance of 8.2% is not stated either in the licence condition or in relevant ADs. This will cause interpretation issues for new PCF requests within T3. Also, the licence does not capture accurately how the reopener allowances and outputs will supplement the initial 8.2% allowance already stated in Appendix 1 and 2. | <p>Please see the attached recommended redraft document for Special Condition 3.15 titled '9. NGET T3 Licence Consultation Response_Special Condition 3.15 redraft' that outlines the changes we expect to give effect to policy discussions on the topic.</p> <p>The following updates are required to make PCF workable in T3:</p> <ul style="list-style-type: none"> a. True up at PA must be implemented to assess all efficiently incurred costs on Pre Construction Works beyond set allowances (initial and PCF reopeners). Our recommended changes are captured in a redraft document (titled '9. NGET T3 Licence Consultation Response_Special Condition 3.15 redraft'), provided alongside the detailed comments tab as part of our response. b. 8.2% should be stated unambiguously in relevant ADs (particularly the Load Reopener and other ADs where RIIO-T3 PCF is applicable) as the initial PCF allowance. All existing and new PCF requests to be captured and updated in an Appendix to the license condition in an easy-to-manage manner. |

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| c. The PCF PCD is currently only aligned to material planning permission and does not cover projects that don't require planning permission. Also, the outputs captured in Appendix 2 of Special Condition 3.15 should be defined accurately. | c. For projects not requiring material planning consent, the output of the PCF PCD should be submission of Project Assessment by the TO. Licence text and Appendix 2 of Special Condition 3.15 should be updated. |
| 2. The list of projects that have already received PCF under various frameworks such as tCSNP2 development track, but would be processed under RIIO-T3 PCF, are not listed in the Appendix to Special Condition 3.15. | The list of projects that have already received PCF under various frameworks such as tCSNP2 development track but would be processed under T3 PCF and Load Reopener, need to be listed in the Appendix to Special Condition 3.15. |
| 3. The definition of Early Enabling Works (EEW) in Special Condition 1.1 is limited to the high-level bullet point definitions of EEW. This can cause interpretation challenges in future on activities that are deemed EEW. | High-level bullet point definitions of EEW should be supplemented with the indicative non-exhaustive list of activities deemed as EEW (while unambiguously stating the list as non-exhaustive) either in Special Condition 1.1 or in all relevant Associated Documents such as the Load Reopener AD. |
| 4. PCF formulae and references to appendices are incorrect (see detailed response sheet). | PCF formulae need to be rechecked and corrected to work for baseline and reopener terms for both existing and new projects (see detailed response sheet and our recommended redrafting document titled '9. NGET T3 Licence Consultation Response_ Special Condition 3.15 redraft' for details). |
| 5. The PCF baseline allowances in Appendix 2 do not reflect the £s for 8.2% of total project costs in our Business Plan submission. [text redacted] | Appendix 2 should be updated with allowances stated in [text redacted] |
| 5. CSNP Re-opener and PCD and Major Projects ODI-F | |
| Special Conditions 3.19 and 4.8 | |
| Context | |
| The proposed licence sets the obligation date inconsistently with ODI-F guidance. We also do not support having two different approaches between ASTI and CSNP Reopener/Major Projects for delay events and COAE as per this condition. Failure to resolve the issues raised would mean that Ofgem would have failed to fulfil its principal objective to protect the interests of existing and future consumers. In addition, Ofgem would have failed to have regard to the principles under which regulatory activities should be transparent, proportionate and consistent, and to have regard to best regulatory practice. | |

