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for energy consumers

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## **Decision to modify the RIIO-T1 and RIIO GD1 price control financial models to account for the London medium pressure refund and the National Grid voluntary allowance deferral**

On 04 July 2017, we published a Statutory Consultation<sup>1</sup> on the modifications needed to the RIIO-ET1 and RIIO-GD1 Price Control Financial Models (PCFMs) to implement our decisions to:

- Accept National Grid Electricity Transmission's offer to defer voluntarily a total of £480m of its allowances with respect to non-variant load and asset replacement expenditures.<sup>2</sup>
- Accept Cadent's offer to refund consumers £53.9 million for work to replace medium pressure iron mains in central London, which Cadent has partly delayed to future price controls. This decision was made as part of our Mid Period Review Parallel work process.<sup>3</sup>

We received two responses to the consultation: one from National Grid and one from Cadent. Both respondents agreed with our proposals and have been published on our website alongside the July statutory consultation. We have therefore decided to proceed with the modifications as proposed in our consultation.

The changes that we have decided to make to the PCFMs are exactly as we proposed in our consultation. They will have the following impacts on the revenues in the current price controls:

- For National Grid Electricity Transmission a revenue reduction of £101m spread over 2019/20 and 2020/21.
- For Cadent a revenue reduction of £13m spread over 2018/19 to 2020/21

In addition to these near term reductions there will be further reductions spread over many years into the future.

### **Next steps**

We published provisional PCFMs as appendices to our Statutory Consultation. These models have been republished<sup>4</sup> on our RIIO-ET1 PCFM<sup>5</sup> and RIIO-GD1 PCFM<sup>6</sup> pages on our website.

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<sup>1</sup> <https://www.ofgem.gov.uk/publications-and-updates/statutory-consultation-modify-price-control-financial-models-account-london-medium-pressure-refund-and-national-grid-voluntary-allowance-deferral>

<sup>2</sup> <https://www.ofgem.gov.uk/publications-and-updates/open-letter-national-grid-electricity-transmission-s-deferral-480m-riio-t1-allowances>

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/mpr-parallel-work-decision>

<sup>4</sup> There is one difference between each PCFM as published now and as part of the consultation; the "Year t selection" on sheet UserInterface was changed to "31 March 2019" for the purposes of the consultation, this allowed the PCFM to report the impact of the modifications. The selected year has now been returned to its correct value, "31 March 2018".

<sup>5</sup> <https://www.ofgem.gov.uk/network-regulation-riio-model/price-controls-financial-model-pcfm/riio-t1-financial-model-electric>

<sup>6</sup> <https://www.ofgem.gov.uk/network-regulation-riio-model/riio-gd1-price-control>

They will come into effect on 29 September 2017, 56 days after the publication of this decision.

These modifications will be reflected in the 2017 Annual Iteration Process.

If you have any questions on this letter, please contact [RegFinance@ofgem.gov.uk](mailto:RegFinance@ofgem.gov.uk).



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**Duly authorised on behalf of the Gas and Electricity Markets Authority**  
**04 August 2017**