

To Distribution Network  
Operators (DNOs), Gas  
Distribution Networks (GDNs),  
Transmission Owners (TOs), the  
Electricity System Operator  
(ESO), Energy supply companies,  
gas shippers and other interested  
stakeholders

Direct Dial: 020 7901 7000  
Email: RIIO-ED1@ofgem.gov.uk

Date: 17 December 2020

To interested parties,

**Statutory consultation on proposed changes to the Special Conditions (also known as the Charge Restriction Conditions 'CRC') of the electricity distribution licence.**

The electricity distribution network operators<sup>1</sup> (DNOs) in Great Britain are the holders of an electricity distribution licence (the Licence) granted under section 6(1)(c) of the Electricity Act 1989.

DNOs submitted Business Plans to Ofgem prior to the start of their current price control (RIIO-ED1), on the basis of which they were allocated a set amount of allowed revenue to deliver specific outcomes, with a corresponding responsibility to deliver those outcomes. Similar arrangements apply to licensed network operators that are subject to RIIO price controls in other gas and electricity sectors.

On occasions where an alternative solution to an outcome originally intended to be delivered by one network operator, is identified on another network regulated by Ofgem and where this is likely to deliver better value for consumers, there is currently no formal process by which to reallocate the responsibility and allowed revenue from one price control to another.

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<sup>1</sup> The GB electricity distribution network - <https://www.ofgem.gov.uk/electricity/distribution-networks/gb-electricity-distribution-network>

In the RIIO-2 Sector Specific Methodology Decision for the electricity transmission, gas transmission, and gas distribution networks<sup>2</sup>, we decided to introduce a new re-opener called the Coordinated Adjustment Mechanism ('CAM') which would allow for such a reallocation between network price controls.

In the 9 July 2020 Draft Determinations<sup>3</sup> for these sectors we consulted on whether to introduce the CAM into the current RIIO-ED1 price control, so that it would be available to all sectors from 2021.

We also consulted on introducing the new re-opener for the current RIIO-ED1 price control in the electricity distribution 30 July 2020 Sector Specific Methodology Consultation.<sup>4</sup>

Responses to those consultations can be found in the 8 December 2020 Final Determinations publication for electricity transmission, gas transmission, and gas distribution networks,<sup>5</sup> and in the 17 December 2020 Sector Specific Methodology Decision (SSMD).<sup>6</sup>

Respondents to the FD consultations were in favour of introducing the re-opener to the current electricity distribution price control, arguing that there was a risk other sectors may not be able to engage in transfers if their optimal partner were a DNO. Respondents also noted that a mismatch in application timing would be an unnecessary barrier to whole system working.

Respondents to the SSMD consultation were also in favour of introducing the re-opener to the current electricity distribution price control. A number of DNOs explained that they had identified current projects which could be delivered elsewhere with greater consumer value, but not if applications were delayed until mid-2023. The majority view across all stakeholders was that a whole system re-opener should be available to all sectors at the same time to be efficient.

In the electricity distribution SSMD, we set out our views on the responses above and we published our decision to issue a statutory consultation to modify the CRCs of the electricity distribution licenses held by the DNOs by making the changes outlined in Appendix 2.

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<sup>2</sup> [https://www.ofgem.gov.uk/system/files/docs/2019/05/riio-2\\_sector\\_specific\\_methodology\\_decision\\_-\\_core\\_30.5.19.pdf](https://www.ofgem.gov.uk/system/files/docs/2019/05/riio-2_sector_specific_methodology_decision_-_core_30.5.19.pdf)

<sup>3</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-draft-determinations-transmission-gas-distribution-and-electricity-system-operator>

<sup>4</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-ed2-sector-specific-methodology-consultation>

<sup>5</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-2-final-determinations-transmission-and-gas-distribution-network-companies-and-electricity-system-operator>

<sup>6</sup> <https://www.ofgem.gov.uk/publications-and-updates/riio-ed2-sector-specific-methodology-decision>

This voluntary re-opener will allow a licensee to submit an application to reallocate responsibility and associated revenue for an activity to or from another licensee's price control where there are greater demonstrable benefits to consumers. It may be used on a cross-sector and within sector basis, and so should be available to DNOs at the same time as it is available to the electricity transmission, gas transmission, and gas distribution networks. Allowing DNOs to utilise the re-opener from 2021 will also support DNOs to fulfil their obligations under the proposed new whole electricity system licence condition for RIIO-ED1 electricity licensees concerning cooperation and collaboration by enabling them to move activities between networks where such collaboration uncovers greater overall consumer value in doing so.

We welcome views on the proposed modifications and will take these into consideration before making our final decision.

