

# ET2/ET3 Crossover Submission Requirements and Guidance Document [WORKING DRAFT]

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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/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.

**Commented [A1]:** Suggest this refers to "TOs" as is usual practice

**Commented [A2]:** Guidance also needs to cover timing of any adjustments

**Commented [A3]:** As per comment above suggest this refers to TOs as is normal practice

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## 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 associated documents:
- RIIO-ET3 Final Determinations
  - Electricity Transmission Special Conditions
  - RIIO-ET3 Price Control Financial Handbook
  - Price Control Deliverable Reporting Requirements and Methodology Document
- 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

**Commented [A4]:** According to BPD 'Guidance – RIIO-ET3 Electricity Transmission Price Control – Instructions and Guidance on Business Plan Data Templates: Version 2.0', paragraph 11.11 "The purpose of this table [10.4 Crossover Project T2-T3] is to collate details regarding projects from the RIIOET2 period such as re-openers, uncertainty mechanisms and other projects that have expenditure beyond 31st March 2026. You must include all RIIO-ET2 period projects that have expenditure in RIIO-ET3." This is the basis upon which the table was populated, and it is subtly different to the definition included in the AD.

**Commented [A5]:** This definition doesn't appear to be fully consistent with T3 RIGs and further clarity is required.

**Commented [A6]:** Needs to cover more than process; needs to cover methodology for deriving and timing of adjustments

**Commented [A7]:** This document should also reference the PCD reporting Requirements and Methodology Doc

**Commented [A8]:** I would reorder to :

ET Special Conditions  
RIIO-ET3 Price Control Financial Handbook  
Price Control Deliverable Reporting Requirements and Methodology Document  
RIIO-ET3 Final Determinations

(aligns to document hierarchy?)

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- the period during which representations may be made on the amendments to the ET2/ET3 Crossover Submission Requirements and Guidance Document, which will not be less than 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 the 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.

**Commented [A9]:** This paragraph 1.6 is not required and should not appear in this document.. The draft Special Condition 3.23 includes a Part D which provides for the establishment and amendment of this Guidance ( although as per our comments on 3.23 that drafting needs further expansion)

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## 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:

**Commented [A10]:** As per our comments on Special Condition 3.23, the General Principles should also be set out on the face of the licence condition as per para 4.211 of the ET Annex Final Determinations

**Commented [A11]:** The General principles are in Ch3 of this document not this chapter

**Commented [A12]:** ET2 and ET3 (not ED2, for example)

**Commented [A13]:** This could also work the other way round i.e. we could efficiently incur spend in previous price control periods

**Commented [A14R13]:** Propose amend to 'other periods'.

**Commented [A15]:** Where this has not been provided in full under an ET2 mechanism (per 4.205 FD)?

**Commented [A16]:** If the T2/T3 crossover mechanism is to solely focus on providing funding for T2 projects that have spend in T3, then this document needs to also clarify what is out of scope and how that has been/will be treated. Specifically, how will T2 spend for T3 projects be funded? Our understanding is that, for T3 projects that are receiving ex ante funding, funding for T2 spend has been provided in year 1 of T3.

**Commented [A17R16]:** I propose replacing 2.4 with the following:

**Commented [A18]:** Terminology (crossover adjustments, crossover mechanism etc.) needs

**Commented [A19]:** This implies it will be after T2 closeout so timing of T2 closeout is important

**Commented [A20R19]:** Agreed, not consistent with DD 4.131. FD 4.209 talks about volume driver

**Commented [A21]:** This reads as if the mechanism will essentially work as a second closeout once

**Commented [A22R21]:** Suggest that this is re-worded to say that the intention is to deal with

**Commented [A23]:** This phrase is unacceptable and should be deleted as the remuneration of

**Commented [A24]:** As per comment above, such principles should also be set out in the licence

**Commented [A25]:** This definition is only acceptable if the previous section makes clear

**Commented [A26]:** Where does this leave (eg) Bridging loan schemes?

**Commented [A27R26]:** Bridging loan is trued up at T2 closeout so how does this definition affect

**Commented [A28]:** This section needs to include all relevant outputs etc. that are captured in th

**Commented [A29]:** What about NARM?

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- 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 in Special Condition 3.23 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 this licence would result in (or is expected to result in) a negative adjustment to allowances for a ET2/ET3 Crossover item such that the

**Commented [A30]:** As ASTI is not to be covered by the crossover licence condition formula it is not clear why it needs to be called out in this document

**Commented [A31R30]:** Does it not need to be another explicit exclusion (in the section above?) because otherwise there are ASTI projects which meet the definition of T2/T3 crossover project?