| Material Issues | Proposed solution(s) |
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| <p>1. Licence Obligation inconsistent with ODI-F: The proposed licence drafting (3.19.9) sets Licence Obligation (LO) date 12 months after Output delivery date, which is the set as the P50 date, regardless of whether the Optimal Delivery Date (ODD) is later. This contrasts with the Major Projects ODI-F, which will set the Target Delivery Date to be the later of the ODD and P50 delivery date (under incentives Design A, B or C), recognising there will be limited or no consumer value in accelerating ahead of the optimal date.</p> | <p>Ofgem has clarified (in response to FDQ051) that the intention is “that the delivery date for any CSNP Re-opener Output will be set as that project’s P50 delivery date - or the NESO’s Optimal Delivery Date (ODD) if one exists and if it is later than the P50 delivery date” – i.e. aligned to the ODI target date. Special Condition 3.19 must be updated accordingly.</p> |
| <p>2. The definition of Delay Events and Cost and Output Adjusting Events (COAE) has been narrowed to an exhaustive list excluding Supply Chain, System Access and Interface Risk, which is different to ASTI. We understand Ofgem believe that the exclusions are in areas where the TOs have a significant ability to prevent or control any delays, and as such do not warrant specific Delay Event carve-outs. This means that TOs will need to factor these risks upfront into their CSNP schedule and cost estimates, potentially leading to worse outcomes for consumers. System access and some Supply Chain related events, such as Supplier insolvency, will continue to be an externally affected variable that could impact project delivery once ODI dates have been set.</p> | <p>In relation to the alignment of COAE and Delay Event Mechanism to ASTI, and if we are to adopt the Portfolio TIM model, we request a commitment from Ofgem to move to a non-exhaustive list of Delay Events and COAE events deemed outside the reasonable control of a TO, which triggers a delay of over 30 days or cost increase/decrease of +/- 10% or an alternative threshold agreed at a Project Assessment level.</p> <p>System Access is of specific concern as it will continue to be an externally affected variable that could impact project delivery after ODI dates have been set and it will continue to be outside of the TOs control for major projects in the same way it is for ASTI. Therefore, there is a strong argument for including within scope of the major project arrangements.</p> |
| <p>3. The algebra used in Special Condition 4.8 does not properly carry the FD policy into effect (e.g. it appears not to result in lump sum reward for early delivery) and relies heavily on inputs to the relevant Appendix to distinguish between the three incentive designs (Designs A, B and C) intended.</p> | <p>Details of issues with the currently proposed algebra can be found in the detailed Excel sheet (2. NGET T3 Licence and AD Detailed Comments) supporting this response. The TOs have jointly developed corrected drafting for the algebra that achieves the FD policy intent for subsequent review and discussion. This can be found in the file named 10. NGET T3 Licence Consultation Response Special Condition 4.8 Major Projects ODI - Proposed Part A Drafting.</p> |

| 6. Closely Associated Indirects use it or lose it allowance | |
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| Special Condition 3.13 | |
| Context | |
| <p>The introduction of an ex-post assessment without clear guidelines poses substantial risks to indirect funding and investment certainty, with concerns also raised about Ofgem's legal authority to implement such measures by direction. Failure to make the suggested amendments would mean that this licence condition, among other things, would not achieve its stated effect, and Ofgem would have failed to have regard to the principles under which regulatory activities should be transparent, accountable and consistent, and to have regard to best regulatory practice. Furthermore, the proposal to implement the ex-post assessment by direction would be ultra vires s.7(5)(b) Electricity Act 1989 as Ofgem has failed to specify the circumstances in which an adjustment would be made.</p> | |
| Material Issues | Proposed solutions |
| <p>1. The introduction of an ex-post assessment and no defined level of efficient indirects funding creates a significant risk to indirects funding with no certainty to be provided until after projects have completed, creating a significant risk to TOs investing in delivering the projects. We note that Ofgem has confirmed in bilaterals³ through this consultation period that this is not intended to be a detailed close out assessment, but instead a process in which to identify and review outliers.</p> | <p>The assessment of efficiency of the spend should not be left solely to the ex-post assessment. Ofgem should use the evidence provided as part of the top-up mechanism request in period to assess a suitable level of efficient spend. The ex-post assessment should therefore be confined to the identification of “Demonstrably Inefficient and Wasteful Expenditure” as is used in the NESO licence and discussed in the sharing factor consultation on ASTI.</p> |
| <p>2. The proposal to implement the ex-post assessment by direction would be ultra vires s.7(5)(b) Electricity Act 1989 as Ofgem has failed to specify the circumstances in which an adjustment would be made.</p> | <p>The ex-post assessment should be conducted as part of the T3 close out process, rather than “in tandem” to that process. As such, any adjustment resulting from this assessment should be implemented via a s.11A licence modification and not by direction as is currently drafted.</p> <p>Alongside this, detailed work needs to be undertaken to agree a clear set of definitions and ensure suitable and proportionate regulatory reporting, where significant changes are anticipated between price control periods. This includes contractor indirect costs and the reporting of the pre-construction funding, where this now includes both direct and indirect costs.</p> |

³ Meeting between [text redacted] (Ofgem) and NGET cost assessment teams on 16/12/25 and 08/01/26.