### Structure of this letter

There are two appendices to this letter:

- Appendix 1 gives Notice of a statutory consultation on our proposal to modify the Special Conditions to the electricity distribution licence.
- Appendix 2 sets out the proposed draft modifications to the Special Conditions to the electricity distribution licence.

### Views invited and next steps

We are inviting views on the proposed modifications to the electricity distribution licences set out in Appendix 2.

Please provide your views, preferably by email, to [RIIO-ED1@ofgem.gov.uk](mailto:RIIO-ED1@ofgem.gov.uk) on or before 22 January 2021.

We normally publish all responses on our website. However, if you do not wish your response to be made public then please clearly mark it as confidential. We prefer to receive responses in an electronic form so that they can be placed easily on our website. If you would prefer to reply by post, please address this to:

Joanna Gaches  
Commonwealth House  
32 Albion Street  
Glasgow  
G1 1LH

If you have any questions regarding this letter, please contact [RIIO-ED1@ofgem.gov.uk](mailto:RIIO-ED1@ofgem.gov.uk).  
Yours faithfully,

A handwritten signature in black ink, appearing to read 'Steve McMahon', written in a cursive style.

Steve McMahon  
Deputy Director, Electricity Distribution & Cross Sector Policy

# Appendix 1. Notice of statutory consultation

To:

**Electricity North West Ltd (ENWL)**  
**Northern Powergrid (Northeast) plc (NPgN)**  
**Northern Powergrid (Yorkshire) plc (NPgY)**  
**London Power Networks plc (LPN)**  
**South Eastern Power Networks plc (SPN)**  
**Eastern Power Networks plc (EPN)**  
**SP Distribution plc (SPD)**  
**SP Manweb plc (SPMW)**  
**Scottish Hydro Electric Power Distribution plc (SSEH)**  
**Southern Electric Power Distribution plc (SSES)**  
**Western Power Distribution (West Midlands) plc (WMID)**  
**Western Power Distribution (East Midlands) plc (EMID)**  
**Western Power Distribution (South Wales) plc (SWALES)**  
**Western Power Distribution (South West) plc (SWEST)**

## **Electricity Act 1989 Section 11A(2)**

### **Notice of statutory consultation on a proposal to modify the Charge Restriction Conditions of the electricity distribution licence held by the above licensees.**

1. The Gas and Electricity Markets Authority ('the Authority')<sup>7</sup> proposes to modify the Charge Restriction Conditions of the electricity distribution licences granted or treated as granted under section 6(1)(c) of the Electricity Act 1989 ('the Act') to the above licensees by amending Special Condition XX in the manner set out in Appendix 2.
2. The Authority considers that it is necessary to modify the Charge Restriction Conditions of the electricity distribution licences in the manner indicated to ensure that licensees are able to utilise the within sector and cross-sector Coordinated Adjustment Mechanism re-opener on equal terms and from the same point in time as licensees in the electricity transmission, gas transmission, and gas distribution sectors. The re-opener will apply from April 2021 in these other sectors. We consulted on our intent to propose statutory licence modifications in the Sector Specific Methodology Consultation<sup>8</sup> and the purpose of this licence modification is to implement our decision in the Sector Specific Methodology Decision<sup>9</sup> of 17 December 2020.
3. The effect of the proposed modifications is to allow the licensees identified above to use the Coordinated Adjustment Mechanism ('CAM') re-opener during their current price control period.
4. The effect of the re-opener is to allow a licensee to submit an application to reallocate responsibility and associated revenue for an activity to or from another licensee's price control where there are greater demonstrable benefits to consumers.
5. A copy of the proposed modifications and other documents referred to in this Notice have been published on our website ([www.ofgem.gov.uk](http://www.ofgem.gov.uk)) or alternatively can be requested using email: [foi@ofgem.gov.uk](mailto:foi@ofgem.gov.uk)

<sup>7</sup> The "Authority", "Ofgem", "we" and "our" are used interchangeably in this document. The Office of Gas and Electricity Markets (Ofgem) supports the Authority in its day to day work.

<sup>8</sup> <https://www.ofgem.gov.uk/publications-and-updates/rrio-ed2-sector-specific-methodology-consultation>

<sup>9</sup> <https://www.ofgem.gov.uk/publications-and-updates/rrio-ed2-sector-specific-methodology-decision>

6. Any representations with respect to the proposed licence modifications must be made on or before **22 January 2021**. Representations should be sent to Joanna Gaches at Ofgem, Commonwealth House, 32 Albion Street, Glasgow, G1 1LH, or by email to [riio-ed1@ofgem.gov.uk](mailto:riio-ed1@ofgem.gov.uk).
7. We normally publish all representations on our website. If you do not wish your response to be published please clearly mark it as not for publication. We prefer to receive responses in an electronic form so they can be placed easily on our website.
8. If we decide to make the proposed modification, it will take effect not less than 56 days after the decision is published.