**Commented [A32R30]:** Is it excluded because the ASTI licence terms are not included in the licence formula - so the overall SpC does not apply?

**Commented [A33]:** These two criteria are inconsistent with the definition in 2.6 and 2.7, and reduce the scope of possible adjustments. They are also inconsistent with the licence because they are incomplete.

For example, these criteria would exclude all T2 PCDEs where we had full funding in T2. If these are already delayed or subsequently delayed into T3, then we would expect Ofgem to reprofile allowances based on RRP26 basic PCD reports. This implies that the SpC3.23 would not capture this as a re-profiling does not meet these criteria.

**Commented [A34]:** Which implies that the T2 close out criterion will/ may not be relevant to all cases so why is the crossover mechanism a back stop to the close out mechanism

**Commented [A35]:** Why 'may'? This should be 'will'.

On what basis does Ofgem envisage withdrawing funding for delivery that was always envisaged to take place in T3?

**Commented [A36]:** See above comment re terminology

**Commented [A37]:** Why 'may'? What else could be used?

**Commented [A38R37]:** Which emphasises the point that we need clarity on what can and will be funded through close out and what can't. I thought close out could only adjust T2 allowances but could not provide new/ T3 allowances? That being the case, to the extent that close out cannot deal with allowances we need certainty that the cross over mechanism WILL be used to provide T3 allowances? Ofgem must be clear on what precisely is being funded through this mechanism and what is being funded through close out.

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efficient cost of delivering the item are 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 is appropriately remunerated.

**Commented [A39]:** Surely evaluative PCD is the wrong example here because "a negative adjustment to allowances for a ET2/ET3 Crossover item such that the efficient cost of delivering the item are no longer fully remunerated as originally intended" should not occur for a delayed output (for all the reasons given below)? NARM deliverables would be a better example.

**Commented [A40]:** Delay should result in the PCD output appearing in the T3 licence with allowances reprofiled not a reduction in allowances for non delivery as envisaged by this paragraph

**Commented [A41]:** Not needed? Anytime in T3

**Commented [A42]:** Surely it WILL result in an assessment of something other than fully delivered through the T2 PCD reporting process if it was due to be delivered in T2 ( so we have to report) but it is not so delivered?

**Commented [A43]:** This is not a delivery status as per the PCD guidance - it would get reported as delayed and the allowances re-profiled

**Commented [A44]:** See comment above, this should be a reprofiling of allowances to reflect delayed delivery with the output appearing in the T3 licence, not an allowance reduction and reinstatement

**Commented [A45]:** Leaves a potential funding gap

**Commented [A46R45]:** What does 'created' mean? When is this judged? T3 BPDT or RRP26?

**Commented [A47R45]:** Timing is important as it sets the specific schemes that are subject to the crossover mechanism (and in some cases the allowances). It could be already fixed, or fixed even as late as closeout

**Commented [A48R45]:** As per previous comment on para 2.4, if the T2/T3 crossover SpC does not provide this funding, how will it be provided?

**Commented [A49]:** But such ability needs to be linked to clear and agreed principles ( Ch 3 ) and a clear and agreed approach to adjustments ( Ch4) and for the timing of such adjustments to be clear and agreed

**Commented [A50]:** As per our comments on Special Condition 3.23, the General Principles should also be set out on the face of the licence condition as per para 4.211 of the ET Annex Final Determinations

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- **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.

**Commented [A51]:** These principles relate to the making of an adjustment to allowances but this bullet does not relate to an allowance adjustment but, rather, to the possible creation of new outputs. This seems distinct from the adjustment allowance principles. This AD and the licence both need to make clear that the establishment of new outputs etc. will be done under s11A of the Act

**Commented [A52]:** Where? SpC 3.23 provides a table for funding values but not for deliverables and dates.

**Commented [A53]:** Not clear what this means

## 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 ET2 mechanism	Intended approach to ET2/ET3 Crossover adjustments
<b>NARM Outputs</b> 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</p>

**Commented [A54]:** As drafted, even one day's delay beyond 31 March 2026 could result in full removal of ET2 funding. Is Ofgem implying that there is to be a separate consultation that will change the rules for NARM close out?