| 7. Generation & Demand Connections Volume Drivers | |
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| Special Conditions 3.11 and 3.12 | |
| Context | |
| Failure to make the suggested amendments would mean that this licence condition, among other things, would not achieve its stated effect, and Ofgem would have failed to have regard to the principles under which regulatory activities should be transparent and consistent, and to have regard to best regulatory practice. | |
| Material Issues | Proposed solution(s) |
| 1. The baseline outputs currently shown in Appendix 2 include projects that have completed, or are due to complete, in T2 , as well as projects that are part of PCDs, and therefore should not be subject to volume driver adjustments . If Appendix 2 is included as proposed, the volume driver adjustment will create significant underfunding. | To ensure the Generation and Demand Volume Drivers work correctly, there must be direct alignment of projects included in baseline outputs with those projects included in baseline allowances (and subject to volume drivers). |
| 2. For a given project, in line with the regression model, the GCONfix term should refer to the number of new connections , rather than the number of new substations, which is implied by the definition included in the proposed licence. As such, the suggested definition of GCONfix does not match the intended purpose of the fixed element in the regression equation and would result in underfunding of typical connection projects | In respect of the definition of GCONfix, a similar definition of GCONfix to that used in RIIO T2 should be adopted. |
| 3. The formulas included to derive GCEt and DRIt incorrectly apply a Risk uplift (RAC) to the TPGt, TPRGt, TPDt, and TPRDt terms . These terms are not driven by or subject to the unit cost allowances, and as such should not incur any risk uplift. | In respect of the formulas included to derive GCEt and DRIt, we propose an alternative formula to address the issue of an incorrect application of a Risk uplift (RAC) to the TPGt, TPRGt, TPDt, and TPRDt terms. |
| 4. The formula specified for atypical generation projects with capacity below 300MW is not aligned with the methodology set out in Section 4.40 of the NGET Annex Final Determinations (Page 29) and is therefore incorrect. An alternative formula has been proposed. | In respect of the formula specified for atypical generation projects with capacity below 300MW, we propose an alternative formula to address the |

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| | issue of this formula not being aligned with the methodology set out in Section 4.40 of the NGET Annex FD. |
| 8. Connections Output Delivery Incentive | |
| Special Condition 4.4 | |
| Context | |
| There is significant ambiguity around the calculation of the incentive unit rate, definition of the target date, and date changes for incentivised connections. Failure to make the suggested amendments would mean that this licence condition, among other things, would not achieve its stated effect, and Ofgem would have failed to have regard to the principles under which regulatory activities should be transparent and consistent, and to have regard to best regulatory practice. | |
| Material Issues | Proposed Solution(s) |
| <ol style="list-style-type: none"> 1. The text consulted upon partially describes how the unit incentive rate is calculated and needs to cover the full calculation. 2. The licence needs to make clear the incentivised date is the last stage of a connection, to align with the policy described in Final Determinations. 3. The circumstances under which date changes will update incentivised connection dates include all those allowed in the terms of the TO construction agreements. | <p>Resolution of these three issues needs to be achieved through updated licence drafting. For each of the above issues, we have provided alternative wording as part of our detailed Excel response (2. NGET T3 Licence and AD Detailed Comments).</p> <p>Specifically in relation to #3, we note that this was discussed at the most recent licence drafting working group on 13 January 2026 and our proposed wording reflects the clarifications Ofgem provided at that meeting.</p> |
| 9. Resilience Re-opener, Physical Security PCD and Re-opener | |
| Special Condition 3.3 | |
| Context | |
| Special Condition 3.3 was split in prior consultations into two separate reopeners, for physical security and resilience respectively. Now as one amalgamated condition there are errors in the licence which must be corrected for this condition to be workable. Furthermore, we reference the confirmation of the criticality of the workforce development in the RIIO-T3 Final Determinations when it states: | |

4.84 Another respondent agreed on the need for network companies to focus on upskilling their workforce and set out additional specific proposals for training and safety initiatives. We agree that workforce development is critical. Where companies have provided clear evidence of need and value, we have considered this in our cost assessment. We encourage network companies to continue developing robust proposals in this area.

4.86 NGET agreed with Ofgem's view of the Workforce Strategies, and sought additional funding for new workforce attraction and retention initiatives. We have not included these costs in our assessment, but consider that the overall funding framework, including a re-opener for Business Support Costs, will allow NGET to recover these costs if baseline allowances are not sufficient.