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**Steve McMahon**

**Deputy Director, Electricity Distribution & Cross Sector Policy**  
**Duly Authorised on behalf of the Gas and Electricity Markets Authority**  
**17 December 2020**

## **Appendix 2. Proposed modifications to the Special Licence Conditions**

The following changes apply to all holders of an electricity distribution licence. The drafting example below applies to the Charge Restriction Conditions for all licensees however individual paragraph references may vary from one licensee to another due to slight differences in the structure of the licence:

### **CRC XX Coordinated adjustment mechanism re-opener (CAMt)**

#### **Introduction**

- XX.1 The purpose of this condition is to calculate the term CAMt (the coordinated adjustment mechanism term). This mechanism:
- a) contributes to the calculation of Totex; and
  - b) determines any appropriate revisions to PCFM Variable Values for the licensee relating to uncertain cost activities and the Regulatory Years to which they relate, for the purposes of the Annual Iteration Process for the ED1 Price Control Financial Model as described in CRC 4B (Annual Iteration Process for the ED1 Price Control Financial Model).
- XX.2 The effect of this condition is to establish a re-opener triggered by the licensee where an opportunity that delivers greater overall consumer value has been identified to reallocate responsibility for, and revenue associated with, a CAM Activity to or from a Partner Licensee.
- XX.3 This condition also explains the process the Authority will follow when directing any changes as a result of the Re-opener.

#### **Part A: What is the scope of this re-opener?**

- XX.4 The licensee may apply to the Authority for a direction adjusting the value of the CAMt term and the outputs, delivery dates and allowances within the special conditions relating to the CAM Activity for any Regulatory Year during the Price Control Period as a result of reaching agreement to reallocate responsibility and associated revenue for a CAM Activity to or from a Partner Licensee.

#### **Part B: When to make an application**

- XX.5 The licensee may only apply to the Authority for an adjustment under paragraph XX.4 between 23 May and 29 May in each of the years 2021, 2022, 2023, 2024, 2025, or during such other periods as the Authority may direct.

#### **Part C: How to make an application**

- XX.6 An application under paragraph XX.4 must be made in writing to the Authority and:
- (a) give a description of the engagement between the licensee and the Partner Licensee which has led to the application;
  - (b) explain whether the licensee is applying to have the CAM Activity reallocated to the licensee from the Partner Licensee, or from the licensee to the Partner Licensee;

- (c) explain why the original allocation of the CAM Activity no longer delivers greater overall consumer value and why the reallocation does deliver greater overall consumer value;
- (d) give a description of the CAM Activity and associated revenue that the licensee is applying to reallocate;
- (e) set out any amendments requested to the outputs, delivery dates or allowances established by the special conditions of this licence and that of the Partner Licensee, relating to the CAM Activity;
- (f) set out the adjustments to the value of the CAMt term for both the licensee and the Partner Licensee that the licensee is requesting and the Regulatory Years to which those adjustments relate;
- (g) explain the basis of the calculation for the proposed adjustments to the value of the licensee and the Partner Licensee's CAMt terms or other allowances of the licensee and the Partner Licensee;
- (h) provide such detailed supporting evidence, including cost benefit analysis, impact assessments, risk mitigation, and engineering justification statements as is reasonable in the circumstances; and
- (i) provide a copy of the agreement between the licensee and the Partner Licensee to transfer responsibility for and associated revenue of the CAM Activity.

XX.7 An application under paragraph XX.4 must:

- (a) take account of any allowed expenditure by both the licensee and the Partner Licensee, which can be avoided as a result of the change; and
- (b) be confined to costs incurred or expected to be incurred on or after 1 April 2021.

#### **Part D: What process will the Authority follow in making a direction?**

XX.8 Before making a direction under paragraph XX.4 the Authority will publish on the Authority's Website:

- (a) the text of the proposed direction;
- (b) the reasons for the proposed direction; and
- (c) a period during which representations may be made on the proposed direction, which will not be less than 28 days.

XX.9 The direction will set out:

- (a) any adjustments to any PCFM Variable Value of this licence and that of the Partner Licensee;
- (b) the Regulatory Years to which those adjustments relate; and
- (c) any amendments to the relevant activities in the special conditions of this licence and that of the Partner Licensee relating to the CAM Activity.

#### **Part E: Interpretation**

XX.10 For the purposes of this condition:



CAM Activity

means an output, activity or deliverable that the licensee is applying to reallocate under Special Condition XX (Coordinated adjustment mechanism Re-opener)

Partner Licensee

means a Network Licensee that has agreed to accept or transfer responsibility for a CAM Activity.