**Commented [A55]:** This is double jeopardy - Ofgem has already assessed and agreed to fund the NARM Outputs in the T2 NARW.

If something wasn't in T2 NARW, Ofgem needs to assess whether it was justified over-delivery in T2. I think we only have one instance where we are calling something justified over-delivery but completion has now slipped into T3 - check.



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	<p>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 ET3 licence to hold the ETO accountable for delivery.</p>
<p><b>Outputs that are licence obligations</b></p> <p>SpC 3.13 Large Onshore Transmission Investment Reopener (LOTIAt and LOTIREt)</p>	<p><b>Delayed outputs</b></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> <p><b>Applications made under provisions in the ET2 licence</b></p> <p>A licensee may submit (or have submitted) a valid application for additional funding or changes to outputs under the mechanisms in the ET2 licence:</p> <ol style="list-style-type: none"> <li>The large onshore transmission investment reopener mechanism, as set out in Part B of SpC 3.13 of the ET2 licence.</li> <li>The Cost and Output Adjusting Event mechanism as set out in Part G of SpC 3.13 of the ET2 licence.</li> </ol> <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>

**Commented [A56]:** What does this mean? How will this assessment be undertaken?

**Commented [A57]:** Need timing of T2 closeout to be included here - T1 was closed out on 7<sup>th</sup> Nov 2025 with only 5 months of the price control period left - if this is the case in T2 closeout there won't be enough time for this in T3.

**Commented [A58]:** How does this link with the NARM crossover reopener 2-6 Oct 2028 detailed in the ET Annex 4.246?

**Commented [A59]:** Not clear if this section is dealing just with LOTI or more generically to delayed output.

3.13 LOTI outputs are all due to be delivered in T3 so it is incorrect to use them as examples of delay in to T3. We are expecting to see the LOTI licence condition retained in the T3 licence (with suitable modifications) as per our suggested drafting submitted as part of the response to the statutory consultation

**Commented [A60]:** Timing is an issue here - we were expecting this as part of the T3 Licence? This could be at the end of T3 if waiting for the T2/T3 crossover submission post closeout

**Commented [A61]:** Will this include setting new delivery dates?

**Commented [A62]:** We will not be applying for any new LOTIs under Part B so this seems irrelevant. We need the LOTI condition ( and its COAE provisions) preserved in the T3 licence to govern LOTI output delivery in T3 and enable us to rely on the COAE provisions throughout T3

**Commented [A63]:** Timing? Is this separate to the T2/T3 crossover submission?

**Commented [A64R63]:** This whole section is confused and I think is not needed. LOTI will need to live on in T3 in an amended form (so no new LOTI outputs can be added) but COAE provisions need to be retained

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	<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> <p><b>Outputs with delivery dates in ET3</b></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 will 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>
<p><b>Mechanistic PCDs</b></p> <p><b>[None currently identified in the ET2 licence]</b></p>	<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><b>Delayed delivery</b></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</p>

**Commented [A65]:** Is this referring to LOTI (in which case all outputs are in T3) per the left column or "delayed outputs" per the right column?

**Commented [A66]:** No description of process or methodology

**Commented [A67R66]:** Or timing

**Commented [A68R66]:** T3 funding for pre-determined outputs should be provided via the T3 baseline; the T2/T3 crossover adjustment should only be a backstop.

**Commented [A69]:** As above - is this separate to the T2/T3 crossover submission?

**Commented [A70]:** Not 'new' outputs - should capture the pre-determined outputs

**Commented [A71]:** Where is this to be set out? It seems unworkable? Preference is to retain enough of the T2 LOTI condition in T3 to protect the established COAE provisions.

**Commented [A72R71]:** I can't see how this works. This is talking about provisions under a different licence term applying to this licence term? The licence doesn't allow this to happen?

**Commented [A73]:** This whole section is confused:

There are T2 mechanistic PCDs but the consequences of non / late delivery are addressed through the allowance formula (i.e not delivered not funded)

The right hand column seems to be dealing with / describing the evaluative PCD process provided for in each PCDE and 9.3. I don't think we envisaged that the consequences of PCDE late ...