The recovery of allowances via the Business Support Costs (BSC) Re-opener is unworkable as the scope of BSC funding does not cover all critical roles which require investment during RIIO-T3 and we encourage Ofgem to consider workforce resilience under Special Condition 3.3 in line with the stated intent of Final Determinations. Failure to make the suggested amendments would mean that this licence condition, among other things, would not achieve its stated effect, and Ofgem would have failed to have regard to the principles under which regulatory activities should be accountable and consistent, and to have regard to best regulatory practice.

| Material issues | Proposed solution(s) |
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| <ol style="list-style-type: none"> 1. The licence condition as drafted is incomplete as the resilience formula is not set out in the licence and it is therefore not possible to recover allowances via this condition. 2. The scope of Special Condition 3.3 should be expanded to accommodate workforce resilience. | Inclusion of a formula to facilitate the recovery of funding for investment in our critical workforce to support workforce resilience. |

Annex 2 – Material Cross-cutting Issues

| # | Drafting Issue | Description of Issue(s) | Proposed Solution |
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| 1 | Re-openers | <ul style="list-style-type: none"> Re-openers do not provide for the recovery of legitimate T2 spend (also intersects with T2/3 cross over condition). Most re-openers are framed as only allowing costs incurred after 1/4/26 and so efficient and legitimately incurred T2 costs would be unfunded. | The provisions within the re-opener conditions that confine applications to expenditure incurred or expected to be incurred on or after 1 April 2026 must be removed in order that efficient costs incurred prior to that date and which are not funded through any other |

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| | | | route in either T2 or T3 can form part of the application and be recovered through the relevant re-opener mechanism. |
| 2 | Missing licence conditions | <ul style="list-style-type: none"> • Special Condition 1.2 (Variations to the standard conditions) is missing and needs to be re-added as per initial licence consultation. Paragraph 3.154 of the Reasons and Effects document states that this condition is to be unchanged in T3 and we assume it has been omitted in error. • There are at least three existing T2 Special Conditions that need to be retained within the T3 licence that have <u>not</u> been included within the suite of Special Conditions being consulted on: <ul style="list-style-type: none"> ○ Current Special Condition 3.10 (Visual Impact Mitigation Re-opener). This condition (and its associated defined terms) needs to be retained in an amended form in the T3 licence to recognise the required ongoing delivery of existing PCD outputs specified in this condition, as well as any new PCD outputs to be specified in the condition before the end of T2, in the T3 period. ○ Current Special Condition 3.13 (LOTI). This condition (and its associated defined terms) needs to be retained in an amended form in the T3 licence to recognise the required ongoing delivery of existing outputs specified in this condition in the T3 period. ○ Current Special Condition 3.14 (MSIP). This condition (and its associated defined terms) needs to be retained in an amended form in the T3 licence to recognise the required ongoing delivery of existing PCD outputs specified in this condition, as well as any new PCD outputs to be specified in the condition before the end of T2, in the T3 period. | <p>Reinstate Special Condition 1.2</p> <p>We have provided drafts of the existing T2 Special Conditions 3.10, 3.13 and 3.14 (suitably amended for retention in the T3 licence) alongside our response to the consultation.</p> |

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| 3 | Materiality Thresholds | <ul style="list-style-type: none"> • Several re-openers require costs to exceed the Materiality Threshold before the re-opener can be triggered. In T2, this threshold was £25m, however in T3 it is £57.6 m and is not an appropriate level for certain re-openers e.g. Digital and Resiliency. This is because the investment required to respond to investment drivers within Special Condition 3.3 and 3.7 (for example) are themselves not transmission assets so do not scale in proportion with the wider NGET investment plan. • To further illustrate, we maintain a shared position with Ofgem that investment in the digitalisation of the energy network will significantly unlock value for consumers. So, we believe it is not in the consumers interest for Ofgem to curtail this potential by introducing such a high financial threshold as an entry criterion for the use of the reopener. • A second example is within Special Condition 3.7 (Resilience and Physical Security). Within this mechanism Ofgem have introduced no established reopener windows for resiliency. All potentially eligible reopeners are subject to Ofgem's acceptance of qualification (referred to as Authority Triggered). Supporting this is a tightly bound set of criteria. Given this reopener mechanism is to support TO's with investing in the critical resiliency of the Transmission Network in alignment with Ofgem it doesn't feel in the consumers interest to layer onto that a materiality threshold inhibiting access to recover allowances to deliver critical interventions. | Remove the materiality thresholds for Special Conditions such as Special Condition 3.3 (Resilience) and 3.7 (Digital) where the high threshold would very likely limit critical investment. Work with the TOs to identify what other conditions such as threshold would be inappropriate for. |
| 4 | PCDEs | <ul style="list-style-type: none"> • The proposed Special Condition 9.3.3 provides for a potential upward adjustment to PCDE allowances (this is a change from T2). Therefore, as PCD adjustments can potentially be upwards or downwards the specific Licence terms for each PCDE which calculate the PCD allowance adjustment values need to specify that a downwards adjustment is a positive value and an upwards adjustment is a negative value for the formula to work. | Provide clarity in each PCDE Licence condition that an upwards allowance adjustment following PCDE assessment is a negative value and a downwards allowance adjustment is a positive value for the relevant Licence terms within each Licence condition. |