**Commented [A75]:** SpC 9.3 is for evaluative PCDs and doesn't mention Mech PCDs

**Commented [A74]:** This is not true - there are Mech PCDs in the ET2 Licence

**Commented [A76]:** As above, even one day's delay results in clawback of full funding

**Commented [A77]:** What is this process? Isn't it transactional i.e. volume x unit cost

**Commented [A78]:** Why only 'may'? It's transactional so 'will' reduce funding

**Commented [A79]:** What is meant by closeout assessment? It's transactional so no formal ...

**Commented [A80]:** What info is required here?

**Commented [A81]:** As before, double jeopardy - Ofgem has already assessed and approved the ...

**Commented [A82]:** Why 'may'? What other mechanism could be used? Should be "will"

**Commented [A83]:** How is appropriate funding calculated?

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	may introduce new outputs or PCDs in the ET3 licence to hold the ETO accountable for delivery.
<b>Evaluative PCDs and reopeners</b>	<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><b>Delayed delivery</b></p> <p>In some circumstances, the delivery of some RIIO-ET2 evaluative PCDs may be delayed into the 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> <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 ET3 licence to hold the ETO accountable for delivery.</p> <p><b>Reopener submissions made before 31 March 2026</b></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 (e.g. 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>

**Commented [A84]:** Evaluative PCDs should be assessed in line with the published PCD reporting guidance and methodology document. To introduce any new mechanism or methodology would be to retrospectively rewrite ET2

**Commented [A85]:** SpC 9.3. states a re-profiling at closeout if PCD is delayed and this is consistent with LDWG 5 feedback from Anthony. Not sure where the reduction of allowances if delayed has come from. But this section needs to refer to re-profiling of allowances

**Commented [A86]:** This would leave us with a funding gap for the period in between PCD assessment and T2/T3 crossover assessment

**Commented [A87]:** Only relevant if re-profiling didn't happen and Ofgem clawed back allowances for the delay which isn't the policy

**Commented [A88]:** We are currently waiting for 2025 MSIPs to be decided on / added to the licence. We would surely anticipate these outputs being added to the T3 licence along with associated allowances ( so MSIP will need to live on in T3 to govern the delivery of these outputs).

Associated allowances should not have to wait for T2/T3 crossover

**Commented [A89]:** Is this referring the outputs determined via the T2 re-openers, or some other decision? If the latter, under what circumstances could Ofgem change outputs?

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Volume drivers	<p><b>Funding for T2+2 volumes</b></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><b>Delayed delivery (beyond T2+2)</b></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>
UIOLI	<p><b>Unused UIOLI allowances</b></p> <p>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 ET3 period, though we consider this unlikely.</p> <p>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>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>

**Commented [A90]:** This is an incomplete definition because it could include a project that commenced on 1 Apr 2026 if it completed before 31 Mar 2028?

**Commented [A91]:** Contradicts ET Annex 4.128 which states this will depend on whether project was sanctioned, awarded allowances and expected to deliver by Mar 2028

**Commented [A92]:** Will they use the T2/T3 crossover mechanism to provide T2+2 allowances at closeout, or is the mechanism just used to adjust allowances awarded as part of closeout?

**Commented [A93]:** What is meant by this?

**Commented [A94]:** If this gets aligned to the ET Annex 4.128 & 4.129 then there's an issue for WW which needs including here

**Commented [A95]:** Contradicts ET Annex 4.128 & 4.129 which states ET3 volume driver will be used if April-28 onwards. Approach here must be consistent with FDs

**Commented [A96]:** Not sure what this means in practice. Ignoring the "or lower" bit, does it just mean that we will keep allowances provided at closeout (albeit re-profiled) at the T2 rate if delayed?

It reads as if (unlike t1+2 schemes) any adjustments will be made outside of the T3 VD process

**Commented [A97]:** Not sure I understand the relevance of this section. If allowances are unused in T2 then is it not lost though the UIOLI provisions of the T2 licence?

Unless there are outputs linked to UIOLI that are delayed / carried in to T3 and UIOLI funding needs to follow? Anything in this category?

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

- 5.1 As set out in Special Condition 3.23 ET2/ET3 Crossover Adjustments, we intend to make any amendments to allowances specified in Appendix 1 of the condition

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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 SpC 3.23 ET2/ET3 Crossover Adjustments, including as a minimum:
  - An explanation of how the requested adjustment meets the definition of an ET2/ET3 Crossover item as specified in SpC 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 SpC 3.23 ET2/ET3 Crossover Adjustments, 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.

**Commented [A98]:** May be complementary but not in all cases.

**Commented [A99]:** As above, does this mean we'll be waiting until after closeout for decision on reopeners submitted in T2

**Commented [A100]:** Need to define when T2 closeout will happen - T1 experience is that it would not be practical to do T2/T3 crossover after T2 closeout has finished given FD was published on 7<sup>th</sup> Nov 2025

**Commented [A101]:** This is not correct eg allowances directed through T2 reopener process falling in T3 period.

**Commented [A102]:** Is this contemplating a 1 off application covering all adjustment terms?

**Commented [A103]:** This document is not the licence condition. It should refer to requests under Special Condition 3.23

**Commented [A104]:** This won't work if T2 closeout is not finalised before this date. We could be submitting a T2/T3 crossover submission without a decision on T2 closeout so how do we know what the gap is

**Commented [A105]:** Why is this being timebound? If we introduce a subsequent output through this term, surely there will need to be an enduring mechanism to update outputs eg through PCDE assessment?

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**Commented [A106]:** This is double jeopardy - many (if not all) of these T2 outputs have already been assessed and agreed by Ofgem so why do we need to go through this process again? This is an inefficient process and not in keeping with best regulatory practice.

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**Commented [A107]:** This is a duplicate of the second sub-bullet above (both highlighted turquoise)

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- 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.

**Commented [A108]:** This implies that there will be multiple applications - is that correct?

## 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.

**Commented [A109]:** This is vague and inadequate. There needs to be more clarity about the approach adopted? For instance, what if Ofgem has previously assessed and approved funding? Will it be open to Ofgem to re-visit this decision?

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.

**Commented [A110]:** What is the benefit of this section?

## 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

**Commented [A111]:** Appendix 1 only captures allowances, where will outputs be captured.

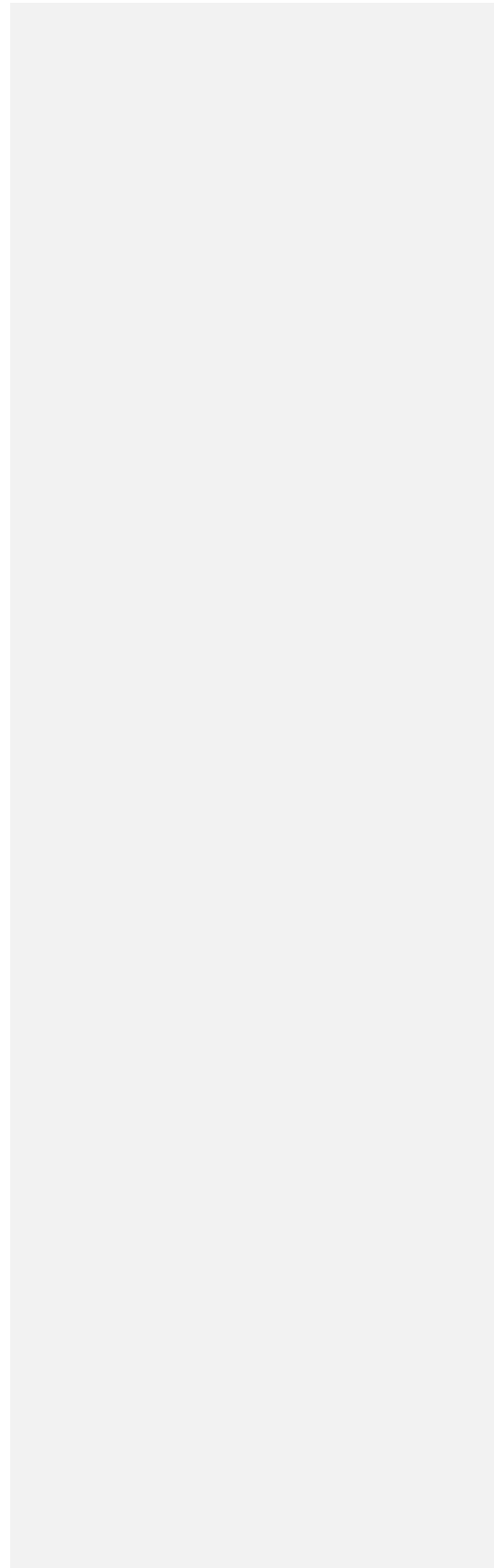
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of the condition, we will seek to implement this as soon as practical afterwards through a modification to the licence using our powers under S11A of the Act.

- 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.

**Commented [A112]:** Should this follow a DD consultation and FD route first?

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