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| 5 | Proliferation of Licence Obligations as an output of Reopener Mechanisms in RIIO-T3 | <ul style="list-style-type: none"> Establishing outputs resulting from the triggering of re-opener mechanisms as Licence Obligations in all circumstances is not appropriate and has not been consulted on. It will be appropriate to treat certain outputs as Licence Obligations and certain outputs as Evaluative Price Control Deliverables on a case-by-case basis and Ofgem should maintain such flexibility in the re-opener framework. From a policy standpoint—except for the Load Reopener (Special Condition 3.18)—these matters have neither been discussed with TOs nor explicitly outlined in the Draft or Final Determinations and is wholly inappropriate and unacceptable. The introduction of Licence Obligations as a blanket policy for these Special Condition fails Ofgem's own criteria for the introduction of a Licence Obligation which is: <ol style="list-style-type: none"> That the investment is of strategic importance (surely by definition not all recovered allowances in RIIO-T3 can be deemed to be off strategic importance) That there is a certain delivery date and that there would be material consumer detriment if the project was delayed. In relation to Special Condition 3.18, we acknowledge the consultation and policy discussions concerning Licence Obligations as one of two potential regulatory outputs, with the alternative being a PCDE. As currently drafted, the Special Condition does not permit Ofgem to exercise this flexibility. | <p>We request that Ofgem further consider this matter and adopts an approach to relevant licence conditions which facilitates the desired flexibility reflecting the diversity and volume of likely reopeners which will travel though these re-opener mechanisms [text redacted]. This would allow for either a Licence Obligation or a PCDE output to be established under the re-opener, as deemed most appropriate.</p> <p>Regarding all other affected Special Conditions (for which the outputs could represent a single asset replacement, responses to type failures and storm responses) Ofgem should reconsider this new, unconsulted policy position and proportionately apply the use of PCDE.</p> |
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Annex 3 - PCFI

| # | Drafting Issue | Description of Issue | Proposed Solution |
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| 1 | Misalignment between the Licence, PCFIs & the PCFM, as well as the PCFM being incomplete | <ul style="list-style-type: none"> There are variant allowances, Licence terms, and Special Condition reference numbers in the PCFM that are not listed in the NGET Licence and/or PCFIs. Additionally, the PCFM is missing Licence and PCFI terms along with Special Condition reference numbers as set out at the point of this Statutory Consultation. We cannot have a Licence that quotes specific terms “as set out by the PCFM”, for these terms to then not actually appear in the PCFM. For several specific calculations and variable values (see the detailed comments Excel⁴) for more details, the PCFM has been updated to reflect the outputs of the Final Determinations, however this results in conflicting information to what is then prescribed in the PCFH. In the regulatory artefact hierarchy, the Licence takes precedence with the PCFIs, namely PCFH, then governing and overruling the PCFM. At present this is not the case, and mechanics and formula in the PCFM have been updated to reflect the Final Determinations, whereas the PCFIs have not. Furthermore, the PCFM Guidance for consultation is only the Annual Iteration Process chapter. Therefore, it is not possible to provide a complete consultation response on this guidance document. [text redacted] | <p>Based on the Regulatory artefact hierarchy the PCFM needs to reflect what is in the Licence and the PCFIs. However, at the commencement of this Statutory Consultation Ofgem need to confirm whether:</p> <ol style="list-style-type: none"> 1) the PCFM is correct, and if so, update the Licence for any missing special conditions and the PCFIs accordingly, or 2) The Licence & PCFIs are correct and if so, update the PCFM accordingly, and cross check this back to the outputs of the Final Determinations. <p>Amongst other areas, we have particular concern over the cost of debt formula & definition of terms (or lack of) within the PCFH, chapter 4, along with inflation mechanics, see PCFH chapter 2 relative to what is in the PCFM. Other examples of inconsistencies and missing information can be noted in the detailed comments Excel⁴. Ofgem should continue with the PCFM Working Group to resolve any discrepancies and use this forum during the ‘snagging process’. Additionally, key issues can be highlighted using Gitlab for other Licensees to comment upon</p> <p>[text redacted]</p> |

⁴ 2. NGET T3 Licence and AD Detailed Comments - Excel attachment to this letter